Disclosure under Basel II as on Chaitra end, 2078

Capital Adequacy Framework, 2007 (updated July 2008) requires making a set of disclosure on the capital adequacy & risk management framework of the bank. Disclosure based on unaudited financial statement as on end of Chaitra 2078 are as follows.

A. Capital Structure & Capital Adequacy

Tire 1 Capital and Breakdown of its Components:

S.N	Particulars	NPR in 000's
a	Paid up Equity Share Capital	3,781,009.01
b	Share Premium	55,109.61
c	Statutory General Reserves	806,726.03
d	Retained Earnings	1,874.19
e	Un-audited current year cumulative profit/(loss)	256,412.03
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	33,107.00
s	Less: Other Deductions	
	Total Tier 1 Capital	**4,868,113.87**

Tire 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	492,951.29
e	Exchange Equalization Reserve	218.46
f	Investment Adjustment Reserve	2,500.00
g	Asset Revaluation Reserve	
h	Other Reserves	
	Total Tier 2 Capital	**495,669.74**

3 Total Qualifying Capital

S.N	Particulars	NPR in 000's
i	Tier 1 Capital [Core Capital]	4,868,113.87
ii	Tier 2 Capital [Supplementary Capital]	495,669.74
	Total Capital Fund	**5,363,783.61**

4 Capital Adequacy Ratio

S.N	Particulars	Percentage
i	Tier I Capital to RWE	13.92
ii	Total Capital to RWE	15.34

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 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

1. **Operational Risk**

S.N	Particulars	NPR in 000's
i	Risk Weighted Exposure for Credit Risk	32,397,605.07
ii	Risk Weighted Exposure for Operational Risk	2,213,294.85
iii	Risk Weighted Exposure for Market Risk	5,790.32
	Total Risk Weighted Exposures before Pillar II adjustment	**34,616,690.24**

2. Risk weighted exposures under each categories of Credit Risk

S.N	Particulars	NPR in 000's
i.	Claims on Government & Central Bank	6,987,333.98
ii.	Claims on Other Official Entities	
iii.	Claims on Banks	6,095,301.21
iv.	Claims on Corporate and Securities Firms	16,489,571.18
v.	Claims on Regulatory Retail Portfolio	13,574,828.14
vi.	Claims secured by Residential Properties	2,941,620.24
vii.	Claims secured by Commercial Real Estate	993,158.29
viii.	Past Due Claims	91,951.89
ix.	High Risk Claims	353,923.4
x.	Other Assets	2,256,395.39
xi.	Off Balance- Sheet Items	1,515,247.73
	Total Credit Risk Weighted Exposures	**51,299,331.44**

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	756,490.44
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	**756,490.44**

4 Total Risk Weighted Exposure calculation table:

S.N	Particulars	NPR in 000's
i.	Risk Weighted Exposure for Credit Risk	32,397,605.07
ii.	Risk Weighted Exposure for Operational Risk	2,213,294.85
iii.	Risk Weighted Exposure for Market Risk	5,790.32
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	346,166.90
	Total Risk Weighted Exposure	**34,962,857.14**

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	250,457.73	188,252.55
iii	Doubtful	107,474.93	54,213.94
iv	Bad	114,039.79	1,463.83
	Total Non-Performing Assets	**471,972.65**	**243,930.33**

6. NPA Ratios

S.N	Particulars	Percentage
i.	Gross NPA to Gross Loan & Advances	1.24
ii.	Net NPA to Net Gross & Advances	0.01

7. Movement of Non-Performing Assets (Gross) **NPR (in 000's)**

S.N	Particulars	This Year	Last Year	Change
i.	Non-Performing Assets (In Amount)	471,972.65	364,636.10	107,336.55
ii.	Non-Performing Assets (In %)	1.24	1.16	0.08

8. Write off of Loans and Interest Suspense

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

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	728,897.05	477,272.25	251,624.8
ii.	Interest Suspense	281,692.07	108,554.82	173,137.25

10. Details of Loan Loss Provision

S.N	Particulars	NPR in 000's
i.	Provisioning for Pass Loans	470,193.40
ii.	Provisioning for Watchlist Loans	22,757.88
iii.	Provisioning for Restructured/Rescheduled Loans	
iv.	Provisioning for Sub-standard Loans	62,205.18
v.	Provisioning for Doubtful Loans	53260.98
vi	Provisioning for Bad Loans	112,576.13
vii	others if any	7,903.46
	Total amount of Loan Loss Provision	**728,897.05**

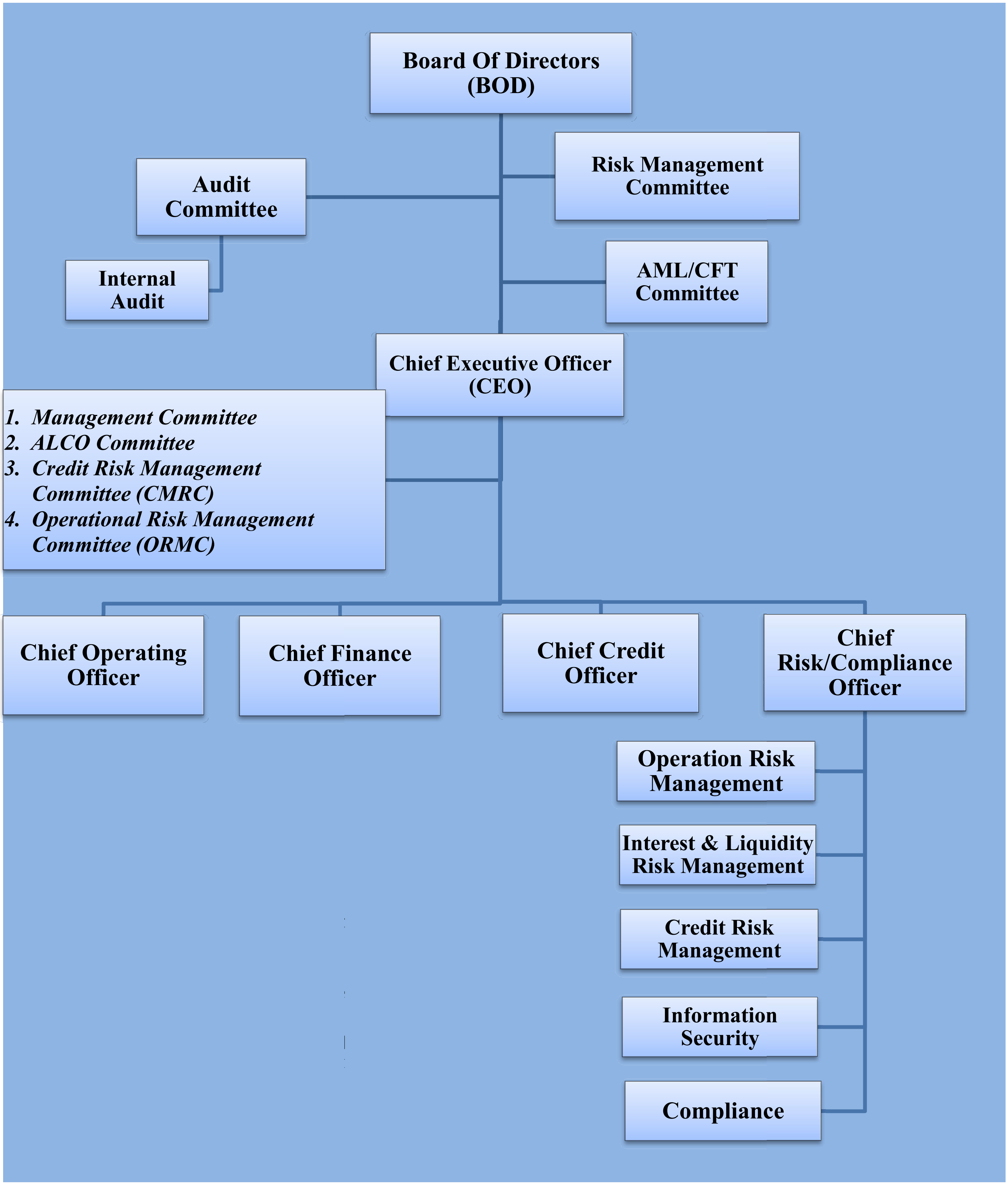
11. Segregation of Investment Portfolio into held for trading, Held to Maturity & Available for Sale.

S.N	Particulars	NPR in 000's
i.	Held for Trading	
ii.	Held to Maturity	6,177,043.02
iii.	Available for sale	
	Total Investment	**6,177,043.02**

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 on its size, capital structure, complexity of functions, technical expertise, and quality of Management Information System (MIS) and is structured to address both banking as well as non-banking risks to maximize shareholders' value.

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


Board Of Directors (BOD)
Audit Committee
Internal Audit
Risk Management Committee
AML/CFT Committee
Chief Executive Officer (CEO)
1. Management Committee
2. ALCO Committee
3. Credit Risk Management Committee (CMRC)
4. Operational Risk Management Committee (ORMC)
Chief Operating Officer
Chief Finance Officer
Chief Credit Officer
Chief Risk/Compliance Officer
Operation Risk Management
Interest & Liquidity Risk Management
Credit Risk Management
Information Security
Compliance

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 II and NRB requirement to maintain the liquidity ratios
- Keeping the close eye on the baking 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.