



Disclosure under Basel II as on Ashwin 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 Ashwin end 2079 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	879,530.47
d	Retained Earnings	467,415.62
e	Un-audited current year cumulative profit/(loss)	12,352.09
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	33,017.00
s	Less: Other Deductions	
	Total Tier 1 Capital	542,402.98

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	539,684.52
e	Exchange Equalization Reserve	218.46
f	Investment Adjustment Reserve	2,500.00
g	Asset Revaluation Reserve	
h	Other Reserves	
	Total Tier 2 Capital	5,704,802.78



3 Total Qualifying Capital

S.N	Particulars	NPR in 000's
i	Tier 1 Capital [Core Capital]	5,162,399.80
ii	Tier 2 Capital [Supplementary Capital]	542,402.98
Total Capital Fund		5,704,802.78

4 Capital Adequacy Ratio

S.N	Particulars	Percentage
i	Tier I Capital to RWE	12.14
ii	Total Capital to RWE	13.42

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 Exposure

1. Risk weighted exposures for Credit Risk, Market Risk & Operational Risk

S.N	Particulars	NPR in 000's
i	Risk Weighted Exposure for Credit Risk	38,874,493.15
ii	Risk Weighted Exposure for Operational Risk	2,432,355.78
iii	Risk Weighted Exposure for Market Risk	255.51
Total Risk Weighted Exposures before Pillar II adjustment		41,307,104.44

2. Risk weighted exposures 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	1,252,351.51
iv.	Claims on Corporate and Securities Firms	18,448,620.08
v.	Claims on Regulatory Retail Portfolio	7,341,828.82
vi.	Claims secured by Residential Properties	1,542,333.07
vii.	Claims secured by Commercial Real Estate	149,917.23
viii.	Past Due Claims	59,982.84
ix.	High Risk Claims	8,368,648.24
x.	Others	523,634.11
xi.	Other Assets	784,441.15
xii.	Off Balance- Sheet Items	402,736.10
Total Credit Risk Weighted Exposures		38,874,493.15

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

S.N	Particulars	NPR in 000's
i.	Deposits with Banks	536,667.44
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 Mitigants		536,667.44

4. Total Risk Weighted Exposure calculation table:

S.N	Particulars	NPR in 000's
i.	Risk Weighted Exposure for Credit Risk	38,874,493.15
ii.	Risk Weighted Exposure for Operational Risk	2,432,355.78
iii.	Risk Weighted Exposure for Market Risk	255.51
iv.	Adjustments under Pillar II :	
	3% of gross income for Operational Risk	380,721.70
	2% of RWE for risk management policies and procedures	826,142.09
	1% of RWE for disclosure requirement	
Total Risk Weighted Exposure		42,513,968.23



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	200,516.99	152,849.47
iii	Doubtful	94,915.24	47,944.60
iv	Bad	14,3043.86	1,633.19
	Total Non Performing Assets	438,476.09	202,427.27

6. NPA Ratios

S.N	Particulars	NPR in 000's
i.	Gross NPA to Gross Loan & Advances	1.09
ii.	Net NPA to Net Gross & Advances	0.51

7. Movement of Non-Performing Assets (Gross)

NPR (in 000's)

S.N	Particulars	This Year	Last Year	Change
i.	Non-Performing Assets (In Amt)	438,476.09	367,053.70	71,422.39
ii.	Non-Performing Assets (In %)	1.09	0.96	0.13

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.

S.N	Particulars	This Year	Last Year	Change
i.	Loan Loss Provisions	775,733.34	725,883.74	49,849.60
ii.	Interest Suspense	381,901.12	148,584.50	233,316.62

10. Details of Additional Loan Loss Provisions

S.N	Particulars	NPR in 000's
i.	Provisioning for Pass Loans	496,399.42
ii.	Provisioning for Watch list Loans	43,285.10
iii.	Provisioning for Restructured/Rescheduled Loans	
iv.	Provisioning for Sub-standard Loans	47,667.52
v.	Provisioning for Doubtful Loans	46,970.63
vi.	Provisioning for Bad Loans	141,410.66
vii.	others if any	
	Total amount of additional loan loss provision	775,733.34



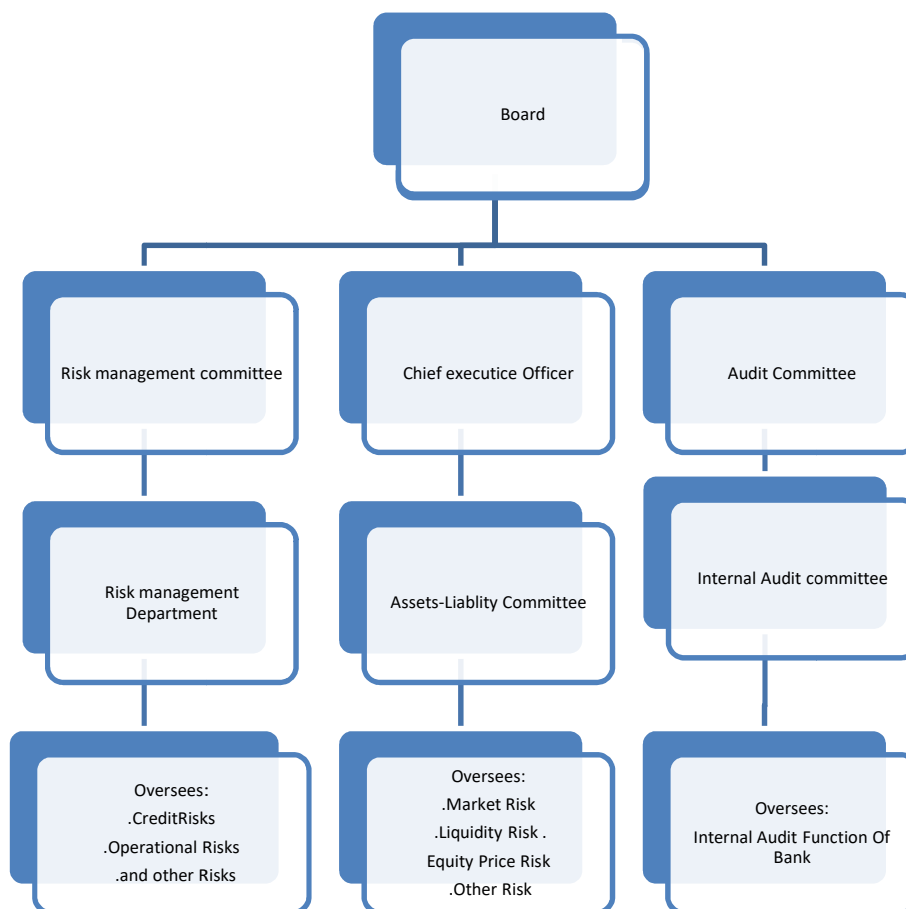
11. Segregation of Investment Portfolio into held for trading, Held to Maturity & Available for Sale.

S.N	Particulars	NPR in 000's
i.	Held for Trading	
ii.	Held to Maturity	6,093,550.00
iii.	Available for sale	345,896.12
	Total Investment	6,439,446.12

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 nonbanking risks to maximize shareholders' value.

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



The bank under the direction and oversight of the Board adopts the Risk Management Policy to ensure business strategies, profitability and financial stability are inconsistent with the Bank’s strategies and risk appetite. The Bank separately reviews the credit risk, operation risk and market risk to ensure that the Bank operate within the risk appetite expressed by the Risk Management Framework.

2 Risk Management Techniques

The Bank adopts the following techniques for these specific types of the risks:

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 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.