

**Disclosure
Under
Capital Adequacy Framework 2007(updated July 2008)
As on
Chaitra end 2080**



1. Capital structure & Capital Adequacy ratios

(Rs. in '000)

1.2 CAPITAL		Current Period
(A) Core Capital (Tier 1)		1,438,735.74
	Paid up Equity Share Capital	1,111,426.57
	Irredeemable Non-cumulative preference shares	
	Share Premium	
	Proposed Bonus Equity Shares	
	Statutory General Reserves	273,308.75
	Retained Earnings	54,000.42
	Un-audited current year cumulative profit/(loss)	
	Capital Redemption Reserve	
	Capital Adjustment Reserve	
	Debenture Redemption Reserve	
	Dividend Equalization Reserves	
	Other Free Reserve	
	Less: Goodwill	
	Less: Fictitious Assets	
	Less: Investment in equity in licensed Financial Institutions	
	Less: Investment in equity of institutions with financial interests	
	Less: Investment in equity of institutions in excess of limits	
	Less: Investments arising out of underwriting commitments	
	Less: Reciprocal crossholdings	
	Less: Purchase of land & building in excess of limit and unutilized	
	Less: Other Deductions	
<i>Adjustments under Pillar II</i>		
SRP 6.4a(1)	Less: Shortfall in Provision	-
SRP 6.4a(2)	Less: Loans & Facilities extended to related parties and restricted lending	-
(B) Supplementary Capital (Tier 2)		59,232.55
a	Cumulative and/or Redeemable Preference Share	
b	Subordinated Term Debt	
c	Hybrid Capital Instruments	
d	General loan loss provision	59,232.55
e	Exchange Equalization Reserve	
f	Investment Adjustment Reserve	
g	Asset Revaluation Reserve	
h	Other Reserves	
Total Capital Fund (Tier I and Tier II)		1,497,968.30
1.3 CAPITAL ADEQUACY RATIOS		Current Period
Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)		32.04%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures(After Bank's adjustments of Pillar II)		33.35%

Amount in 000

- 2 **Information about subordinate debt**
The bank doesnot have subordinate debt.

3 **Deduction from capital**

Particulars	Amount
Deffered Tax Asset	-

4 **Total Qualifying capital**

Total core capital (Tier I)	1,438,735.74
Total Supplementary Capital(Tier II)	59,232.55
Total Capital Fund(Tier I + Tier II)	1497968.3

5 **CAPITAL ADEQUACY RATIO**

Particulars	Percentage
Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	32.04%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures(After Bank's adjustments of Pillar II)	33.35%

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

The bank considers the capital adequacy requirement pursuant to the provision set by NRB. The Tier 1 Capital ratio of the bank as at Poush 2080 is 31.23% and the total capital ratio is 32.45%. The bank in its strategic planning cautiously considers the capital adequacy and projects capital adequacy required for the organization's growth

7. RISK EXPOSURE

(Rs. in '000)

i. Risk Weighted Exposure for Credit Risk, Market Risk and Operational Risk

1. RISK WEIGHTED EXPOSURES	Current Month
Risk Weighted Exposure for Credit Risk	3,852,978.72
Risk Weighted Exposure for Operational Risk	507,263.38
Risk Weighted Exposure for Market Risk	-
Total Risk Weighted Exposures (Before adjustments of Pillar II)	4,360,242.10
Adjustments under Pillar II	
ALM policies & practices are not satisfactory, add 1% of net interest income to RWE	-
Add ...% of the total deposit due to insufficient Liquid Assets	-
Add RWE equivalent to reciprocal of capital charge of 5 % of gross income	-
Overall risk management policies and procedures are not satisfactory. Add 4% of RWE	130,807.26
Desired level of disclosure requirement has not been achieved. Add 3% of RWE	-
Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	4,491,049.36

Risk weightage Exposure under 11 categories of Credit Risk

Particulars	Amount
Claims on Government and Central Bank	-
Claims on other official entities	-
Claims on Banks	141,904.63
Claims on Corporate and Securities Entities	113,534.05
Claims on Regulatory Retail Portfolio	1,395,958.14
Claims secured by residential properties	584,280.88
Claims secured by Commercial real estate	-
Personal Hirepurchase/Personal Auto Loans (upto Rs. 2.5 Million)	3,215.54
Past due claims	281,117.29
High Risk claims	1,023,813.59
Lending against Shares(above Rs.5 Million)	73,750.00
Other Assets	209,884.48
Off Balance Sheet Items	25,520.12
TOTAL	3,852,978.72

Total Risk weighted Exposure Computation Table

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	a	b	c	d=a-b+c	e	f=d*e
Cash Balance	37,317.71	-	-	37,317.71	0%	-
Balance With Nepal Rastra Bank	264,329.34	-	-	264,329.34	0%	-
Gold	-	-	-	-	0%	-
Investment in Nepalese Government Securities	3,012,953.01	-	-	3,012,953.01	0%	-
All Claims on Government of Nepal	1,500.00	-	-	1,500.00	0%	-
Investment in Nepal Rastra Bank securities	-	-	-	-	0%	-
All claims on Nepal Rastra Bank	-	-	-	-	0%	-
Claims on Foreign Government and Central Bank (ECA 0-1)	-	-	-	-	0%	-
Claims on Foreign Government and Central Bank (ECA -2)	-	-	-	-	20%	-
Claims on Foreign Government and Central Bank (ECA -3)	-	-	-	-	50%	-
Claims on Foreign Government and Central Bank (ECA 4-6)	-	-	-	-	100%	-
Claims on Foreign Government and Central Bank (ECA 7)	-	-	-	-	150%	-
Claims On BIS, IMF, ECB, EC and MDB's recognized by the framework	-	-	-	-	0%	-
Claims on Other Multilateral Development Banks	-	-	-	-	100%	-
Claims on Domestic Public Sector Entities	-	-	-	-	100%	-
Claims on Public Sector Entity (ECA 0-1)	-	-	-	-	20%	-
Claims on Public Sector Entity (ECA 2)	-	-	-	-	50%	-
Claims on Public Sector Entity (ECA 3-6)	-	-	-	-	100%	-
Claims on Public Sector Entity (ECA 7)	-	-	-	-	150%	-
Claims on domestic banks that meet capital adequacy requirements	709,523.16	-	-	709,523.16	20%	141,904.63
Claims on domestic banks that do not meet capital adequacy requirements	-	-	-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	-	-	-	-	20%	-
Claims on foreign bank (ECA Rating 2)	-	-	-	-	50%	-
Claims on foreign bank (ECA Rating 3-6)	-	-	-	-	100%	-
Claims on foreign bank (ECA Rating 7)	-	-	-	-	150%	-
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above	-	-	-	-	20%	-
Claims on Domestic Corporates (Credit rating score equivalent to AAA)	-	-	-	-	80%	-
Claims on Domestic Corporates (Credit rating score equivalent to AA+ to AA-)	-	-	-	-	85%	-
Claims on Domestic Corporates (Credit rating score equivalent to A+ to A-)	-	-	-	-	90%	-
Claims on Domestic Corporates (Credit rating score equivalent to BBB+ & below)	-	-	-	-	100%	-
Claims on Domestic Corporates (Unrated)	113,534.05	-	-	113,534.05	100%	113,534.05
Claims on Foreign Corporates (ECA 0-1)	-	-	-	-	20%	-
Claims on Foreign Corporates (ECA 2)	-	-	-	-	50%	-
Claims on Foreign Corporates (ECA 3-6)	-	-	-	-	100%	-
Claims on Foreign Corporates (ECA 7)	-	-	-	-	150%	-
Regulatory Retail Portfolio (Not Overdue)	1,917,039.15	-	55,761.64	1,861,277.52	75%	1,395,958.14
Claims fulfilling all criterion of regulatory retail except granularity	-	-	-	-	100%	-
Claims secured by residential properties	741,736.87	-	-	741,736.87	60%	445,042.12
Claims not fully secured by residential properties	-	-	-	-	150%	-
Claims secured by residential properties (Overdue)	139,238.76	-	-	139,238.76	100%	139,238.76
Personal Hirepurchase/Personal Auto Loans (upto Rs. 2.5 Million)	3,215.54	-	-	3,215.54	100%	3,215.54
Claims secured by Commercial real estate	-	-	-	-	100%	-
Past due claims (except for claims secured by residential properties)	187,411.53	-	-	187,411.53	150%	281,117.29
High Risk claims	682,722.39	-	180.00	682,542.39	150%	1,023,813.59
Lending against Shares(above Rs.5 Million)	59,000.00	-	-	59,000.00	125%	73,750.00
Investments in equity and other capital instruments of institutions listed in stock exchange	26,333.43	-	-	26,333.43	100%	26,333.43
Investments in equity and other capital instruments of institutions not listed in the stock exchange	471.30	-	-	471.30	150%	706.95
Staff loan secured by residential property	-	-	-	-	50%	-
Interest Receivable claim on government securities	88,314.80	-	-	88,314.80	0%	-
Cash in transit and other cash items in the process of collection	-	-	-	-	20%	-
Other Assets (as per attachment)	182,844.10	-	-	182,844.10	100%	182,844.10
TOTAL (A)	8,167,485.13	-	55,941.64	8,111,543.50		3,827,458.59
B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	-	-	-	-	0%	-
Forward Exchange Contract Liabilities	-	-	-	-	100%	-
LC Commitments With Original Maturity Upto 6 months domestic counterparty	-	-	-	-	20%	-
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%	-
LC Commitments With Original Maturity Over 6 months domestic counterparty	-	-	-	-	50%	-
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%	-
Bid Bond, Performance Bond and Counter guarantee domestic counterparty	44,819.50	-	-	44,819.50	40%	17,927.80
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%	-
Underswiring commitments	-	-	-	-	50%	-
Lending of Bank's Securities or Posting of Securities as collateral	-	-	-	-	100%	-
Repurchase Agreements, Assets sale with recourse	-	-	-	-	100%	-
Advance Payment Guarantee	-	-	-	-	100%	-
Financial Guarantee	-	-	-	-	100%	-
Acceptances and Endorsements	-	-	-	-	100%	-
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments (short term)	37,961.61	-	-	37,961.61	20%	7,592.32
Irrevocable Credit commitments (long term)	-	-	-	-	50%	-
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above	-	-	-	-	20%	-
Other Contingent Liabilities	-	-	-	-	100%	-
Unpaid Guarantee Claims	-	-	-	-	200%	-
TOTAL (B)	82,781.11	-	-	82,781.11		25,520.12
Total RWE for credit Risk Before Adjustment (A) +(B)	8,250,266.24	-	55,941.64	8,194,324.61		3,852,978.72
Adjustments under Pillar II						
SRP 6.4a(3) - Add 10% of the loans & facilities in excess of Single Obligor Limits to RWE	-	-	-	-	-	-
SRP 6.4a(4) - Add 1% of the contract (sale) value in case of the sale of credit with recourse to RWE	-	-	-	-	-	-
Total RWE for Credit Risk after Bank's adjustments under Pillar II	8,250,266.24	-	55,941.64	8,194,324.61		3,852,978.72

8 Amount of Non-Performing Assets (Gross and Net Amount)

Particulars	Gross Amount	Provision	Net Amount
Substandard	35656.60	8914.15	26742
Doubtful	37893.39	18946.69	18947
Loss	35205.83	35205.83	-
Total	108756	63067	45689

9. Non performing Asset ratio

Particular	Percentages
Gross NPA to Gross Advances	2.63%
Net NPA to Net Advances	1.12%

10. Movement of Nonperforming Asset

Particulars	Balance		Movement
	Poush 2080	Chaitra 2080	
Substandard	60533	35657	(24876)
Doubtful	29081	37893	8812
Loss	26064	35206	9142
Total	115678	108756	(6922)

11 Written off loan and Interest Suspense

During the 3rd quarter of 80-81 bank hasnot written off any loan and advances.

12. Movement in Loan loss provision

Particular	Balance		Movement
	Poush 2080	Chaitra 2080	
Pass	49866	47332	(2,534)
Watchlist	6189	11900	5,711
Substandard	15133	8914	(6,219)
Doubtful	14541	18947	4,406
Loss	26064	35206	9,142
Total	111792	122299	10507

13 Movement in Interest Suspense

Particular	Balance		Movement
	Poush 2080	Chaitra 2080	
Interest Suspense	49024.69215	47742.98	(1,282)

14. Details of Additional Loan Loss Provision(Difference of provision between this quarter and immediate previous quarter

Particulars	Amount
Pass	(2,534)
Watchlist	5,711
Substandard	(6,219)
Doubtful	4,406
Loss	9,142

15. Segregation of Bank investment portfolio

Particulars	Amount
Investment securities measured at amortized cost	3012953
Investment in equity measured at FVTOCI	26805
Investment in unquoted associates	-
Other Trading Assets	-

16. Risk Management Function

Risk-taking is an inherent element of the banking business whereby profits are in part, the reward for successful and acceptable risk-taking. While, on the other hand, undue and poorly managed risk are susceptible to loss of profit and thus jeopardize the safety of the depositors. To ensure effective risk management, the bank has appropriate risk governance structure and risk management process, policies considering the size and nature of business.

Credit Risk

Credit risk management strategies include effectively managing the risk of financial losses arising out of booking an exposure on counterparty and also ensuring independence of the credit risk function from the origination, trading and sales function. Credit risk is managed through a defined framework which sets out policies, procedures and standards covering the measurement and management of credit risk. Clear segregation of duties has been established between transaction originator in the business and the approvers in the risk function.

Operational Risk

Operational risk can be caused by both internal and external sources, such as fraud, business interruptions, system failures, damage to physical infrastructure, failure in execution and service delivery, inherent risks in products. The risk can occur in any business function or the business supporting functions. The effect of failure in any of the resources can have concurrent impacts across the Bank. Effective operational risk management system aims to minimizing losses and customer dissatisfaction due to failure in process, focusing on flows in product and their design that can expose the bank to losses due to fraud analyzing the impact continuity in the Bank's operations.

The bank has formed various policies for mitigating the operation risk like Employee Bylaws, AML/CFT policy. Risk Weighted Exposure for Operation Risk has been calculated as per NRB Capital Adequacy Framework

Market Risk

Market risk refers to the risk arising from movements in market prices, in particular, changes in interest rates, foreign exchange rates, and equity and commodity prices. The Finance Department of the bank continuously monitors Equity price risk and interest rate risk and communicates the same to senior management and RMC as deemed necessary. However, the bank does not deal with forex.

Liquidity Risk

Liquidity risk is the *risk* that a company or bank may be unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due, as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for liquid asset positions is not available to the Bank on acceptable terms.

To mitigate the liquidity risk, the bank daily monitors the liquidity position. Periodic review of gap over the assets and liabilities management is performed.

Reputational Risk

The management committee is responsible for protecting the bank's reputation and ensures bank does not take any activity that may cause material damage to reputation of the bank. Further, the bank has appointed the information officer