

Disclosure of Capital Adequacy (Basel II) **As on 15th July 2013 (31 Asadh 2070)**

1. Capital structure and Capital Adequacy

Capital structure and Capital Adequacy of the Bank has been presented in Schedule 30 (A) and the supporting sheets are available in schedule 30 (B), 30 (C), 30 (D), 30 (E), 30 (F) and Form no 4 & 5.

Summary of Bank's Internal Approach to assess Capital Adequacy

Bank management is responsible for understanding and assessing the nature as well as level of risk taken by the bank and relating the risk to the capital adequacy level.

The Credit Risk Management unit reviews the Credit Risk, analyzes the trend, and assesses the exposure impact on capital, which is vital in Credit decision-making. Also for managing Credit Risk, Credit Policy, Credit Policy Manual and Product Papers have been developed for building risk awareness culture throughout the Organization.

In respect of Operational Risk, Operations In-charges and Operation Managers of respective Branches and Departments provide operational loss data to Operation Manager, Corporate via regular reporting requirements stipulated by Operational Risk Management Policy. These data are further analyzed, reported and appropriate action taken as per requirement.

With regard to Market Risk, Treasury maintains net open position of all currency on daily basis. Head Treasury reviews / analyzes the trend and assesses the exposure impact on capital. The net open position report is presented at the ALCO for discussion and future strategy setting.

In compliance with NRB Directives and guidelines, Bank has formed a Risk Management Committee (RMC) in order to monitor and mitigate various risks of the Bank i.e. Credit, Operations, Market and Liquidity. In order to strengthen compliance in accordance to directives/instructions issued by NRB and to identify, measure, monitor, and control all major risk of the bank adequately, this committee has been formed in line with adaptation framework of risk management.

RMC on a periodically basis, discuss and reviews major errors/lapses (based on output checking report, internal/external audit reports), operations losses/risk, reputational risk, fraud and forgeries of the Bank/ Branches and ensures that timely corrective and preventive actions are taken to mitigate such risks in future.

2. Risk Exposure

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

NPR in 000'

Risk weighted Exposures	Current Year	Previous Year
a. Risk Weighted Exposure for Credit Risk	33,836,073	18,953,983
b. Risk Weighted Exposure for Operational Risk	1,604,263	1,414,790
c. Risk Weighted Exposure for Market Risk	195,998	57,541
Adjustment Under Pillar II		
1% of Total Risk Weighted Exposure as per NRB Inspection	356,363	204,263
Total Risk Weighted Exposures (a + b + c)	35,992,698	20,630,577

Risk Weighted Exposures under each of 11 Categories of Credit Risk*NPR in 000'*

Particulars	Current Year	Previous Year
Claims on Government and Central Bank	-	-
Claims on Other Official Entities	421,254	-
Claims on Banks	410,021	388,824
Claims on Corporate and securities firms	16,785,091	9,869,256
Claims on regulatory retail Portfolio	4,727,761	2,927,175
Claims secured by Residential Properties	2,325,465	930,746
Claims secured by Commercial real estate	1,760,936	74,392
Past due Claims	1,469,864	29,807
High Risk Claims	1,957,246	1,671,816
Other Assets	1,909,363	1,377,338
Off Balance- Sheet Items	2,069,073	1,684,628
Total	33,836,073	18,953,982

Non-Performing Assets

NPR in '000

Particulars	Current Year		Previous Year	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans			-	-
Sub Standard Loans	210,149	157,612	13,881	10,410
Doubtful Loans	109,435	54,717	22,397	11,199
Loss	432,759	-	92,270	-
Total NPAs	752,343	212,329	128,548	21,609

Ratio of Non Performing Asset

Particulars	Current Year	Previous Year
Gross NPA to gross advances	2.32%	0.73 %
Net NPA to net advances	0.67%	0.13 %

Movement of Non performing Assets

NPR in 000'

Particulars	Current Year	Previous Year
Opening NPA	128,548	90,357
Addition during the Year	623,795	64,085
NPA recovery during the Year		25,895
Closing NPA	752,343	128,548

Write off Loan and Interest Suspense:

NPR in 000'

Particulars	Current Year	Previous Year
Write off Loan	-	-
Write off Interest	-	153

Movements in LLP and Interest Suspense:

NPR in 000'

Particulars	Current Year	Previous Year
Movements in Loan Loss Provisions	575,738	49,309
Movements in Interest Suspense	170,617	35,801
Additional LLP during the Year	575,738	49,309

Segregation of Investment:

NPR in '000'

Particulars	Current Year	Previous Year
Held for Trading		-
Held for Maturity	6,369,436	3,962,188
Available for Sale	41,243	30,543

3. Risk Management Function

The Bank has been building robust Risk Management Capabilities in order to achieve an effective Risk Management framework and contain the risks associated with the business; a fully functional risk management unit is responsible for identifying, reporting, controlling and managing credit, operational and market risk.

Credit Risk

For Credit Risk Management a separate risk management unit (segregated from the sales function of business) has been created and directly reports to Chief Executive Officer. A dedicated sub-unit within the risk management for management of non-performing / problem assets works towards implementing risk grading / credit scoring processes in order to achieve better management of credit risk and to achieve better efficiency in credit processing.

Operational Risk

Effective Operational Risk Management systems aims to minimizing losses and customer dissatisfaction due to failure in processes, focusing on flows in products and their design that can expose the Bank to losses due to fraud, analyzing the impact of failures in technology / system, developing plans to meet external shocks that can adversely impact continuity in the Bank's operations. Bank has introduced a "Comprehensive Operational Risk Monitoring and Reporting Framework" as well as "Output checking" at all branches covering all transactions on daily basis to minimize Operational Risk.

Market Risk

Bank has an ALCO (Asset Liability Management Committee) which meets periodically to discuss product pricing for deposits and advances and maturity profiles of assets and liabilities, articulating interest rate, view of bank, funding policy, transfer pricing policy and balance sheet management.

The Audit and Compliance function is also independent from Bank Management; this unit focuses on development of internal procedures and check and control systems / procedures. The Internal Audit and Compliance unit undertakes a comprehensive audit of all business groups and other functions, in accordance with the approved audit plan. In order to mitigate above risks, further this unit function is also independent with separate reporting lines, with audit function reporting directly to Board Audit committee.

The Bank has been working continuously towards risk diversification of its assets base so as to achieve better portfolio mix and to protect/enhance the overall risk on its loan book. The strategic focus of mapping business is gradually reducing high-risk assets and increasing low risk exposures.