



1. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

Tier 1 capital and a breakdown of its components:

Particulars		NPR
a	Paid up Equity Share Capital	4,395,786
b	Irredeemable Non-cumulative preference shares	-
c	Share Premium	-
d	Proposed Bonus Equity Shares	-
e	Statutory General Reserves	742,558
f	Retained Earnings	82
g	Un-audited current year cumulative profit	(229,663)
h	Capital Adjustment Reserve	-
i	Other Free Reserve	-
j	Less: Deferred Tax Reserve	-
k	Less: Deductions	(153,000)
Core Capital (Tier 1)		4,755,764

Tier 2 capital and a breakdown of its components:

Particulars		NPR
a	Subordinated Term Debt	1,500,000
b	General loan loss provision	848,536
c	Exchange Equalization Reserves	4,790
d	Investment Adjustment Reserve	300
Total		2,353,626
Eligible Supplementary Capital (Tier 2)		2,353,626

Detail of Subordinated Term Debts:

Particulars		NPR
a	Subordinated Term Debt	1,500,000

Deductions from capital:

Particulars		NPR
a	Less: Investment in equity of institutions with financial interests	(153,000.00)
b	Less: Other Deductions	-
Total deductions from capital		(153,000.00)

Total qualifying capital;

Particulars		NPR
a	Core Capital	4,755,764
b	Supplementary Capital	2,353,626
Total Qualifying Capital (Total Capital Fund)		7,109,390

Capital Adequacy Ratio;

Particulars		% of Total RWE
a	Capital Adequacy Ratio – Core Capital	8.39%
b	Capital Adequacy Ratio – Total Capital Fund	12.54%

2. RISK EXPOSURE

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

RISK WEIGHTED EXPOSURES		NPR
a	Risk Weighted Exposure for Credit Risk	51,243,285
b	Risk Weighted Exposure for Operational Risk	3,250,418
c	Risk Weighted Exposure for Market Risk	75,428
d	Net liquid assets to total deposit ratio is shortfall	0
e	Add RWE equivalent to reciprocal of capital charge	470,818
f	Overall risk management policies and procedures are not satisfactory	1,637,074
Total Risk Weighted Exposures (a+b+c+d)		56,677,023

Risk Weighted Exposures under each of 12 categories of Credit Risk

No.	Particulars	Risk Weighted Amount(NPR)
1	Claims on Government and central Bank	-
2	Claims on other financial entities	-

3	Claims on Banks	1,298,917
4	Claims on corporate and securities firm	9,332,020
5	Claims on regulatory retail portfolio	15,377,267
6	Claim secured by residential properties	3,185,429
7	Claims secured by commercial real state	239,161
8	Past due Claims	7,979,303
9	High risk claims	9,818,246
10	Lending Against Securities (Bonds & Shares)	254,275
11	Other Assets	3,315,449
12	Off Balance sheet Items	443,218
	Total	51,243,285

Total Risk Weighted Exposure calculation table;

RISK WEIGHTED EXPOSURES		NPR
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d.	Net liquid assets to total deposit ratio is shortfall	0
e.	Add RWE equivalent to reciprocal of capital charge	470,818
f.	Overall risk management policies and procedures are not satisfactory	1,637,074
	Total Risk Weighted Exposures (a+b+c+d)	56,677,023
	Total Capital Fund	7,109,389.92
	Total Capital Fund To Total Risk Weighted Exposures	12.54%

Amount of Non Performing Assets (NPAs) [both Gross and Net]:

Particulars		Gross(Loan)	Loan Loss Provision	Net
a	Restructure Loan/Reschedule Loan	-	-	-
b	Substandard Loan	763,366	183,957	579,409
c	Doubtful Loan	825,198	392,050	433,149
d	Loss Loan	468,200	399,191	69,009
	Total	2,056,765	975,198	1,081,567

Non Performing Assets (NPAs) ratios

Particulars		NPA Ratios
a	Gross NPA To Gross Advances	3.89%
b	Net NPA to net Advances	2.12%

Movement of Non Performing Assets

Particulars		This Year(As on Chaitra 2079)	Previous Quater (As on Poush 2079 End 2079)	Movements(NPR)
a	Restructure Loan/Reschedule Loan	-	-	-
b	Substandard Loan	763,366	672,024	91,342
c	Doubtful Loan	825,198	847,284	(22,085)
d	Loss Loan	468,200	329,248	138,952
	Total	2,056,765	1,848,556	208,209

Write off of Loan and Interest Suspenses

Particulars		NPR
a	Write off of Loan and Advance	-
b	Write off of Interest Suspenses	-

Movements in Loan Loss Provisions and Interest Suspense:

Description	This Year(As on Chaitra 2079)	Previous Quater (As on Poush End End 2079)	Movements(NPR)	Movements(%)	
a	Loan Loss Provision	1,823,734	1,758,296	65,438	3.72%
b	Interest Suspense	805,674	605,184	200,490	33.13%

Details of Additional Loan Loss Provision

NIL

Risk Management Framework

Bank recognizes the importance of Risk Management and has accordingly invested in processes, people and a management structure. Overall risk management function of the Bank is supervised by Risk Management Committee and Internal Audit Committee represented by BOD members and Senior Executives. Chief Risk Officer (CRO), along with his team, is responsible for overall risk management of the Bank which includes managing, assessing, identifying, monitoring and reducing pertinent global, macro and micro-economic level business risks that could interfere with Banks objective and goals and whether the Bank is in substantial compliance with its internal operating policies and other applicable regulations and procedures, external, legal, regulatory or contractual requirements on a continuous basis. Further, CRO ensures integration of all major risk in capital assessment process. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor adherence to established limits. Risk management policies and systems are reviewed annually to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

1.Credit Risk

Credit Risk is the risk of negative effects on the financial results and the capital of the institution due to the borrower's default on its obligations to the Bank.

The Bank has its own Credit Policy Guidelines to handle the Credit Risk Management philosophy that involves a continual measurement of probability of default/loss; identification of possible risks and mitigations. The provisions of Capital Adequacy Framework -2007 are compiled in line to line basis to overcome the Credit Risk. In order to manage and eliminate the credit risk, the Bank has a practice of maintaining the best quality assets in its book. The Bank's Credit Policy elaborates detailed procedures for proper risk management. The Bank has delegated credit approval limits to various officials to approve and sanction various amount of credit request based on their individual expertise and risk judgment capability.

As a check and balance mechanism, each credit case requires dual approval. Regular monitoring of the credit portfolio ensures that the Bank does not run the risk of concentration of portfolio in a particular business sector or a single borrower. Similarly the Bank also exercises controlled investment policy with adequately equipped resource looking after the investment decisions.

2.Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, commodity prices and equity prices. The bank classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately. The bank has separate market risk management policy in place as a guiding document.

Market Risk is discussed at ALCO and within respective division level on open position on daily basis. In depth knowledge of the market and movement in variables are obtained in order to control limits for open position and monthly reports prepared. As for the monitoring of market and liquidity risk, the Bank has an active Assets and Liability Management Committee (ALCO) in place which meets regularly and takes stock of the Bank's assets and liability position and profile of assets & liabilities, monitors risks arising from changes in exchange rates in foreign currencies. All foreign exchange positions are managed by treasury consisting of front office dealers with specific dealing limits and an independent back office. The back office executes the deals made by the dealers and also monitors the liquidity position of the Bank. For the purpose of proper check and control, the front dealing room of treasury and the back office have different reporting line.

3.Operational Risk

Operational risk occurs due to external as well as the internal environment. First step is to clearly identify the risk events, after which appropriate combination of qualitative or quantitative techniques are used to evaluate the magnitude of the consequences due to the occurrence of such events. Key risk indicators and audit findings are mostly used to assess operational risk of the Bank.

As a part of monitoring operational risks, the Bank has devised operational manuals for various Banking functions, which are reviewed and modified time to time as per the changing business context.

The Bank has adopted dual control mechanism in its all operational activities where each and every financial and non-financial transaction is subject to approval from an authority higher than the transaction initiator. Regular review meetings are conducted to assess the adequacy of risk monitoring mechanism and required changes are made as and when felt necessary. Reconciliation of Nostro Accounts of the branches are done by the branches itself on monthly basis and the reconciliation is verified by the Finance Department. Reconciliation of Inter-Branch and Inter-Department account, Staff Advances and Other Advances are done by the Finance department on monthly Basis under direct supervision of CFO, Head Office. The Bank has independent internal audit, which reports to the Audit Committee of the Bank. The Audit Committee meets frequently and reviews the business process and financial position of the Bank. In order to have better focus on managing operational risks across branches and to monitor them from Head Office level, the Bank has separate Branch Operation and Control & Compliance Department at Head Office. The Bank has strong MIS in place to monitor the regular operational activities.

4.Liquidity Risk

Liquidity risk is the potential for loss to a bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses. Liquidity is the ability of an institution to transform its assets into cash or its equivalent in a timely manner at a reasonable price to meet its commitments as they fall due. Liquidity risk is considered a major risk for banks. It arises when the cushion provided by the liquid assets are not sufficient enough to meet its obligation. In such a situation banks often meet their liquidity requirements from market. Funding through market depends upon liquidity in the market and borrowing bank's liquidity.

Qualitative Disclosures

The Bank has developed its own internal policy, procedures and structures to manage credit, market and liquidity risk in adverse situation and to make contingency plan accordingly. For the purpose, the Bank has developed Internal Capital Adequacy Assessment Process (ICAAP) which acts as a guiding document for reporting the ongoing assessment of the Bank's risks, how the Bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.