



Disclosure Under Basel II
As of Poush End 2082

Capital Adequacy Framework, 2007 (Updated in July 2008) requires the Bank to make a set of disclosures on the Capital Adequacy and Risk Management framework of the Bank. Information pursuant to Pillar III, disclosure requirement of the framework based on unaudited standalone financial information are as follows:

A. Capital Structure and Capital Adequacy:			
1. Tier 1 Capital and Breakdown of its Components:			
S.N.	Particulars		NPR in 000's
i.	Paid Up Equity Share Capital		422,707.00
ii.	Share Premium		28,830.00
iii.	Statutory General Reserves		108,174.00
iv.	Retained Earnings		(453,922.00)
v.	Un-audited current year cumulative profit/(loss)		(47,348.00)
vi.	Capital Redemption Reserve		
vii.	Capital Adjustment Reserve		78,189.00
viii.	Dividend Equalization Reserves		-
ix.	Other Free Reserve		-
x.	Less: Goodwill		-
xi.	Less: Deferred Tax Assets		-
xii.	Less: Fictitious Assets		-
xiii.	Less: Investment in equity in licensed Financial Institutions		-
xiv.	Less: Investment in equity of institutions with financial interests		-
xv.	Less: Investment in equity of institutions in excess of limits		-
xvi.	Less: Investments arising out of underwriting commitments		-
xvii.	Less: Reciprocal crossholdings		-
xviii.	Less: Purchase of land & building in excess of limit and unutilized		-
xix.	Less: Other Deductions		-
Total Tier 1 Capital			136,630.00
2. Tier 2 Capital and Breakdown of its Components:			
S.N.	Particulars		NPR in 000's
i.	Cumulative and/or Redeemable Preference Share		-
ii.	Subordinated Term Debt		-
iii.	Hybrid Capital Instruments		-
iv.	General Loan Loss Provision		-
v.	Exchange Equalization Reserve		-
vi.	Investment Adjustment Reserve		-
vii.	Accrued Interest receivables on pass loan included in regulatory reserve		36,132.00
viii.	Asset Revaluation Reserve		-
ix.	Other Reserves		-
Total Tier 2 Capital			36,132.00



**Disclosure Under Basel II
 As of Poush End 2082**

3. Total Qualifying Capital		
S.N.	Particulars	NPR in 000's
i.	Tier 1 Capital [Core Capital]	136,630.00
ii.	Tier 2 Capital [Supplementary Capital]	36,132.00
Total Capital Fund		172,762.00

4. Information on Subordinated Term Debt:				(NPR in 000's)
S.N.	Name	Maturity Period	Outstanding Amount	Amount reckoned as Capital Fund
1.				
Total				

5. Deductions from Capital		
S.N.	Particulars	NPR in 000's
i.	Investment in equity of institutions with financial interests*	-
ii.	Investment in equity of institutions in excess of limits**	-
iii.	Intangible Assets	-
Total Deductions		-

6. Capital Adequacy Ratio		
S.N.	Particulars	Percentage
i.	Tier I Capital to RWE	27.97%
ii.	Tier I + Tier II Capital to RWE	35.36%

7. 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.

B. Risk Exposures		
1. Risk weighted exposures for Credit Risk, Market Risk and Operational Risk		
S.N.	Particulars	NPR in 000's
i.	Risk Weighted Exposure for Credit Risk	444,492.55
ii.	Risk Weighted Exposure for Operational Risk	23,712.44
iii.	Risk Weighted Exposure for Market Risk	-
Total Risk Weighted Exposures before Pillar II adjustment		468,205.00



Disclosure Under Basel II
As of Poush End 2082

2. Risk weighted exposures under each 11 categories of 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	48,064.20
iv.	Claims on Corporate and Securities Firms	-
v.	Claims on Domestic Corporates	-
vi.	Claims on Regulatory Retail Portfolio	21,078.25
vii.	Claims fulfilling all criterion of regularity retail except granularity	61,870.49
viii.	Claims secured by Residential Properties	4,644.86
ix.	Claims secured by residential properties (Overdue)	10,364.54
x.	Claims secured by Commercial Real Estate	-
xi.	Past Due Claims	35,998.54
xii.	High Risk Claims	27,986.44
xiii.	Claims against lending securities (Bonds)	-
xiv.	Claims on Personal Hire Purchase/Personal Auto Loans	1,138.03
xv.	Claims on Investment in equity and other capital instruments listed in stock exchange	10,790.00
xvi.	Other Assets	222,046.00
xvii.	Off Balance- Sheet Items	511.20
Total Credit Risk Weighted Exposures		444,492.55

3. Types of eligible credit risk mitigants used and the benefits availed under CRM.		
S.N.	Particulars	NPR in 000's
i.	Deposits with Banks	65,207.00
ii.	Deposits with other banks/financial institutions	-
iii.	Gold	-
iv.	Government and NRB Securities	4,000.00
v.	Guarantee of Government of Nepal	2,722.00
vi.	Securities/Guarantee of other Sovereigns	-
vii.	Guarantee of Domestic Banks	240,321.00
viii.	Guarantee of Multilateral Development Banks	-
ix.	Guarantee of Foreign Banks	-
Total Credit Risk Mitigants		312250.00



Disclosure Under Basel II
As of Poush End 2082

4. Total Risk Weighted Exposure calculation table:			
S.N.	Particulars		NPR in 000's
i.	Risk Weighted Exposure for Credit Risk		444,492.55
ii.	Risk Weighted Exposure for Operational Risk		23,712.44
iii.	Risk Weighted Exposure for Market Risk		-
iv.	Adjustments under Pillar II :		
	• 1% of Net Interest Income to RWE		(2.99)
	• 4% of gross income for Operational Risk		1,630.40
	• 4% of RWE for risk management policies and procedures		18,728.20
	• 2% of RWE for disclosure requirement		-
Total Risk Weighted Exposure			488,560.61

5. Amount of Non-Performing Assets (both Gross and Net)			
S.N.	Particulars	Gross (in 000's)	Net (in 000's)
i.	Restructured and Rescheduled		
ii.	Sub-Standard	16,480.94	12,226.83
iii.	Doubtful	34,917.99	17,290.22
iv.	Loss	117,681.53	-
Total Non-Performing Assets		169,080.45	29,517.06

6. NPA Ratios			
S.N.	Particulars		NPR in 000's
i.	Gross NPA to Gross Advances		57.48%
ii.	Net NPA to Net Advances		19.38 %

7. Movement of Non-Performing Assets (Gross)				(in 000's)
S.N.	Particulars	This Qtr.	Previous Qtr.	Change
i.	Non-Performing Assets (In Amt)	169,080.45	168547.00	533.45
ii.	Non-Performing Assets (In %)	57.48%	56.52%	1.70%

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. Movements in Loan Loss Provisions and Interest Suspense:				(in 000's)
S.N.	Particulars	This Qtr.	Previous Qtr.	Change
i.	Loan Loss Provisions	141,878.32	133,991.00	7887.32
ii.	Interest Suspense	45,811.00	42,049.00	3762.00



Disclosure Under Basel II As of Poush End 2082

10.	Details of Additional Loan Loss Provisions		
	S.N.	Particulars	NPR in 000's
	i.	Provisioning for Pass Loans	-
	ii.	Provisioning for Watch-List Loans	-
	iii.	Provisioning for Restructured/Rescheduled Loans	-
	iv.	Provisioning for Sub-standard Loans	-
	v.	Provisioning for Doubtful Loans	-
	vi.	Provisioning for Bad Loans	-
	Total amount of additional loan loss provision		-

11.	Segregation of Investment Portfolio:		
	S.N.	Particulars	NPR in 000's
	i.	Held for Trading	-
	ii.	Held to Maturity	4,000.00
	iii.	Available for sale (Market Value)	-
	Total Investment		-

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 under the direction and oversight of the Board adopts the Risk Management Policy to ensure business strategies, profitability and financial stability are in consistent 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 type 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 disbursement credit risk management techniques.



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Disclosure Under Basel II As of Poush End 2082

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.



Disclosure Under Basel II
As of Poush End 2082

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 above the regulatory minimum.
- Keeping the close eye on the baking and economic scenario.

iv **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.

v. **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.

