

MUKTINATH BIKAS BANK LTD.

Disclosure Under Basel II

As of Poush End 2077



मुक्तिनाथ विकास बैंक लि.
MUKTINATH BIKAS BANK LTD.

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	4,811,550.80
ii. Share Premium	-
iii. Statutory General Reserves	723,965.31
iv. Retained Earnings	7,097.88
v. Un-audited current year cumulative profit/(loss)	654,780.54
vi. Capital Redemption Reserve	-
vii. Capital Adjustment Reserve	-
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	(117,500.00)
xv. Less: Investment in equity of institutions in excess of limits	(64,000.00)
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	6,015,894.54

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	805,607.02
v. Exchange Equalization Reserve	1,916.93
vi. Investment Adjustment Reserve	1,500.00
vii. Asset Revaluation Reserve	-
viii. Other Reserves	-
Total Tier 2 Capital	809,023.95

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3. Information on Subordinated Term Debt:

The bank has not raised any funds through subordinate term debt.

4. Deductions from Capital

S.N. Particulars	NPR in 000's
i. Investment in equity of institutions with financial interests*	117,500.00
ii. Investment in equity of institutions in excess of limits**	64,000.00
Total Deductions	181,500.00

* Investment made in Bank's subsidiary, Muktinath Capital Limited.

** Investment made in Bank's associate company, Muktinath Krishi Company Limited.

5. Capital Adequacy Ratio

S.N. Particulars	Percentage
i. Tier I Capital to RWE	10.63%
ii. Tier I + Tier II Capital to RWE	11.89%

6. 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.

7. Summary of Bank's internal approach to assess the adequacy of capital to support current and future activities

The Bank has formulated prepared Internal Capital Adequacy Assessment Process ('ICAAP') which has a sound and comprehensive policy and process for evaluating the Bank's capital commensurate with 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 Bank develops its strategic, business and capital plans covering five year horizon. Based on this long term strategy, the annual budget of the bank is prepared considering the current economic and business outlook. These two long and short term plans ensure that adequate levels of capital and optimum mix are maintained by the Bank to support its strategy and business requirements.

The Risk Management Policy along with the Liquidity Management Framework 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 plausible 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 macroeconomic factors etc., are taken into consideration while carrying out the stress testing.

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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	48,772,815.97
ii. Risk Weighted Exposure for Operational Risk	3,525,436.15
iii. Risk Weighted Exposure for Market Risk	17,956.97
Total Risk Weighted Exposures before Pillar II adjustment	52,316,209.09

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	1,640,781.73
iv. Claims on Corporate and Securities Firms	4,309,387.66
v. Claims on Regulatory Retail Portfolio	26,463,651.46
vi. Claims secured by Residential Properties	7,018,168.73
vii. Claims secured by Commercial Real Estate	540,785.50
viii. Past Due Claims	869,628.27
ix. High Risk Claims	3,193,345.78
x. Other Assets	4,310,367.24
xi. Off Balance- Sheet Items	426,699.58
Total Credit Risk Weighted Exposures	48,772,815.97

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	432,878.08
ii. Deposits with other banks/financial institutions	-
iii. Gold	339,633.20
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	772,511.27

4. Total Risk Weighted Exposure calculation table:

S.N. Particulars	NPR in 000's
i. Risk Weighted Exposure for Credit Risk	48,772,815.97
ii. Risk Weighted Exposure for Operational Risk	3,525,436.15
iii. Risk Weighted Exposure for Market Risk	17,956.97
iv. Adjustments under Pillar II :	
□4% of gross income for Operational Risk	1,124,372.10
□3% of RWE for risk management policies and procedures	1,569,486.27
□3% of RWE for disclosure requirement	1,569,486.27
Total Risk Weighted Exposure	56,579,553.74

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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	127,007.47	95,255.61
iii. Doubtful	14,185.58	7,092.79
iv. Loss	46,785.56	-
Total Non Performing Assets	187,978.62	102,348.40

6. NPA Ratios

S.N. Particulars	NPR in 000's
i. Gross NPA to Gross Advances	0.30%
ii. Net NPA to Net Advances	0.16%

7. Movement of Non-Performing Assets (Gross)

S.N. Particulars	This Qtr.	Previous Qtr.	(in 000's) Change
i. Non-Performing Assets (In Amt)	187,978.62	64,765.63	123,212.99
ii. Non-Performing Assets (In %)	0.30%	0.12%	0.18%

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:

S.N. Particulars	This Qtr.	Previous Qtr.	(in 000's) Change
i. Loan Loss Provisions	891,237.14	867,038.85	24,198.29
ii. Interest Suspense	313,844.69	326,570.84	(12,726.15)

10. Details of Additional Loan Loss Provisions

S.N. Particulars	NPR in 000's
i. Provisioning for Pass Loans	-
ii. Provisioning for Watchlist 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	-

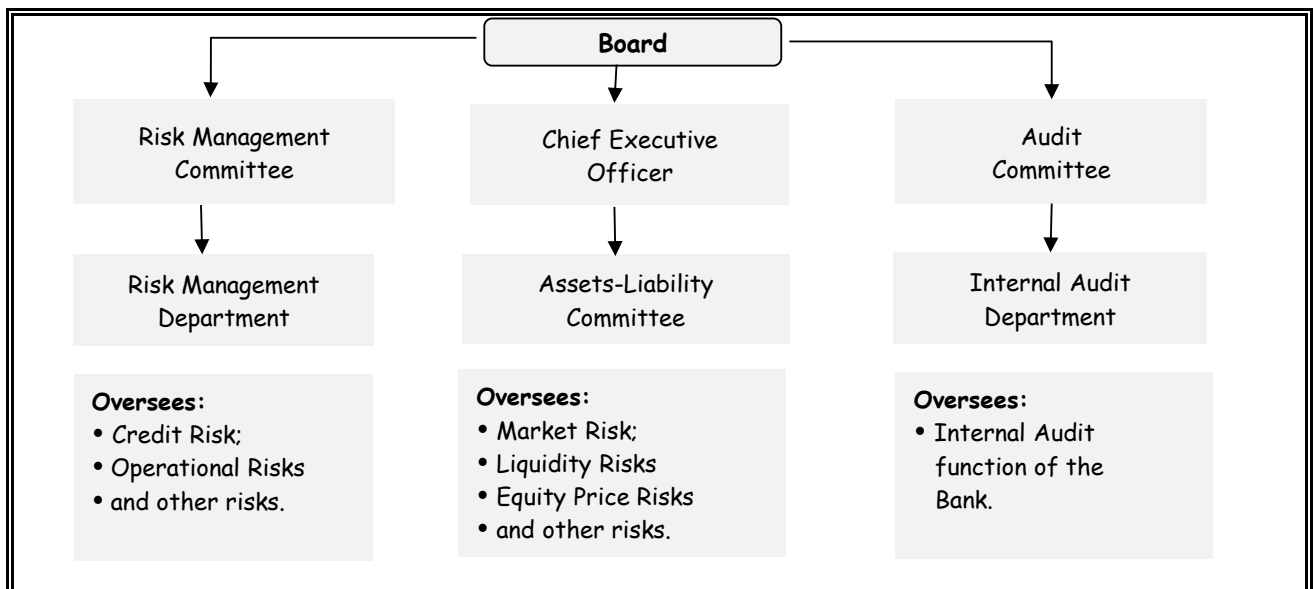
11. Segregation of Investment Portfolio:

S.N. Particulars	NPR in 000's
i. Held for Trading	-
ii. Held to Maturity	12,641,986.05
iii. Available for sale	672,750.90
Total Investment	13,314,736.95

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 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.

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 above the regulatory minimum.
- 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.