NCC Bank
नेपाल क्रेडिट एण्ड कमर्स बैंक लि.
Nepal Credit & Commerce Bank Ltd.

Disclosure under BASEL III (4th Quarter F/Y 2075/76) Ashad 2076

Tier 1 capital and breakdown of its components:

S.No.	Particulars	Amount ('000)
1.1	Paid up Equity Share Capital	7,018,587
1.2	Equity Share Premium	172,446
1.3	Proposed Bonus Equity Shares	-
1.4	Statutory General Reserves	1,451,869
1.5	Retained Earnings	185,947
1.6	Un-audited current year cumulative profit	1,546,830
1.7	Capital Redemption Reserve	-
1.8	Capital Adjustment Reserve	1,005,110
1.9	Dividend Equalization Reserves	-
1.10	Other Free Reserve	-
1.11	Deduction from Capital	(356,506)
	Core Capital (Tier I)	**11,024,283**

Tier 2 capital and breakdown of its components:

S.No.	Particulars	Amount ('000)
2.1	Cumulative and/or Redeemable Preference Share	-
2.2	Subordinated Term Debt	-
2.3	Hybrid Capital Instruments	-
2.4	Stock Premium	-
2.5	General Loan Loss Provision	682,319
2.6	Exchange Equalization Reserve	5,767
2.7	Investment Adjustment Reserve	-
2.8	Assets Revaluation Reserve	-
2.9	Other Reserves	-
	Supplementary Capital (Tier II)	**688,086**

Subordinated Term Debt:

The Bank has not issued any Subordinated Term Debt instrument.

Deductions from Capital:

S.No	Particular	Amount ('000)
1	Loan to promoters' financially interested companies	18,160
2	Deferred Tax Assets	325,803
3	Intangible Assets	12,543
	Total	**356,506**

Total Qualifying Capital:

S.No	Particular	Amount ('000)
a	Common Equity Tier 1 (CET 1)	11,024,283
b	Additional Tier 1 (AT 1)	-
1	**Core Capital (Tier I)**	**11,024,283**
2	**Supplementary Capital (Tier II)**	**688,086**
	Total Capital Fund (Tier I and Tier II)	**11,712,369**

Capital Adequacy Ratio:

S.No	Particular	Percent
1	Common Equity Tier 1 Capital to Total Risk Weighted Exposures Adjusted	13.22%
2	Tier I Capital to Total Risk Weighted Exposures Adjusted	13.22%
3	Tier I and Tier 2 Capital to Total Risk Weighted Exposures Adjusted	14.04%

Risk weighted Exposures for Credit Risk, Market Risk and Operational Risk:

S.No	Particular	Amount ('000)
1	Risk Weighted Exposure for Credit Risk	75,524,780
2	Risk Weighted Exposure for Operational Risk	3,431,551
3	Risk Weighted Exposure for Market Risk	70,024

Risk weighted exposure under each of 13 categories of Credit Risk:

S.No	Particular	Amount ('000)
1	Claims on government & central bank	-
2	Claims on other official entities	-
3	Claims on banks	937,268
4	Claims on corporate & securities firms	39,435,919
5	Claims on regulatory retail portfolio	8,619,387
6	Claims secured by residential properties	2,067,282
7	Claims secured by commercial real state	1,267,614
8	Past due claims	1,062,493
9	High risk claims	4,777,550
10	Lending against securities (Bonds & Shares)	690,251
11	Investments in equity and other capital instruments of institutions	148,393
12	Other assets	3,123,031
13	Off balance sheet items	13,395,593
	Total	**75,524,780**

Total Risk weighted Exposures Calculation Table:

S.No	Particular	Amount ('000)
a	Risk Weighted Exposure for Credit Risk	75,524,780
b	Risk Weighted Exposure for Operational Risk	3,431,551
c	Risk Weighted Exposure for Market Risk	70,024
d	Addition RWE equivalent to reciprocal of capital charge of 5 % of gross income	1,224,000
e	Add 4 % of Total RWA	3,161,054
1	Total Risk Weighted Exposures (After Bank's adjustments)	83,411,408
2	Common Equity Tier 1 (CET 1)	11,024,283
3	Total Core Capital (Tier I)	11,024,283
4	Total Capital Fund (Tier I + Tier II)	11,712,369

5	Common Equity Tier 1 Capital to Total Risk Weighted Exposures Adjusted	13.22%
6	Tier I Capital to Total Risk Weighted Exposures Adjusted	13.22%
7	Tier I and Tier 2 Capital to Total Risk Weighted Exposures Adjusted	14.04%

Amount of Non -Performing Assets (Gross and Net): **Amount '000**

SN	Category	Gross	Provision	Net
1	Restructure/Reschedule	-	-	-
2	Substandard	142,340	35,585	106,755
3	Doubtful	80,252	40,126	40,126
4	Loss	1,579,134	1,579,007	127
	TOTAL	**1,801,726**	**1,654,717**	**147,008**

NPA Ratio:

SN	NPA Ratios	Percentage
1	Gross NPA to Gross Advances	2.78%
2	Net NPA to Net Advances	0.24%

Movement of NPA: **Amount '000**

SN	Particulars	Last Quarter	This Quarter	Increase/ (Decrease)
1	Restructure/Reschedule	-	-	-
2	Substandard	228,316	142,340	(85,976)
3	Doubtful	142,610	80,252	(62,358)
4	Loss	1,603,577	1,579,134	(24,443)
	TOTAL	**1,974,502**	**1,801,726**	**(172,776.20)**

Write Off of Loans and Interest Suspense:

SN	Particular	Amount ('000)
1	Loans Written Off	-
2	Interest written Off	-
	TOTAL	**-**

Movement in Loan Loss Provision and Interest Suspense: **Amount '000**

SN	Particular	Last Quarter	This Quarter	Increase/ (Decrease)
1	Loan Loss Provision	2,392,675	2,337,036	(55,639)
2	Interest Suspense	1,620,536	1,613,590	(6,946)

Segregation of Investment Portfolio:

SN	Particular	Amount ('000)
1	Held for trading	-
2	Held to maturity	8,747,513
3	Available for Sale	155,421
	TOTAL	**8,902,934**

Types of Eligible Credit Risk Mitigants used:

SN	Particular	Amount ('000)
1	Deposit with Own Bank	313,494
2	Deposit with other Banks/Financial Institutions	-
3	Gold	62,694
4	Securities of Government and NRB	-
5	Securities/Guarantee of Foreign Bank	-
	TOTAL	**376,188**

Summary of the Bank's internal approach to assess the adequacy of its capital to support current and future activities, if applicable:

The Management Team of the Bank is responsible for understanding the nature and level of risk taken by the Bank and relating the risk to capital adequacy level. For assessing the adequacy of the capital, the Bank's Management has introduced Internal Capital Adequacy Assessment Process (ICAAP) which has been approved by the Board of the Bank. The ICAAP comprises the Bank's procedures and measures designed to ensure the following:
a) An appropriate identification and measurement of risks;
b) An appropriate level of internal capital in relation to the Bank's risk profile; and
c) Application and further development of suitable risk management systems for the Bank.
The objective of internal capital adequacy is to develop safe and sound financial system and position by way of sufficient amount of qualitative capital and risk management practices. This intends to ensure that the Bank maintains appropriate level of capital which:
a) Is adequate to protect its depositors and creditors
b) Is commensurate with risk associated activities and profile of the Bank
c) Promotes public confidence in the Bank

Risk Management Function:

The structure and organization of the relevant risk management function

Risk Management Function in NCC Bank has been established to ensure that all material risks, the possibility that an event will occur and adversely affect the achievement of objectives, are identified measured and managed at a reasonable level. The main objective is to achieve proper balance between risk and return based on assessment of potential risk factors in both normal and stressed conditions. Banking activities deal with different sort of risk management to a large extent they are: credit risk; market risk; operational risk; liquidity risk; compliance risk and others. Board-level Risk Management Committee oversees the risk management function of the Bank and regularly monitors stress testing and sufficiency of policies, procedures, guidelines. The Committee further instructs management to take proactive measure to minimize risks time to time.
To manage credit risk, separate Credit Risk Management Department has been established. Risk Officers are deputed to look into credit risk. All Credit files exceeding prescribed Credit Approval Discretion (CAD) limit routes through Credit Risk Management Department and those exceeding Rs.30 million through Chief Risk Officer. Similarly, Collection and Recovery Department has been established to manage non-performing loan & non-banking assets of the Bank.

Management level Risk management Sub- Committee has been established to assess, discuss and minimize various risk associated with banking activities. Various areas such as credit risk, market risk, liquidity risk, operation risk are discussed in the meeting and subsequently the findings and deliberations are placed in the Board level Risk management Committee for further advice / instruction.

NCC Bank Limited has following procedure to identify and mitigate risk:

Credit Risk (Counterparty Risk) is the chances for loss due to failure of borrower to meet its contractual obligation to repay debt in accordance with the agreed covenants and terms. NCC Bank has given the highest focus on effective credit risk management. Creation of credit (loans and advances), being the risk asset of the Bank, has been guided by the basic ethical business principles, risk mitigation practices, prudential banking norms and other regulatory compliances to ensure the health of the assets and sustainable growth of the Bank. The Bank has established a separate Credit Risk Management Department for analyzing/identifying inherent risk in credit. This department has been entrusted to review all credit proposals .This is an independent unit empowered to assess risk in business, suggesting ways of mitigating the risks thereby creating a good loan portfolio. Such risks are considered warranted when they are understandable, measurable, controllable, and within the Bank's capacity to readily bear adverse results. Effective credit risk management requires effective credit assessment. The Bank has adequate qualified credit risk officers to maintain the quality credit portfolio. The Bank has set the overall credit risk policy to establish sound risk environment, operating under a sound granting/lending process, maintain an appropriate credit administration/monitoring process, ensuring adequate controls over credit risk etc. for maintaining the good credit portfolio of the Bank. Following are adopted to identify and mitigate credit risk:

- The credit proposals are assessed through a comprehensive credit evaluation process upon adopting the credit policies and practices of the Bank prior to the approval. Credit proposals are routed through the Credit Risk Management Department which reviews the accuracy of classification of borrowers classified by branches according to risk grade to reflect the default risk.
- The performance of credit is affected by a large number of factors which are always carefully analyzed. In addition, additional securities like fixed assets collateral and personal/corporate/third party guarantee are also taken into consideration in the analysis of probability of default.
- The Credit Risk Management Department identifies various risks associated with the credit proposals forwarded by the relationship managers that are duly addressed along with suggestion of mitigates prior to forwarding the credit for approval at various stages based on the credit limits proposed.
- Approved credit facilities are then forwarded to the Centralized Credit Operation Department for post approval related functions like verification of security documents amongst others after which the limits are implemented in the system.

- The Bank has the policy of periodic review of disbursed credit facilities where the change in risk levels is determined through periodic review and monitoring.
- The Bank is vigilant on identification of early warning signals in financial difficulties of the borrowers; proactive actions are initiated by the management to mitigate the risk of loss.
- Regular monitoring by way of on-site inspection of the borrowers business is conducted on the basis of periodic information provided by the borrower. Past performance of the borrower as well as regularity in repayment of interest/principal obligations are also timely analyzed.
- The Bank has the practice of periodic review of portfolio to track changes and quality of loan portfolio. Performance of business and quality of security are evaluated to avoid any negative downturn in the value of the properties. The lending decisions are made based on the credit portfolio to single obligor, product and segment wise exposure.
- Credit Risk Grade of branches are calculated on monthly basis in accordance with "Framework for implementation of Branch Credit Risk Scoring Model" and quarterly credit risk report is prepared by Credit Risk Management Department and presented on Risk Management sub Committee

Operational risks are risk of loss resulting from inadequate internal factors like process, people and systems and/or from external factors. Operational risks are highly important as it entails cent percent loss to the bank in the event of is occurrence. The Bank has been following the process specified under Capital Adequacy Framework for calculation of Operational risk of the Bank. Operational risks are assessed employing the Basic Indicators Approach as set out by Capital Adequacy Framework issued by Nepal Rastra Bank. In addition, the Bank has been continuously resorting to adoption of a more advanced version of capital requirements for operational risks. The Bank have Operation Risk Management Policy and various operation risk management modules fully equipped with mechanism of identifying and controlling the operational lapses and risk arises by the events.

Market risk is the potential loss due to changes in market prices or values. Market risk basically arises on interest rates changes, stock market, currency market and commodity market. Key components of market risk are interest rate risk, currency risk and price risk. Market risk governance structure in the Bank entails Asset Liability Management Committee (ALCO) and Board level Risk Management Committee. ALCO meeting discuss the issues related with market risk and the risk identification and assessment finding shall be put further on Board level risk management committee.

Liquidity risk is a situation arising from where short-term assets values are not sufficient to match short-term liabilities or unexpected cash outflows. The Bank as per the approved guidelines from the Board has been maintaining a comfortable liquid asset to deposit ratio. This is monitored daily. The investments for liquid assets, asides from cash and Bank balances largely comprise of government securities: treasury bills and bonds. A large government securities portfolio is easily convertible into cash level funds during times of liquidity tightness. Regular stress tests have also help assess different scenarios of stresses on liquidity. ALCO is able to use this information as well as other analyses such as GAP to manage liquidity effectively for the Bank.

Compliance Risk is the risk resulting from non-compliance with laws and regulations and lack of adequate documentation to demonstrate compliance and risk from failure to comply with financial reporting standards, agreements or regulatory requirements. Compliance Risk components are generally referred to as regulatory, financial reporting and legal risk. Bank constantly monitors and mitigates compliance risk through the adoption of appropriate policies and timely reporting as per the regulatory requirements. A separate compliance department works with independency and professionally for monitoring and reporting the compliance status on banking activities.

Assets and Liability Committee (ALCO)

The ALCO, chaired by Chief Executive Officer, ensures functioning of the banking business in line with the set procedures and processes and recommends for necessary steps to address the risk associated with liquidity, movement in interest rate, exchange rate and equity price and other risks.

Stress Testing

Stress testing is a valuable risk management tool which tries to quantify the size of potential losses under certain stress events. A stress event is an exceptional but plausible event to which the Bank's portfolio is exposed. As a part of its risk measurement mechanism, NCC Bank Nepal Ltd. puts an emphasis on evaluating where the Bank stands under the stressful market condition.

In conducting stress tests, the Bank give special consideration to instruments or markets where concentration exist as such position may be more difficult to liquidate or offset in stressful situations. The Bank considers both historical market events as well as forward-looking scenarios and also considers worst case scenarios in addition to more probable event. The Bank conducts the stress test on quarterly basis and reports to senior management as well as to Nepal Rastra Bank.

Stress Test alerts management to be aware on adverse situation related to several risks and provides an indication of how much capital needed to absorb losses and liquidity required during the adverse situation. It is used to evaluate the potential impact on a Bank of specific event and movement is a set of financial variables and its applicants are expanding.

Internal Audit:

Internal Audit of the Bank is independent from the management and directly reports to Audit Committee, a Board level committee. Audit function is carried out by experienced staffs and regular observations are being communicated to the related departments/braches.

Internal audit provides value to the organization in providing objective assurance that the major business risks are being managed appropriately and providing assurance that the risk management and internal control framework is operating effectively.

Summary of the terms, condition, and main features of all capital instruments, especially in case of subordinated term debts including hybrid capital instruments:

N/A