

## NMB BANK LIMITED

### Disclosure under New Capital Adequacy Framework

#### For the Year Ended Ashad 2075

#### 1. Capital Structure and Capital Adequacy:

##### 1.1. Tier 1 Capital and a breakdown of its Components:

S.N.	Details	Amount (NPR)
1	Paid up Equity Share Capital	7,603,290,634
2	Share Premium	2,944,097,331
3	Proposed Bonus Equity Shares	1,140,493,595
4	Statutory General Reserves	1,301,092,903
5	Retained Earnings	1,033,843,436
6	Unaudited Current Year Cumulative Profit	1,812,965,661
7	Debenture Redemption Reserve and Deferred Tax Reserve	319,722,428
8	Capital Adjustment Reserve	57,326,449
9	Less: Intangible Assets	(22,054,209)
10	Less: Deferred Tax Asset	(41,148,463)
11	Less: Investment in equity of institutions with financial interests	(210,000,000)
	<b>Total Core Capital</b>	<b>15,939,629,765</b>

##### 1.2. Tier 2 Capital and a breakdown of its Components:

S.N.	Details	Amount (NPR)
1	Subordinated Term Debt	200,000,000
2	General loan loss provision	773,165,285
3	Exchange Equalization Reserve	54,642,254
4	Investment Adjustment Reserve	16,205,056
5	Other Reserves	-
	<b>Total Supplementary Capital</b>	<b>1,044,012,595</b>

##### 1.3. Detailed information about the Subordinated Term Debts with information on the outstanding amount, maturity, and amount raised during the year and amount eligible to be reckoned as capital funds.

The Bank issued "7% NMB Debenture 2077" on 6 Falgun 2071 amounting to NPR 500 Million having a maturity of 5 years 6 months. The Debenture was fully subscribed. As at the year end, the outstanding amount of Debenture is 500 Million whereas NPR 200 Million is only eligible to be recognized as capital funds (Tier 2). To reflect the diminishing value of these instruments as a continuing source of strength, a cumulative discount (amortization) factor of 20% per annum has been applied for capital adequacy computations, during the last 5 years to maturity.

#### 1.4. Deductions from Capital:

Investment in equity shares of fully owned subsidiary company NMB Capital Ltd amounting to NPR 200,000,000 and CEDB Hydro Fund amounting to NPR 10,000,000 has been deducted from Tier 1 Capital.

Similarly, as per the requirement of NRB Directive, the entire amount of Deferred Tax Assets (NPR 41,148,463) has been netted off with equal amount of Deferred Tax Reserve.

Intangible asset has also been deducted as per NRB Directive by NPR 22,054,209.

#### 1.5. Total Qualifying Capital:

S.N.	Details	Amount (NPR)
1	Core Capital (Tier I)	15,939,629,765
2	Supplementary Capital ( Tier II)	1,044,012,595
	<b>Total Capital Fund (Tier I and Tier II)</b>	<b>16,983,642,360</b>

#### 1.6. Capital Adequacy Ratio:

S.N.	Details	Percentage
1	Tier I Capital to Total Risk Weighted Exposure	14.90
2	Tier I and Tier II Capital to Total Risk Weighted Exposure	15.88

#### 1.7. 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 issued "7% NMB Debenture 2077" of face value NRs.1,000 per unit for Rs 500,000,000 on 06<sup>th</sup> Falgun 2071. The main features of this capital instrument are as follows:

Instrument:	7% NMB Debenture 2077
Interest Rate:	7%
Maturity period:	5 Years and 6 months
Interest Payment Frequency:	Half yearly

## 2. Risk Exposures:

### 2.1. Risk Weighted Exposures for Credit Risk, Market Risk and Operational Risk:

S.N.	Risk Weighted Exposure	Amount (NPR)
a.	Risk Weighted Exposure for Credit Risk	95,717,647,976
b.	Risk Weighted Exposure for Operational Risk	4,159,716,956
c.	Risk Weighted Exposure for Market Risk	1,994,291,636
	<b>Total Risk Weighted Exposures (a+b+c)</b>	<b>101,871,656,567</b>
	Add: RWE equivalent to reciprocal of capital charge of 3 %	1,026,682,743

	of gross income.	
	Add : 2% of the total RWE due to Supervisory add up	2,037,433,131
	Desired level of disclosure requirement has not been achieved. Add 2% of RWE	2,037,433,131
	<b>Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)</b>	<b>106,973,205,573</b>

## 2.2. Risk Weighted Exposures under each of categories of Credit Risk:

S.N.	Particulars	Amount (NPR)
1	Claims on government and Central Bank	NIL
2	Claims on other Official Entities	NIL
3	Claims on Banks	761,896,958
4	Claims on Corporate and Securities Firms	54,199,075,645
5	Claims on Regulatory Retail Portfolio	5,413,265,378
6	Claims secured by Residential Properties	5,533,600,464
7	Claims secured by Commercial Real Estate	350,052,536
8	Past Due Claims	815,224,126
9	High Risk Claims	4,703,799,112
10	Other Assets	7,289,444,361
11	Off Balance sheet items	16,651,289,396
	<b>TOTAL</b>	<b>95,717,647,976</b>

## 2.3. Total Risk Weighted Exposure calculation table:

S.N.	Particulars	Amount (NPR)
a.	Risk Weighted Exposure for Credit Risk	95,717,647,976
b.	Risk Weighted Exposure for Operational Risk	4,159,716,956
c.	Risk Weighted Exposure for Market Risk	1,994,291,636
<b>1</b>	<b>Total Risk Weighted Exposure</b>	<b>101,871,656,567</b>
	Add: RWE equivalent to reciprocal of capital charge of 3 % of gross income.	1,026,682,743
	Add : 2% of the total RWE due to Supervisory add up	2,037,433,131
	Desired level of disclosure requirement has not been achieved. Add 2% of RWE	2,037,433,131
	<b>Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)</b>	<b>106,973,205,573</b>
2	Total Core Capital Fund (Tier 1)	15,939,629,765
3	Total Capital Fund ( Tier 1 & Tier 2)	16,983,642,360
4	Total Core Capital to Total Risk Weighted Exposures	14.90
5	Total Capital to Total Risk Weighted Exposures	15.88

## 2.4. Amount of Non-Performing Assets (NPAs)

S.N.	Category	Gross	Provision	Net
1	Restructure/Reschedule Loan	1,361,329	188,866	1,172,463
2	Substandard	172,303,451	43,075,863	129,227,589
3	Doubtful	255,980,526	127,990,263	127,990,263
4	Loss	239,660,337	239,660,337	-
	<b>Total</b>	<b>669,305,644</b>	<b>410,915,329</b>	<b>258,390,315</b>

## 2.5. NPA Ratio

Gross NPA to Gross Advances	0.88%
Net NPA to Net Advances	0.35%

## 2.6. Movement of Non-Performing Assets

S.N.	Particulars	Chaitra End 2074	Ashadh End 2075	Movement
1	Restructure/Reschedule Loan	1,541,748	1,361,329	(180,418)
2	Substandard	284,008,592	172,303,451	(111,705,141)
3	Doubtful	248,529,430	255,980,526	7,451,095
4	Loss	280,714,245	239,660,337	(41,053,908)
	<b>Total Non Performing Loan</b>	<b>814,794,015</b>	<b>669,305,644</b>	<b>(145,488,371)</b>

Write off of Loans	37,846,993.36
Write off of Interest Suspense	16,330,103.43

## 2.7. Movement of Loan Loss Provision & Interest Suspense

S.N.	Category	Chaitra End 2074	Ashadh End 2075	Movement
1	Pass	722,483,291	741,525,560	19,042,269
2	Watch List	47,530,067.12	41,202,776	(6,327,292)
3	Restructured	329,165	188,866	(140,299)
4	Substandard	71,002,148	43,075,863	(27,926,285)
5	Doubtful	124,264,715	127,990,263	3,725,548
6	Loss	280,714,245	239,660,337	(41,053,908)
	<b>Total Loan Provision</b>	<b>1,246,323,632</b>	<b>1,193,643,665</b>	<b>(52,679,967)</b>
	<b>Interest Suspense</b>	<b>204,834,728</b>	<b>194,194,709</b>	<b>(10,640,019)</b>

## 2.9. Details of Additional Loan Loss Provision

S.N.	Category	Ashadh End 2075
1	Pass	37,511,000
2	Watch List	288,672
3	Restructured	-
4	Substandard	-
5	Doubtful	-
6	Loss	-
	<b>Total Additional Loan Provision</b>	<b>37,799,672</b>

## 2.10. Segregation of Investment Portfolio

S.N.	Particulars	Current Period
1	Held for Trading	321,720,000.00
2	Held for Maturity	12,489,139,973
3	Available for Sale	812,112,679
	<b>Total Investment Portfolio</b>	<b>13,622,972,651</b>

Note: Investment under held for trading category includes NSB Bonds held by the Bank, bought and sold daily as market maker of the same. The accrued interest receivable of T-Bill has been capitalized to T-Bill.

## 2.11 Eligible Credit Risk Mitigants (CRM) availed

As per the provisions of the New Capital Adequacy Framework, the bank has claimed all the eligible credit risk Mitigants of NPR 9,481,189,365 for Balance Sheet and Off Balance Sheet exposures and availed benefit thereof.

## 3. Summary of the Bank's internal approach to assess the adequacy of its capital to support current and future activities:

Risk management is essential for well being of the overall banking business. Credit, Market and Operational Risk are managed independently at NMB Bank. Credit Risk Department reviews risk related to credit prior to disbursement of all loans, it is independent of a loan approver. Credit Risk Management Committee meets once a month to review credit portfolio risk. Market risk is closely monitored all time and managed through ALCO. Operational Risk Committee which meets once each month is a platform to assess/monitor operational risk identified vides various units, branches. Effective implementation of process/controls is periodically reviewed by an Operational Risk Unit. Operational Risk Unit also carries out assurance reviews of the units to evaluate control weakness, recommends robust controls around the risk areas and monitors execution of control in an ongoing basis.

Audit Committee is formed as per the 'Terms of Reference' prescribed by NRB with 3 members. Coordinator of the committee is one of the Non Executive Directors with Head

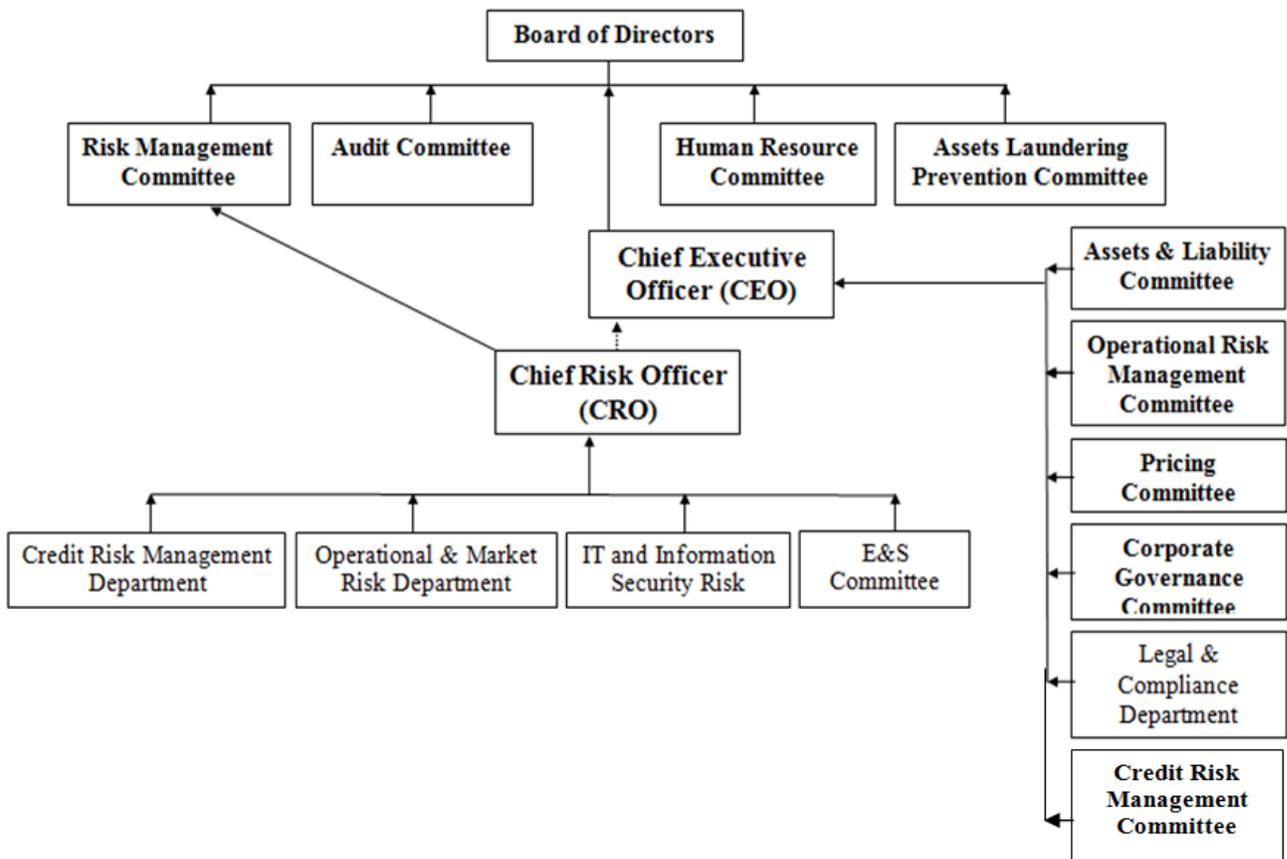
Internal Audit as its secretary. The committee reviews internal/external/NRB audit reports, recommends stringent control process and escalates the audit observations to the Board. The Committee also reviews quarterly unaudited financial reports of the Bank with recommendation to the Board. The committee selects and recommends External Auditor to the Board based on financial and technical evaluations. Audit Committee is committed towards maintaining robust control system hence monitors closure of risk issues raised by Internal/External/NRB auditors.

Risk Management Committee with view of ensuring better risk management in the bank and in line of NRB's requirement is formed with 5 members chaired by Non-Executive Director, Coordinator of Audit Committee, Head Operation, Head Credit Risk and Head Compliance, & Operational Risk are the members of the committee. The committee reviews high risk issues escalated by operational and credit risk committees (management level), deliberates on the risks and recommends to the Board if required. Stress testing/Capital adequacy is also reviewed at the committee with recommendation to the Board. Revised/new NRB directives, Monetary Policy with material impact on the Bank are also reviewed for its implications.

## Risk Management Structure

NMB Board is the ultimate authority to oversee overall risk management of the bank by establishing risk management strategies, appropriate risk appetite, and ensuring the risk management policies, procedures and standards are adequate and is effectively implemented. Sound risk management system in the bank is established through formation of Board level Risk Management Committee & Audit committee; management level Asset & Liability Committee, Credit Risk Management Committee, Operational Risk Management Committee, E&S (Environmental & Social) Committee, Credit Recovery Committee and Corporate Governance Committee. In this structure, new/revised policies & standards, reports on risk management, portfolio analysis, stress testing, investment, liquidity, capital adequacy, industry/market analysis, and critical risk issues identified are escalated to Risk Management Committee for review and decision.

### Risk management structure in the bank's Organogram:



## Risk Governance

The bank aspires to efficiently manage various risks that arise during business process through formulation and implementation of Risk Management Framework. Risk Governance at the bank is primarily based on following principles:

- 1) Risk Appetite Determination,
- 2) Pervasive Risk Culture,
- 3) Effective Communication/Reporting,
- 4) Effective Functional Structure, Policies, Procedures, & MIS, adequate infrastructure & resources for Risk Management,

Risk governance structure, i.e. the responsibility for maintaining risk within the banks risk appetite is cascaded down from the Board to the respective Committees and then to appropriate functional bodies in organizational structure.

In addition, the bank as an active member of the Global Alliance for Banking on Values (GABV), strives for delivering sustainable economic, social and environmental development with a focus on helping individuals fulfil their needs and build stronger communities.

### **Credit Risk Management in NMB Bank:**

Credit Risk refers to the potential loss due to failure of counterparty to meet its obligations in accordance with the terms specified in the credit agreements. Credit Policy, Credit Risk Management Framework, Credit Process Manual, Product Papers and various other credit related documents in place provides the firm foundation for a strong credit risk management environment in the bank by defining clear roles and responsibilities of various functions and risk takers in Credit system. The key independent units responsible for ensuring effective Credit Risk Management in the bank are Credit Risk Management Department, Credit Administration and Control Department, Special Assets Management Department and Business Segments.

A thorough analysis of the borrower and the industry in which the borrower operates is ensured prior advancing credit facilities. The Bank also has an internal credit risk rating procedure in place to categorize customers in different risk profiles and formulate appropriate account strategies. The Bank primarily focuses on ensuring prudent financing requirements of the client and the client's capacity to repay the debt obligation on time.

Bank has a product wise and industry/sector wise portfolio and NPL thresholds to monitor the quality of loan portfolio and manage the concentration risk. These thresholds are reviewed on periodical basis in Credit Risk Management Committee and Risk Management Committee in quarterly interval for required actions/strategic decisions.

### **Market Risk and Operation Risk Management in NMB Bank:**

Market and Operation Risk management in Nepalese Banks has been a newer challenge. In the times of volatility and fluctuations in the market, NMB Bank needs to prove its determination by withstanding the market variations and achieve sustainability in terms of growth as well as to have a stable share value. Hence, an essential component of enhanced risk management framework would be to mitigate all the risks and rewards of the products and services offered by the bank.

NMB has passed through a monumental change after the merger with three Development Banks and one Finance Company. NMB has taken strategic focus on digitization and technological advancement to enhance banks services as well as risk management.

NMB ensures parity between risk and return and hence, management of risk by incorporating a set of systematic and professional methods especially those defined by the Basel III becomes an essential requirement for us.

In the course of operations, the bank is invariably faced with different types of risks that may have a potentially negative effect on the business. NMB Bank's risk management approach includes risk identification, measurement and assessment, and minimizes impact on the financial result and capital of the bank.

**Market risk** includes interest rate and foreign exchange risk.

Interest rate risk is the risk of negative effects on the financial result and capital of the bank as a result of changes in interest rates.

The bank's products are mostly based on floating interest rate. Only fixed deposits are with fixed interest rate. In Nepalese local market, short term movement in interest rate is negligible. Asset & Liability Committee (ALCO) monitors the interest rate movement on regular basis.

Foreign exchange risk is the risk of negative effects on the financial result and capital of the bank caused by changes in exchange rates.

The foreign exchange risk of the bank is minimal as all the transactions are carried out on behalf of the customers against underlying remittances and trade transactions.

**Operational risk** is the risk of negative effects on the financial result and capital of the bank caused by omissions in the work of employees, inadequate internal control procedures and processes, inadequate management of information and other systems, and unforeseeable external events.

NMB Bank has independent department to look after operational risk wherein Operational Risk Management Committee meets on monthly basis to discuss and plan the way forward to mitigate potential operational risk identified.

Bank has developed and adhered to Minimum Control Standards and Incident Reporting Guidelines along with Whistle Blowing Policy to identify potential operational risks. Operational Risk Department independently assess each incident/event/cause to measure the risk grade which is ultimately discussed/ analyzed further in Operational Risk Management Committee to put appropriate controls in place. If required, the incident/event/cause along with the risk assessment, probability and impact is escalated further to Risk Management Committee or the Board of the Bank. Apart from that, Operational Risk Unit conducts branch/ department visits to monitor/ review the branches and departments and also to train/ create awareness on operational risk.

### **Liquidity Risk**

Liquidity risk is the potential event where the Bank either does not have sufficient liquid financial resources available to meet all its obligations as they fall due, or can only access these financial resources at excessive cost. The Liquidity Risk Framework governs liquidity risk management and is managed by ALCO. In accordance with that policy, the Bank maintains a liquid portfolio of marketable securities as a liquidity buffer.

## **Other Risk**

Management of other risk such as Reputational, Legal & Compliance, and Human Resource (HR) etc is equally pertinent as the bank grows. The bank has separate department to oversee Legal & Compliance issues. HR Department and Board level HR Committee is responsible for all HR functions and related risk management. The bank has also setup dedicated Officers to manage Reputational and other risks.

## **Internal Control**

The Board and the management is committed in managing risks and in controlling its business and financial activities in a manner which enables it to maximize profitable business opportunities, avoid or minimize risks which can cause potential loss or reputational damage to the bank, ensure compliance with applicable laws and regulations and enhance resilience to external events. To achieve this, bank has established set of policies and procedures for risk identification, risk evaluation, risk mitigation and control/monitoring.

The effectiveness of the Company's internal control system is reviewed regularly by the Board, Risk Management Committee, Management and Internal Audit.

The Internal Audit monitors compliance with policies/standards and the effectiveness of internal control structures across the Company through its program of business/unit audits. The Internal Audit function is focused on the areas of greatest risk as determined by a risk-based assessment methodology. Internal Audit reports are periodically forwarded to the Audit Committee. The findings of all audits are reported to the Chief Executive Officer, department heads and branch managers for initiating immediate corrective measures.