NMB BANK LIMITED

Disclosure under New Capital Adequacy Framework

For the Quarter Ended Chaitra 2080/81

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	18,366,705,959
2	Share Premium	-
3	Proposed Bonus Equity Shares	-
4	Statutory General Reserves	5,409,550,006
5	Retained Earnings	(429,256,008)
6	Unaudited Current Year Cumulative Profit	-
7	Debenture Redemption Reserve and Deferred Tax Reserve	1,581,728,445
8	Capital Adjustment Reserve	57,326,449
9	Less: Intangible Assets	(149,607,873)
10	Less: Investment in equity of institutions with financial interests	(610,000,000)
11	Less: Purchase of land & building in excess of limit & unutilized	(14,172,950)
	Total Core Capital	**24,212,274,028**

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

S.N.	Details	Amount (NPR)
1	Subordinated Term Debt	4,847,604,000
2	General loan loss provision	2,869,104,855
3	Exchange Equalization Reserve	164,681,574
4	Investment Adjustment Reserve	-
5	Other Reserves	10,000,000
	Total Supplementary Capital	**7,891,390,429**

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 has also issued “10% NMB Debenture 2085” of NPR. 1,684,505,000 on 29 Chaitra 2075. As at the quarter end, the outstanding amount of Debenture is 1,684 Million and the deduction required for Capital Fund (Tier 2) is nil. To reflect the diminishing value of these instruments as a continuing source of strength, a cumulative discount (amortization) factor of 20% per annum will be applied for capital adequacy computations, during the last 5 years to maturity.

The Bank has also issued “NMB Rinpatra 8.5% 2087/88” of NPR. 2,000,000,000 on 11 Jestha 2078. As at the quarter end, the outstanding amount of Debenture is 2,000 Million and the deduction required for Capital Fund (Tier 2) is nil. To reflect the diminishing value of these instruments as a continuing source of strength, a cumulative discount (amortization) factor of 20% per annum will be applied for capital adequacy computations, during the last 5 years to maturity.

The Bank has also issued “NMB Urja Rinpatra (Energy Bond) 4% 2092/93” of NPR. 1,500,000,000 on 20 Jestha 2078. As at the quarter end, the outstanding amount of Debenture is 1,500 Million and the deduction required for Capital Fund (Tier 2) is nil. To reflect the diminishing value of these instruments as a continuing source of strength, a cumulative discount (amortization) factor of 20% per annum will be applied for capital adequacy computations, during the last 5 years to maturity.

The Bank has also issued “NMB Urja Rinpatra (Energy Bond) 4% 2093/94” of NPR. 2,727,437,000 on 10 Jestha 2079.

The Bank issued "NMB Debenture 10.75% 2089/90" of NPR. 4,000,000,000 on 30th Chaitra 2079.

1.4. Deductions from Capital:

Investment in equity shares of fully owned subsidiary company NMB Capital Ltd amounting to NPR 400,000,000, CEDB Hydro Fund amounting to NPR 10,000,000 and Investment in NMB securities amounting to 200,000,000 has been deducted from Tier 1 Capital.

Intangible Assets amounting to NPR 149,607,873 is deducted from Capital.
Purchase of land and building in excess of limit and unutilized amounting to NPR 14,172,950 is deducted from Capital.

1.5. Total Qualifying Capital:

S.N.	Details	Amount (NPR)
1	Core Capital (Tier I)	24,212,274,028
2	Supplementary Capital (Tier II)	7,891,390,429
	Total Capital Fund (Tier I and Tier II)	**32,103,664,457**

1.6. Capital Adequacy Ratio:

S.N.	Details	Percentage
1	Tier I Capital to Total Risk Weighted Exposure	**9.68%**
2	Tier I and Tier II Capital to Total Risk Weighted Exposure	**12.83%**

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 "10% NMB Debenture 2085" of face value Rs. 1,000 per unit for Rs 1,684,505,000 on 29th Chaitra 2075. The main features of this capital instrument are as follows:

Debenture Name	**10% NMB Debenture 2085**
Face Value	1,000.00
Interest rate	10%
Maturity Period	10 Years
Issue Date	29th Chaitra 2075
Maturity Date	28th Chaitra 2085
Interest Payment Frequency	Half yearly

The Bank has issued " NMB Rinpatra 8.5% 2087/88" of face value Rs. 1,000 per unit for Rs 2,000,000,000 on 11th Jestha 2078. The main features of this capital instrument are as follows:

Debenture Name	**NMB Rinpatra 8.5% 2087/88**
Face Value	1,000.00
Interest rate	8.5%
Maturity Period	10 Years
Issue Date	11th Jestha 2078
Maturity Date	12th Jestha 2088
Interest Payment Frequency	Half yearly

The Bank has issued " NMB Urja Rinpatra (Energy Bond) 4% 2092/93" of face value NRs. 1,000 per unit for Rs 1,500,000,000 on 20th Jestha 2078. The main features of this capital instrument are as follows:

Debenture Name	**NMB Urja Rinpatra (Energy Bond) 4% 2092/93**
Face Value	1,000.00
Interest rate	4%
Maturity Period	15 Years
Issue Date	20th Jestha 2078
Maturity Date	20th Jestha 2093
Interest Payment Frequency	Half yearly

The Bank has issued " NMB Urja Rinpatra (Energy Bond) 4% 2093/94" of face value NRs. 1,000 per unit for Rs 2,727,437,000 on 10th Jestha 2079. The main features of this capital instrument are as follows:

Debenture Name	NMB Urja Rinpatra (Energy Bond) 4% 2093/94
Face Value	1,000.00
Interest rate	4%
Maturity Period	15 Years
Issue Date	10th Jestha 2079
Maturity Date	10th Jestha 2094
Interest Payment Frequency	Half yearly

The Bank has issued "NMB Debenture 10.75% 2089/90" of face value NRs. 1,000 per unit for Rs 4,000,000,000 on 30th Chaitra 2079. The main features of this capital instrument are as follows:

Debenture Name	NMB Debenture 10.75% 2089/90
Face Value	1,000.00
Interest rate	10.75%
Maturity Period	10 Years
Issue Date	30th Chaitra 2079
Maturity Date	30th Chaitra 2089
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	229,528,388,430
b.	Risk Weighted Exposure for Operational Risk	12,670,203,706
c.	Risk Weighted Exposure for Market Risk	137,660,874
	Total Risk Weighted Exposures (a+b+c)	**242,336,253,010**
	Add: RWE equivalent to reciprocal of capital charge of 3 % of gross income.	3,034,013,493
	Add : 2% of the total RWE due to Supervisory add up	4,846,725,060
	Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	**250,216,991,563**

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

S.N.	Particulars	Amount (NPR)
1	Claims on government and Central Bank	-
2	Claims on other Official Entities	
3	Claims on Banks	6,684,838,928
4	Claims on Corporate and Securities Firms	105,814,307,303
5	Claims on Regulatory Retail Portfolio	33,061,590,604

6	Claims secured by Residential Properties	10,446,417,534
7	Claims secured by Commercial Real Estate	1,581,865,948
8	Past Due Claims	7,149,953,657
9	High Risk Claims	15,299,549,216
10	Other Assets	14,039,066,448
11	Off Balance sheet items	35,450,798,794
	TOTAL	**229,528,388,430**

2.3. Total Risk Weighted Exposure calculation table:

S.N.	Particulars	Amount (NPR)
a.	Risk Weighted Exposure for Credit Risk	229,528,388,430
b.	Risk Weighted Exposure for Operational Risk	12,670,203,706
c.	Risk Weighted Exposure for Market Risk	137,660,874
1	**Total Risk Weighted Exposure**	**242,336,253,010**
	Add: RWE equivalent to reciprocal of capital charge of 3 % of gross income.	3,034,013,493
	Add : 2% of the total RWE due to Supervisory add up	4,846,725,060
2	**Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)**	**250,216,991,563**
3	Total Core Capital Fund (Tier 1)	24,212,274,028
4	Total Capital Fund (Tier 1 & Tier 2)	32,103,664,457
5	Total Core Capital to Total Risk Weighted Exposures	**9.68%**
6	Total Capital to Total Risk Weighted Exposures	**12.83%**

2.4. Amount of Non-Performing Assets (NPAs)

S.N.	Category	Gross	Provision	Net
1	Restructure/Reschedule	413,397,303	51,674,663	361,722,640
2	Substandard	1,537,501,115	384,375,279	1,153,125,836
3	Doubtful	1,010,443,049	505,221,524	505,221,524
4	Loss	2,791,914,716	2,791,914,716	-
	Total	**5,753,256,184**	**3,733,186,183**	**2,020,070,001**

2.5. NPA Ratio

Gross NPA to Gross Advances	**2.86%**
Net NPA to Net Advances	**1.04%**

2.6 Movement of Non-Performing Assets

S.N.	Particulars	Poush End 2080	Chaitra End 2080	Movement
1	Restructure/Reschedule	445,895,115	413,397,303	(32,497,812)
2	Substandard	1,282,768,357	1,537,501,115	254,732,758
3	Doubtful	1,380,765,941	1,010,443,049	(370,322,892)
4	Loss	2,679,621,116	2,791,914,716	112,293,601
	Total Non-Performing Loan	**5,789,050,528**	**5,753,256,184**	**-35,794,345**

Write off of Loans	**16,917,201**
Write off of Interest Suspense	**25,860,607**

2.7. Movement of Loan Loss Provision & Interest Suspense

S.N.	Category	Poush End 2080	Chaitra End 2080	Movement
1	Pass	2,442,979,501	2,512,596,040	69,616,540
2	Watch List	968,286,550	853,677,710	(114,608,840)
3	Restructured	103,548,569	51,674,663	(51,873,906)
4	Substandard	303,043,522	366,150,689	63,107,166
5	Doubtful	660,655,340	476,339,672	(184,315,668)
6	Loss	2,637,379,133	2,701,314,760	63,935,627
	Total Loan Provision	**7,115,892,615**	**6,961,753,534**	**(154,139,081)**
	Interest Suspense	**4,600,852,678**	**4,660,001,263**	**59,148,585**

Note: - Management has taken additional loan loss provision as per its own discretion.

2.8. Segregation of Investment Portfolio

S.N.	Particulars	Current Period
1	Held for Trading	-
2	Held for Maturity	47,286,566,460
3	Available for Sale	1,982,512,917
	Total Investment Portfolio	**49,269,079,377**

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.

2.9 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. 14,698,894,408 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. The Bank has independent functions for the management of Credit, Market, Operational, Information Security and Environmental & Social (E&S) Risk. Credit Risk Management Department reviews risk related to credit prior approval of credit limits and it is independent unit from Business functions. Also, the Bank has Credit Risk Management Committee which meets once in every two months' interval to review overall credit risk management aspects of the

Bank. Market risk is closely monitored all time and managed through ALCO and Market Risk Management Department. Likewise, Operational Risk Management Committee (ORMC) meets monthly to assess/monitor operational risk identified in various units/ branches. Effective implementation of process/controls is periodically reviewed by an Operational Risk Management Unit. Also, Information Security Unit and Corporate Information Security Committee (CISC) oversee information security risk management aspects. E&S Governance Committee and E&S unit are also in place for Environmental and Social Risk Management in the Bank.

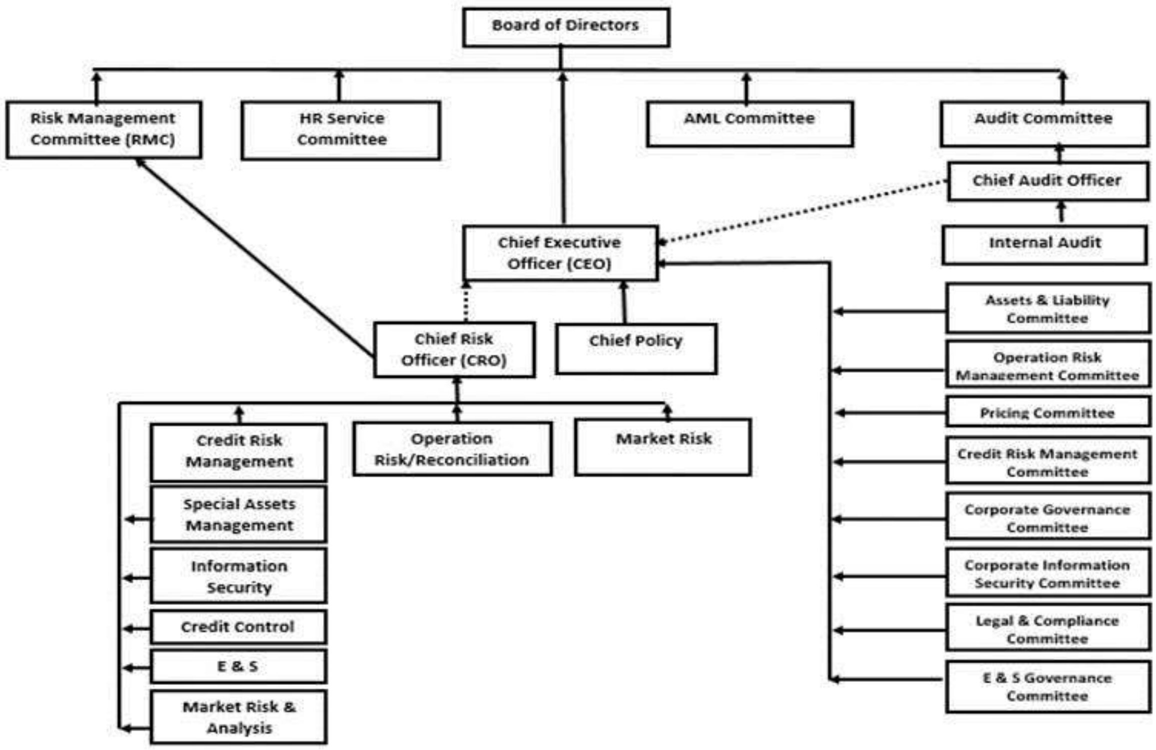
Audit Committee is formed as per the 'Terms of Reference' prescribed by NRB with 3 members. Coordinator of the committee is one of the Non-Executive Directors with Head-Internal Audit as its Member secretary. The committee reviews internal/external/NRB audit reports, recommends stringent control process 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 is responsible for overseeing all types of risks and ensuring the control measures and standards are in place for better risk management in the bank. In line with NRB's requirement, it is formed with two non-executive directors, Chief Operating Officer, Head Legal & Compliance as the members and Chief Risk Officer as Member Secretary 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 formulating risk management strategies, defining risk appetite, and ensuring that the risk management policies, procedures and standards are adequate and is effectively implemented in the Bank. Sound risk management system in the Bank is established robust risk management structure which includes Board level Risk Management Committee, Audit committee, Human Resource committee and Asset Laundering prevention committee; management level Asset & Liability Committee, Credit Risk Management Committee, Operational Risk Management Committee, E&S (Environmental & Social) Committee, Credit Recovery Committee, Corporate Information Security Committee, Pricing 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 first reviewed by management level committee and then escalated to Risk Management Committee for review and decision.

<u>Risk management structure in the bank's Organogram</u>:



Risk Management system and structure of the Bank is driven by following principles:

- **Independent Role**: The bank has Risk Management Function independent from risk taker. All management units report to the Chief Risk Officer (CRO) who directly reports to the board level Risk Management Committee.

- **Risk Measurement**: The Bank has prioritized to quantitatively measure various risk issues and arranged for their mitigation, control and monitoring wherever possible. For quantitatively measuring these risks, the Bank has implemented new tools and models such as Risk Register/, Credit Grading, etc.

- **Risk Management as Shared Responsibility**: The Bank has independent function for management of various risks which has been driven by the shared responsibility of risk management units and various business units of the Bank. The risk governance framework has adopted “three lines of defence” structure that includes three distinct units comprised of:
  - Main Business Function
  - Risk Management Department/Control units, and
  - Internal Audit

  The responsibilities of each line have been well defined and communicated across the various levels.

- **Risk Management Structure:** The Bank has appropriate risk management structure with clear demarcation of reporting line on its organogram. It has been essential for establishing roles & responsibilities and accountability of various functions within the Bank on risk management. The role of board of Directors in risk management has been more effective upon envisioning the risk governance structure of the Bank.

- **Continuous Improvement:** The Bank has always been oriented for strengthening existing risk management system. As a part of this, the Bank has recently implemented ISO 27001: 2013 standard. It has been expected to significantly improve information security management system as well as support risk management system through various aspects.

  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 Bank's Credit Policy elaborates credit standards and guideline for effective 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. The key independent units responsible for ensuring effective Credit Risk Management in the bank are Credit Risk Management Department, Credit Administration Department, Control Department, Special Assets Management Department, various Business Units and Internal Audit.
A thorough analysis of the borrower and the industry in which the borrower operates is ensured prior extending 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.

Credit Risk Management Committee (CRMC) and Risk Management Committee (RMC) play a pivotal role in the credit risk management of the Bank. The existing/probable credit risk issues are reviewed, necessary changes required in the credit system to mitigate such risk are identified and required decisions are made as appropriate.

The 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 CRMC and RMC 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 four 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.
Asset & Liability Committee (ALCO) manages the overall asset and liability position of the Bank. It also ensures that the asset & liability position, investment and liquidity are maintained at a desired level in compliance to NRB Directives. Risk monitoring is done periodically-at least on monthly basis by Treasury, Market Risk and Finance Departments by conducting stress testing, GAP analysis and preparing various reports.

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. Pricing Committee 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/ analysed 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.

E&S Risk

The Bank has successfully implemented a project for establishing a robust system for effective management of Environmental and Social risk. The integration of E&S risk management system with Credit Risk Management system of the Bank is also completed. In order to implement the system, the Bank has obtained technical support from FMO and CDC and also appointed a UK based company Earth Active for expert support in developing Environmental and Social risk Management System (ESMS) and to strengthen E&S capacity of the staffs.
The bank has Appointed E&S Officer for management of Environmental and Social risk.

Other Risk

Management of other risk such as Reputational, Legal & Compliance, Environmental and Social Risk Management 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.

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.