

**DISCLOSURE AS PER BASEL III**  
**As of Poush End 2081 (13<sup>th</sup> Jan 2025)**

**1. Capital Management**

• **Qualitative disclosures**

The Bank has formulated and implemented the "Integrated ICAAP and Stress Testing Guidelines 2023" which has been approved by the Board of Directors. The Integrated ICAAP and Stress Testing Guidelines 2023 is a system of sound, effective, and complete strategies and processes that allows the Bank to assess and maintain, ongoing basis, the amounts, types and distribution of internal capital that the Bank considers adequate to cover the nature and level of risk to which the Bank is or might be exposed to.

Internal Capital Adequacy Assessment Process (ICAAP) shall also include requirement to have robust governance arrangements, efficient process of managing all material risks and an effective regime for assessing and maintaining adequate and economic capital at the Bank where economic capital (economically needed capital) refers to the amount of capital required for the Bank's business operations and for financing the associated risks.

Integrated ICAAP and Stress Testing Guidelines 2023 shall provide policy and procedural guidelines for the calculation of internal capital adequacy by prescribing appropriate methodologies, techniques and procedures to assess the capital adequacy requirements in relation to the Bank's risk profile and effectiveness of its risk management, control environment and strategic planning.

The Board shall be primarily responsible for ensuring the current and future capital needs of the Bank in relation to strategic objectives. The management shall review and understand the nature and level of various risks that the Bank is confronting in the course of different business activities and how this risk relates to capital levels and accordingly implement sound risk management framework specifying control measures to tackle each risk factor.

- Quantitative disclosures

## Capital Structure and Capital Adequacy

### Tier I capital and a breakdown of its components:

Particulars	NPR in Mn.
Paid Up Capital	14,918
Proposed Stock Dividend	
Share Premium	
Statutory General Reserves	5,690
Capital Redemption Reserve	7,301
Retained Earnings	-2,656
Unaudited current year cumulative profit	
<b>Less:</b>	
Deferred Tax Assets	
Intangibles Assets	178
Land & building in excess of limit and unutilized	
Investment in equity of institutions with financial interests	314
Investment in equity of institutions in excess of limits	
Purchase of land & building in excess of limit and unutilized	144
<b>Core Capital</b>	<b>24,617</b>

### Tier II capital and a breakdown of its components;

Particulars	NPR in Mn.
General Loan Loss Provision	3,030
Exchange Equalization Reserves	49
Subordinated Term Debt	3,886
Investment Adjustment Reserve	3
Accrued Interest Receivable on pass loan included in Regulatory Reserve	805
<b>Supplementary Capital</b>	<b>7,773</b>

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

NPR in Mn.

Particulars	O/s amount	Issue Date	Maturity Date	Interest Rate*	Amount eligible for capital fund
9% NIC ASIA Debenture 2081/82	3,000	14-Jan-18	13-Jan-25	9.00%	0
11% NIC ASIA Debenture 2082/83	1,830	20-Sep-18	19-Sep-25	11.00%	0
10% NIC ASIA Debenture 2085/86	2,405	1-Mar-19	26-Feb-29	10.00%	1,924
10.25% NIC ASIA Debenture 2083/84	1,944	27-Aug-19	25-Aug-26	10.25%	389
8.5% NIC ASIA Debenture 2088	1,574	09-JUL-21	07-JUL-31	8.50%	1,574
<b>Total</b>	<b>10,752</b>				<b>3,886</b>

\*Interest is payable half yearly basis

• **Deductions from capital;**

- The intangible assets pertaining to software amounting to NPR 178,439,157.02 have been deducted from the core capital
- The Bank's investment in NIC ASIA Capital Ltd., the investment amounting NPR 190,000,000 has been deducted from the core capital.
- The Bank's investment in NIC ASIA Retirement Fund, the investment amounting NPR 10,000,000 has been deducted from the core capital.
- The Bank's investment in SURYAJYOTI Life Insurance Ltd, the investment amounting NPR 110,691,641.47 has been deducted from the core capital

- **Total qualifying capital;**

<b>Particulars</b>	<b>NPR in Mn.</b>
Core Capital	24,617
Supplementary Capital	7,773
<b>Total Qualifying Capital (Total Capital Fund)</b>	<b>32,390</b>

- **Capital Adequacy Ratio**

- Capital Adequacy Ratio of the Bank as at 13<sup>th</sup> Jan 2025 stood at 11.65%.

**Summary of Bank’s internal approach to assess the adequacy of capital to support current and future activities, if applicable**

The Bank prepares a long term 5 year’s Strategy Plan and to achieve the long term plans the Bank prepares annual Budgets/ Operating/ Tactical plans as stipulated in the Budget Policy and strategy Document of the Bank. To ensure that the Bank’s capital adequacy commensurate to demand of the Bank’s capital required by the business planning, the Management and the Board prudently and proactively engage on ongoing process of capital and risk assessment, stress testing and scenarios testing, monitoring and reporting and in order to assess of the vulnerability of the Bank under various stress situations typically, application of “what if” scenarios, especially in the problematic identification of low frequency but high severity events and identifying expected and unexpected losses the Bank has formulated and implemented “Integrated ICAAP and Stress Testing Guidelines 2023”.

A formal monitoring and reporting mechanism have been established to provide the senior management necessary information on the risk profile, trends, and the capital requirements as per the guidelines. Such reports are being prepared on a monthly and quarterly basis and circulated to relevant business units/departments, Integrated Risk Department (IRMD), and tabled in Assets Liability Committee (ALCO) meeting. Further quarterly reports are presented to the Risk Management Committee and the Board for review and discussions.

## 2. Risk Exposure

Risk weighted exposures for Credit Risk, Market Risk and Operational Risk

NPR in Mn.

Risk weighted Exposures	Current Quarter	Previous Quarter
a. Risk Weighted Exposure for Credit Risk	242,378	251,543
b. Risk Weighted Exposure for Operational Risk	19,623	19,591
c. Risk Weighted Exposure for Market Risk	1,725	1,676
<b>d. Adjustment Under Pillar II</b>		
% of the total deposit due to insufficient Liquid Assets		
Add RWE equivalent to reciprocal of capital charge of 3 % of gross income.	3,699	3,680
Overall risk management policies and procedures are not satisfactory, add 2% of RWE	10,549	5,456
<b>Total Risk Weighted Exposures (a + b + c +d)</b>	<b>277,974</b>	<b>281,946</b>

### Risk Weighted Exposures under each Categories of Credit

NPR in MN.

Particulars	Current Quarter	Previous Quarter
Claims on Government and Central Bank		
Claims on Other Official Entities		
Claims on Banks	3,726	3,315
Claims on Corporate and securities firms	40,805	40,150
Claims on regulatory retail Portfolio	83,920	90,031
Claims secured by Residential Properties	23,708	27,254
Claims secured by Commercial real estate	-	-
Past due Claims	20,729	23,760
Investments in equity and other capital instruments of institutions	4,619	4,507
High Risk Claims	50,966	47,510
Lending against Shares	3,131	3,568
Personal Hirepurchase/Personal Auto Loans	1,021	1,207
Trust Receipt Loans for Trading Firms	31	131

Other Assets	6,327	6,549
Off Balance- Sheet Items	3,396	3,559
<b>Total</b>	<b>242,378</b>	<b>251,543</b>

- **Total Risk Weight Exposure Table**

**On Balance Sheet Exposure:**

*NPR in Mn.*

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	a	b	c	d=a-b-c	e	f=d*e
Cash Balance	8,206			8,206	0%	-
Balance With Nepal Rastra Bank	16,251			16,251	0%	-
Gold	1			1	0%	-
Investment in Nepalese Government Securities	54,493			54,493	0%	-
All Claims on Government of Nepal	11,565	-		11,565	0%	-
Investment in Nepal Rastra Bank securities	-			-	0%	-
All claims on Nepal Rastra Bank	729			729	0%	-
Claims on Foreign Government and Central Bank (ECA 0-1)				-	0%	-
Claims on Foreign Government and Central Bank (ECA -2)			-	-	20%	-
Claims on Foreign Government and Central Bank (ECA -3)			-	-	50%	-
Claims on Foreign Government and Central Bank (ECA-4-6)			-	-	100%	-
Claims on Foreign Government and Central Bank (ECA -7)			-	-	150%	-

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	a	b	c	d=a-b-c	e	f=d*e
Claims On BIS, IMF, ECB, EC and MDB's recognized by the framework				-	0%	-
Claims on Other Multilateral Development Banks			-	-	100%	-
Claims on Domestic Public Sector Entities					100%	
Claims on Public Sector Entity (ECA 0-1)			-	-	20%	-
Claims on Public Sector Entity (ECA 2)			-	-	50%	-
Claims on Public Sector Entity (ECA 3-6)	-	-	-	-	100%	-
Claims on Public Sector Entity (ECA 7)			-	-	150%	-
Claims on domestic banks that meet capital adequacy requirements	11,524		-	11,524	20%	2,305
Claims on domestic banks that do not meet capital adequacy requirements	342		-	342	100%	342
Claims on foreign bank (ECA Rating 0-1)	1,829		-	1,829	20%	366
Claims on foreign bank (ECA Rating 2)	990		-	990	50%	495
Claims on foreign bank (ECA Rating 3-6)			-	-	100%	-
Claims on foreign bank (ECA Rating 7)			-	-	150%	-
Claims on foreign bank incorporated in SAARC region operating with a buffer	1,093		-	1,093	20%	219

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	a	b	c	d=a-b-c	e	f=d*e
of 1% above their respective regulatory capital requirement						
Claims on Domestic Corporates (Credit rating score equivalent to AAA)					80%	
Claims on Domestic Corporates (Credit rating score equivalent to AA+ to AA-)					85%	
Claims on Domestic Corporates (Credit rating score equivalent to A+ to A-)					90%	
Claims on Domestic Corporates (Credit rating score equivalent to BBB+ & below)					100%	
Claims on Domestic Corporates (Unrated)	41,179	-	374	40,805	100%	40,805
Claims on Foreign Corporates (ECA 0-1)			-	-	20%	-
Claims on Foreign Corporates (ECA 2)			-	-	50%	-
Claims on Foreign Corporates (ECA 3-6)			-	-	100%	-
Claims on Foreign Corporates (ECA 7)			-	-	150%	-
Regulatory Retail Portfolio (Not Overdue)	112,444	-	551	111,893	75%	83,920
Claims fulfilling all criterion of regularity retail except granularity			-	-	100%	-
Claims secured by residential properties	35,509	-	-	35,509	60%	21,305
Claims not fully secured by residential properties			-	-	150%	-



A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	a	b	c	d=a-b-c	e	f=d*e
Claims secured by residential properties (Overdue)	1,139	428	-	711	100%	711
Claims secured by Commercial real estate	-	-	-	-	100%	-
Past due claims (except for claims secured by residential properties)	21,110	7,760	5	13,345	150%	20,017
High Risk claims	34,885	-	907	33,978	150%	50,966
Real Estate loans for land acquisition and development (Other than mentioned in Capital Adequacy framework 2015-point 3.3(j)(1)(k))	-	-	-	-	125%	-
Lending against Shares(above Rs.5 Million)	2,149	-	-	2,149	125%	2,686
Lending against securities (bonds)	-	-	-	-	100%	-
Lending against Shares(upto Rs.5 Million)	445	-	-	445	100%	445
Trust Receipt Loans for Trading Firms	26	-	-	26	120%	31
Real Estate loans for land acquisition and development (For institutions/projects registred/licensed and approved by Government of Nepal for land acquisition and development purposes)	-	-	-	-	100%	-

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	a	b	c	d=a-b-c	e	f=d*e
Personal Hirepurchase/Personal Auto Loans	1,021		-	1,021	100%	1,021
Investments in equity and other capital instruments of institutions listed in stock exchange	4,131		-	4,131	100%	4,131
Investments in equity and other capital instruments of institutions not listed in the stock exchange	325	-	-	325	150%	488
Staff loan secured by residential property	4,805			4,805	50%	2,402
Interest Receivable/claim on government securities	954			954	0%	-
Cash in transit and other cash items in the process of collection	-			-	20%	-
Other Assets (as per attachment)	8,682	2,355		6,327	100%	6,327
<b>TOTAL (A)</b>	<b>375,826</b>	<b>10,543</b>	<b>1,837</b>	<b>363,446</b>		<b>238,982</b>

### Off Balance Sheet Exposures:

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Revocable Commitments				-	0%	-
Bills Under Collection	264			264	0%	-
Forward Exchange Contract Liabilities	3,383			3,383	10%	338
LC Commitments With Original Maturity Upto 6 months domestic counterparty	161		6	155	20%	31
Foreign counterparty (ECA Rating 0-1)	-		-	-	20%	-
Foreign counterparty (ECA Rating 2)	-		-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	-		-	-	100%	-
Foreign counterparty (ECA Rating 7)	-		-	-	150%	-
LC Commitments With Original Maturity Over 6 months domestic counterparty	296		1	296	50%	148
Foreign counterparty (ECA Rating 0-1)			-	-	20%	-
Foreign counterparty (ECA Rating 2)	-		-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	-		-	-	100%	-
Foreign counterparty (ECA Rating 7)	-		-	-	150%	-
Bid Bond, Performance Bond and Counter guarantee domestic counterparty	3,230		90	3,141	40%	1,256
Foreign counterparty (ECA Rating 0-1)	-		-	-	20%	-
Foreign counterparty (ECA Rating 2)	-		-	-	50%	-

<b>B. Off Balance Sheet Exposures</b>	<b>Book Value</b>	<b>Specific Provision</b>	<b>Eligible CRM</b>	<b>Net Value</b>	<b>Risk Weight</b>	<b>Risk Weighted Exposures</b>
Foreign counterparty (ECA Rating 3-6)			-	-	100%	-
Foreign counterparty (ECA Rating 7)	-		-	-	150%	-
Underwriting commitments	-		-	-	50%	-
Lending of Bank's Securities or Posting of Securities as collateral	-		-	-	100%	-
Repurchase Agreements, Assets sale with recourse	-		-	-	100%	-
Advance Payment Guarantee	12		0	12	100%	12
Financial Guarantee			-	-	100%	-
Acceptances and Endorsements	67		6	61	100%	61
Unpaid portion of Partly paid shares and Securities	-		-	-	100%	-
Irrevocable Credit commitments (short term)	5,076		-	5,076	20%	1,015
Irrevocable Credit commitments (long term)	254		-	254	50%	127
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement			-	-	20%	-
Other Contingent Liabilities	403		-	403	100%	403
Unpaid Guarantee Claims	3		0	2	200%	5
<b>TOTAL (B)</b>	<b>13,149</b>	<b>-</b>	<b>103</b>	<b>13,046</b>		<b>3,396</b>

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
<b>Total RWE for credit Risk Before Adjustment (A) +(B)</b>	<b>388,975</b>	<b>10,543</b>	<b>1,940</b>	<b>376,493</b>		<b>242,378</b>

### Non-Performing Assets

NPR in 'Mn'

Particulars	Current Quarter		Previous Quarter	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
Restructured / Reschedule Loans				
Sub Standard Loans	3,220	2,415	6,710	5,033
Doubtful Loans	2,860	1,430	1,208	604
Loss	5,953	-	3,568	-
<b>Total NPAs</b>	<b>12,033</b>	<b>3,845</b>	<b>11,486</b>	<b>5,637</b>

### Ratio of Non-Performing Asset

Particulars	Current Quarter	Previous Quarter
Gross NPA to gross advances (%)	4.61	4.24
Net NPA to net advances (%)	1.47	2.08

### Movement of Non-Performing Assets

NPR in '000'

Particulars	Current Quarter	Previous Quarter
Opening NPA	11,506,273	9,743,590
Net Increase/(decrease) during the year	526,324	1,762,683
Closing NPA	12,032,597	11,506,273

**Write off Loan and Interest:**

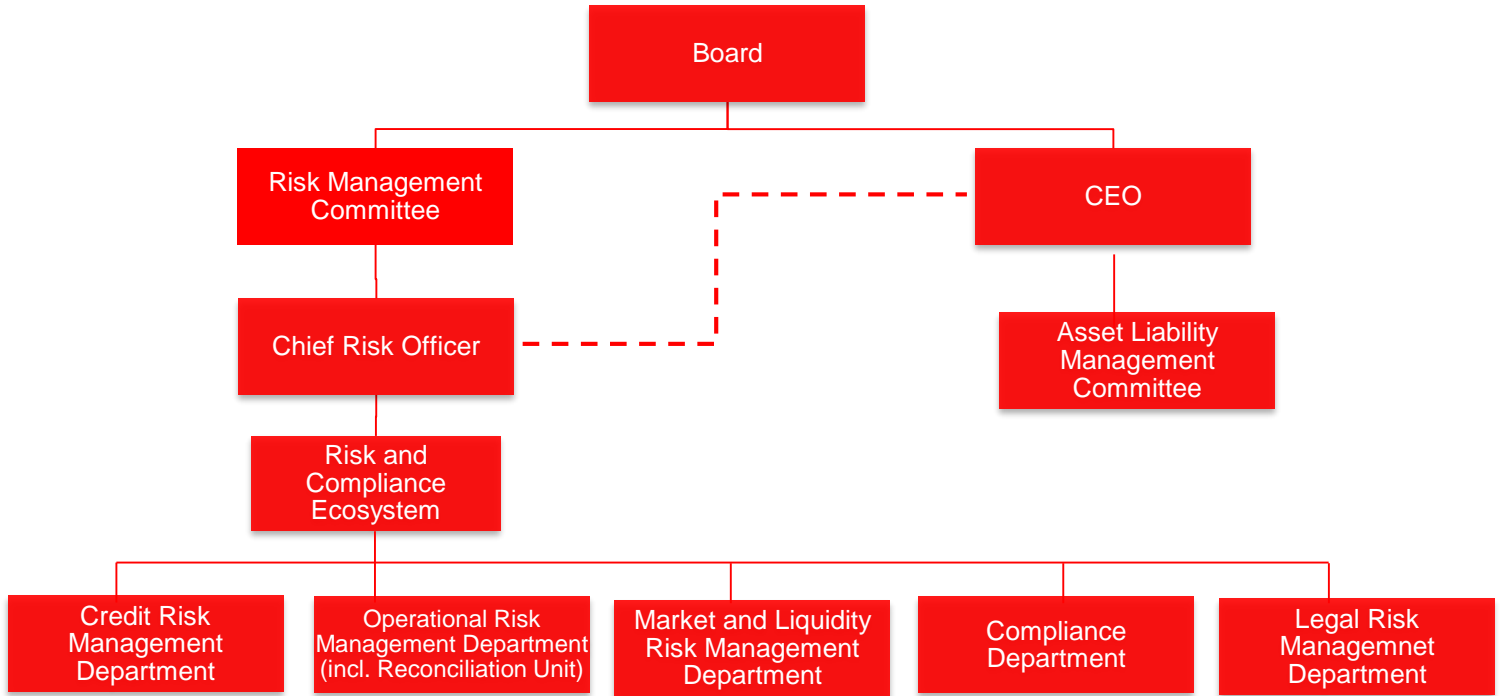
Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Write off Loan	121,519	12,373
Write off Interest	-	-

**Movements in LLP and Interest Suspense:**

Particulars	NPR in '000'	
	Current Quarter	Previous Quarter
Movement in Loan Loss Provisions	2,359,673	1,164,337
Movement in Interest Suspense	537,045	1,094,008
Additional LLP during the year	2,359,673	1,164,337

### 3. Risk Management Function

Risk Management structure of the Bank has set clear separation between business function and risk management function. Accordingly, the Bank has set up a separate Integrated Risk Management Department (IRMD) headed by Chief Risk Officer (CRO), one of the most senior level positions in the Bank. The IRMD oversees global, macro, micro and departmental level risk that arise out of daily business operation as well as on periodic basis and are put to the oversight of Senior Management, Risk Management Committee and the Board to discuss the reports thereon and issue instructions as appropriate.



### i. Risk Management Committee

Board of Directors is the apex and supreme authority of the Bank and is responsible to frame and implement robust policies and framework for effective compliance of regulation and direction issued by the regulatory authority. BOD ensures the strategies, policies and procedure is in accordance with the risk appetite/tolerance limit for effective management of risk within the Bank. The board understands the nature of risk of the bank, and periodically reviews reports on risk management, including policies and standards, stress testing, liquidity and capital adequacy

through the reporting by the Risk Management Committee and the Asset- Liabilities Management Committee.

Pursuant to the NRB directive on corporate governance, the Bank has established Risk Management Committee with well-defined terms of reference in line the NRB directive. At least four meeting is conducted on annual basis however number of meeting can be increased as per the requirement. The committee supervise overall risk management of the Bank broadly classified as liquidity risk, market risk, operational risk and credit risk.

## **ii. Risk Governance**

Bank has prepared and implemented policies and procedures to mitigate the risk at enterprises level arising to the Bank and has inculcated risk culture among the employees by establishing ownership mentality, capacity building programs, well defined job responsibilities and inhabiting good ethical culture.

Through its Risk Management Framework, the Bank seeks to efficiently manage credit, market and liquidity risks which arise directly through the Bank's commercial activities as well as operational, regulatory and reputational risks which arise as a normal consequence of any business undertaking.

The Risk Management Committee is responsible for the establishment of, and compliance with, policies relating to overall risk.

The Assets and Liabilities Committee is responsible for the management of capital and establishment of, and compliance with, policies relating to balance sheet management, including management of liquidity, capital adequacy and structural foreign exchange and interest rate exposure and tax exposure.

The bank's risk governance structure is such that the responsibility for maintaining risk within the banks risk blanket is cascaded down from the Board to the appropriate functional, client business, senior management and committees. Information regarding material risk issues and compliance with policies and standards is communicated through the business, functional, senior management and committees.

## **iii Internal Control**

The Board is responsible for ensuring the Bank has appropriate internal control framework in place that supports the achievement of the strategies and objectives. The various functions of the Bank should be looked upon with a view to establish a proper control mechanism is in place during expansion and growth which enables it to maximize profitable business opportunities,



avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations and enhance resilience to external events.

The Board has set policies and procedures of risk identification, risk evaluation, risk mitigation and control/monitoring, in line with the NRB directives has effectively implemented the same at the Bank.

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

The Internal Audit monitors compliance with policies/standards and the effectiveness of internal control structures across the Bank through regular audit, special audit, information system audit, Off Site review, AML/CFT/KYC audit, ISO audit as well as Risk based Internal Audit (RBIA) approach. The audits observations are reported to the Chief Executive Officer and Business Heads for initiating immediate corrective measures. Internal Audit reports are periodically forwarded to the Audit Committee for review and the committee issues appropriate corrective action in accordance with the issue involved to the respective department, regional offices or branches.

### **5.1.1 Credit Risk**

Credit risk is the probability of loss of principal and reward associated with it due to failure of counterparty to meet its contractual obligations to pay the Bank in accordance with agreed terms. The Credit Risk Monitoring and Reporting Framework/ have been prepared in order to mitigate/minimize the credit risk of the Bank through appropriate monitoring and reporting framework established within the Bank.

Bank has implemented various System/ Policies/ Procedures/ Guidelines for the effective management of Credit Risk. For each type of loan, credit policies and procedures define criteria for granting loans in a safe and sound manner including but not limited purpose of credit and source of repayment, collection of relevant information based on the different client risk profiles, use of adequate tools, adequacy, enforceability and liquidity status of collaterals, as well as the practical aspects of their mobilization.

To ensure diversification of risks and limit concentration risk, limit on credit exposures to specific activities or type of products, single counterparty or groups of interconnected counterparties, specific industries and/or economic sectors, types of collateral, related parties and geographic regions.

Monitoring of credit risk is performed by credit risk management function. The Bank uses internal rating system which help the Bank to differentiate between credit exposures in its portfolio, determine the portfolio's characteristics (concentration, problem loan etc.) and verify the accuracy of the provisions. Business borrowers are monitored through on-site visits, while

repayment capacities of individual customers should be updated regularly for early identification of any adverse developments that may affect repayment of loans.

Banks have effective processes and procedures in place for early implementation of remedial actions on deteriorating credits and management of problem loans, including assessing the appropriate legal actions. Furthermore, Bank has sound loss methodology, including credit risk assessment policies, procedures and controls, to identify troubled exposures and determine loss provisioning in a timely manner.

Bank has implemented various System/ Policies/ Procedures/ Guidelines for the effective management of Credit Risk. For the purpose of assessment of credit risk of the bank, following activities were carried out:

- Current system/policies/procedures/guidelines formulated were gone through;
- Actual Exposure of credit limit product wise, segment wise were checked against Risk Appetite, tolerance limit mentioned in Respective Product Paper Guidelines, Credit Policy and Credit Risk Management Policy;
- Review of various reports prepared by the Departments such as Account Monitoring Report, Loan Overdue Report, Loan Report, NRB reports and Margin Monitoring Reports

Credit Risk Management is ultimately the responsibility of the Board of Directors. Hence overall strategy as well as significant policies has to be reviewed by the board regularly. Further, Senior Management is responsible for implementing the bank's credit risk management strategies and policies and ensuring that procedures are put in place to manage and control credit risk and the quality of credit portfolio in accordance with these policies.

### **Maximum exposure to credit risk**

The Bank has financial assets consisting mainly of loans & advances and investments at amortized cost. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.

## **5.1.2 Market Risk**

Market risk is defined as the risk of losses resulting from movement in market prices that adversely affect the value of on-and-off balance sheet positions of financial institutions. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

**i. Currency Risk:**

Foreign exchange risk is the potential for the Bank to experience volatility in the value of its assets, liabilities and solvency and to suffer actual financial losses as a result of changes in value between the currencies of its assets and liabilities and its reporting currency.

The Bank has following foreign currency as receivables/payables as at the balance sheet date.

**ii. Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

**iii. Equity Price Risk**

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial investment held at FVTOCI, whose values fluctuate as a result of changes in market prices.

Based on its risk profile and level of market risk it is willing and/or able to take, the Bank has developed strategy to manage its market risk. Approved by the board, the market risk management is well communicated within the financial institution. The market risk strategy should be periodically updated (at least once a year and immediately in case of change in market activity) and regularly reviewed to accommodate changes in business/strategic plan and significant developments in the external operational environment.

The bank's management information system generates regular reports that depict actual size, return, risk, potential profit or loss etc of the exposure and such report is forwarded to board and senior management for review. Appropriate contingency plans have been put in place.

**5.1.3 Liquidity Risk**

Bank recognize Market Risk as the possibility for loss of earnings or economic value to the Bank caused due to adverse changes in the market level of interest rates or prices of securities (equity), foreign exchange rates and commodity price fluctuation, as well as the volatilities, of those prices. While Liquidity risk is chances of failure of a Bank to meet obligations as they become due, effective liquidity risk management helps ensure the Bank's ability to meet its obligations as they fall due without adversely affecting the Bank's financial condition and reduces the probability of developing of an adverse situation.

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding as required.

The following table depicts the maturity profile of the investment portfolio on a undiscounted cash flow basis which is designed and managed to meet the required level of liquidity as and when liquidity outgo arises taking into consideration the time horizon of the financial liabilities of the business.

*NPR Mn*

S.N.	Particulars	1-90 Days	91-180 Days	181-270 Days	271-365 Days	Over 1 Year	Total Amount
<b>Assets</b>							
1	Cash Balance	8,206	-	-	-	-	8,206
2	Balance with Banks & FIs	17,942	-	-	-	-	17,942
3	Investment in Foreign Banks	2,762	-	-	-	-	2,762
4	Call Money	-	-	-	-	-	-
5	Government Securities	2,494	12,946	961	1,620	36,472	54,493
6	Nepal Rastra Bank Bonds	-	-	-	-	-	-
7	Inter Bank & FI Lending	-	-	-	-	-	-
8	Loans & Advances	34,782	17,677	19,727	6,615	182,310	261,110
9	Interest Receivable	4,891	812	11	-	-	5,713
10	Reverse Repo	-	-	-	-	-	-
11	Receivables from other Institutions under Commitment	-	-	-	-	-	-
12	Payment to be made for facilities under s.no 20,21 & 22	2,900	906	1,901	1,297	519	7,522
13	Others	13,020	-	-	-	19,970	32,989

S.N.	Particulars	1-90 Days	91-180 Days	181-270 Days	271-365 Days	Over 1 Year	Total Amount
	<b>Total Assets (A)</b>	<b>86,997</b>	<b>32,340</b>	<b>22,599</b>	<b>9,532</b>	<b>239,270</b>	<b>390,738</b>
	<b>Liabilities</b>						
14	Current Deposits	1,127	1,127	1,127	1,190	9,295	13,866
15	Saving Deposits	9,383	9,383	9,383	9,905	94,017	132,072
16	Fixed Deposits	55,866	34,310	7,014	16,191	54,591	167,973
17	Debentures	3,000	-	1,830	-	5,925	10,755
18	Borrowings:	-	-	-	-	-	-
	(a) Call/Short Notice	-	-	-	-	-	-
	(b) Inter-bank/Financial Institutions	-	-	-	-	-	-
	(c) Refinance	-	-	-	-	-	-
	(d) Others	-	-	-	-	-	-
19	Other Liabilities and Provisions	16,281	-	-	-	-	16,281
	(a) Sundry Creditors	13,257	-	-	-	-	13,257
	(b) Bills Payable	124	-	-	-	-	124
	(c) Interest Payable	2,900	-	-	-	-	2,900
	(d) Provisions	-	-	-	-	-	-
	(e) Others	-	-	-	-	-	-
20	Payable to other institutions under Commitment	40	21	-	-	-	61
21	Unutilized Approved Facilities	3,050	538	1,154	465	-	5,207
22	Letter of Credit/Guarantee (Net of Margin)	1,160	347	747	831	519	3,605
23	Repo	-	-	-	-	-	-
24	Payment to be made for facilities under S.No 11	-	-	-	-	-	-
25	Others	-	-	-	-	-	-
	<b>Total Liabilities (B)</b>	<b>89,908</b>	<b>45,727</b>	<b>21,255</b>	<b>28,582</b>	<b>164,347</b>	<b>349,820</b>

#### iv. Operational risk

Operational Risk is defined as the risk of potential loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events, including legal risks for the bank. Operational Risk is pervasive across all the functions of the Bank

and is influenced by all resources, including human resource, systems and procedural designs, deployed by the Bank to carry out those functions. Operational Risk can be caused by both internal and external sources such as fraud, business interruptions, system failures, damage to physical infrastructure, failure in execution and service delivery, inherent risks in products, customers, inadequacy in procedures or flawed process designs, and business practices. The risk can occur in any business function or the business supporting functions.

The Bank is committed to be governed with a strong culture of risk management and ethical business practices to averse it from potentially damaging operational risk events and is in a sound position to deal effectively with those events that do occur. The actions of the board and senior management, and policies, processes and systems provide the foundation for a sound risk management culture

The Bank seeks to minimize exposure to operational risk by use of key control standards, key control self-assessments and key risk indicators as toolkits to identify, assess, monitor and control operational risk events through timely acknowledgement of emerging threats and underlying vulnerabilities. The Bank shall also ensure highest level of governance standards and adherence to Code of Conduct and robust compliance to all regulatory as well as the Bank's internal policy, procedures and guidelines.

Effective policies, procedural guidelines and standard operating procedure are crucial tools for sound risk management. Therefore, adequacy and effectiveness of the policies and procedures and their effective implementation is closely monitored by the department to ensure that they have continuing relevance in line with regulatory requirement and adjusts to dynamic risk environment of the industry.