



## Disclosures under Basel III

For 1<sup>st</sup> Quarter of Fiscal year 2081-82 as of 16<sup>th</sup> Oct 2024

Information presented hereunder is as per disclosure requirements of the Capital Adequacy Framework, 2015 as issued by Nepal Rastra Bank. Disclosures are in respect of the stand-alone capital adequacy of Mahalaxmi Bikas Bank limited.

### 1. Capital Structure and Capital Adequacy:

#### ❖ Core Capital (Tier 1)

Rs.'000

Particulars		Amount (Rs.)
1	Paid up Equity Share Capital	4,171,318.60
2	Share Premium	-
3	Proposed Bonus Equity Shares	-
4	Statutory General Reserves	1,394,353.40
5	Retained Earnings	276,019.46
6	Un-audited current year cumulative profit/(loss)	55,910.46
7	Capital Adjustment Reserve	125,000.00
8	Other Free Reserve	-
	<b>Less: Purchase of land &amp; building in excess of limit and unutilized</b>	<b>55,625.00</b>
<b>Total core capital (Tier I)</b>		<b>5,966,976.92</b>

#### ❖ Supplementary capital (Tier 2)

Rs.'000

Particulars		Amount (Rs.)
1	Cumulative and/or Redeemable Preference Share	-
2	Subordinated Term Debt	994,759.62
3	Hybrid Capital Instruments	-
4	General loan loss provision	561,534.84
5	Exchange Equalization Reserve	2,356.41
6	Investment Adjustment Reserve	2,500.00
7	Accrued Interest Receivable on pass loan included in Regulatory Reserve	310,218.19
8	Interest Capitalized Reserve included in Regulatory Reserve	-
9	Asset Revaluation Reserve	-
10	Other Reserves	-
<b>Total Capital Fund (Tier II)</b>		<b>1,877,017.83</b>

#### ❖ Total Qualifying Capital

Rs.'000

Total capital fund (Tier1 + Tier 2)		Amount (Rs.)
1	Core Capital (Tier 1 Capital)	5,966,976.92
2	Supplementary Capital (Tier 2)	1,877,017.83
<b>Total Capital Fund (Tier I and Tier II)</b>		<b>7,843,994.75</b>



❖ **Capital Adequacy Ratio**

Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	11.78%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures(After Bank's adjustments of Pillar II)	15.48%

❖ **Summary of Bank's interest approach to assessing the adequacy of its capital to support current and future activities**

The Bank adheres to the Internal Capital Adequacy Assessment Process (ICAAP) and Risk Management Guidelines as an integral part of its business decision-making framework. Through these guidelines, the Bank conducts both qualitative and quantitative assessments of risk and capital adequacy, ensuring alignment with its long-term growth objectives. These assessments include a comprehensive capital plan designed to support anticipated business expansion while addressing the Pillar I and Pillar II risks the Bank faces.

Several key committees, including the Audit Committee and the Risk Management Committee, conduct regular reviews of business activities and associated risks. These reviews incorporate stress testing and scenario analysis to maintain a balanced and sustainable approach to risk, return, and capital. Additionally, the Assets Liability Management Committee (ALCO), chaired by the CEO, manages interest rate, liquidity, exchange rate, and market risks. Regular gap analysis of assets and liabilities further strengthens the Bank's liquidity management strategies.

The Bank's capital adequacy ratios, as of Ashwin 2081, stand at 11.78% for Tier I capital and 15.48% for total capital, meeting the Nepal Rastra Bank's standards. These capital adequacy requirements play a pivotal role in the Bank's annual strategy discussions, daily financial reviews, ALCO, and Risk Management Committee meetings. Total risk-weighted exposures are projected, capital requirements are calculated, and strategic plans are developed to ensure adequate capitalization. Well-capitalized through internal generation, the Bank is also positioned to access capital markets as needed, underscoring its commitment to maintaining a solid capital foundation for sustainable growth.

**2. Risk Exposures**

❖ **Risk Weighted Exposures for Credit, Market and Operational Risk (Rs. in '000)**

Particulars		Amount (Rs.)
1	Risk Weighted Exposure for Credit Risk	45,374,688.42
2	Risk Weighted Exposure for Operational Risk	3,311,805.96
3	Risk Weighted Exposure for Market Risk	50,898.66
<b>Total Risk Weighted Exposures (Before adjustments of Pillar II)</b>		<b>48,737,393.04</b>



### Adjustments under Pillar I

SRP 6.4a (5)	ALM policies & practices are not satisfactory, add 1% of net interest income to RWE	19,316.99
SRP 6.4a (6)	Add.....% of the total deposit due to insufficient Liquid Assets	-
SRP 6.4a (7)	Add RWE equivalent to reciprocal of capital charge of 2 % of gross income.	455,359.10
SRP 6.4a (9)	Overall risk management policies and procedures are not satisfactory. Add 1% of RWE	1,462,121.79
SRP 6.4a (10)	If desired level of disclosure requirement has not been achieved, Add.....% of RWE	-
<b>Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)</b>		<b>50,674,190.92</b>

### ❖ Risk Weighted Exposures under each Categories of Credit Risk (Rs. in '000)

SN.	A. Balance Sheet Exposures	Risk Weighted Exposures
1	Claims on domestic banks that meet capital adequacy requirements	313,144.40
2	Claims on foreign bank incorporated in SAARC region and China operating with a buffer of 1% above their respective regulatory capital requirement	742.50
3	Claims on Domestic Corporates (Unrated)	8,041,790.35
4	Regulatory Retail Portfolio (Not Overdue)	12,493,285.60
5	Claims fulfilling all criterion of regularity retail except granularity	251,544.36
6	Claims secured by residential properties	3,488,418.55
7	Claims secured by residential properties (Overdue)	488,998.13
8	Past due claims (except for claims secured by residential properties)	6,291,628.66
9	High Risk claims	7,313,454.52
10	Real Estate loans for land acquisition and development (Other than mentioned in Capital Adequacy framework 2015-point 3.3(j)(1)(k))	53,698.99
11	Lending against Shares(above Rs.5 Million)	2,086,116.35
12	Lending against Shares(upto Rs.5 Million)	538,366.76
13	Personal Hirepurchase/Personal Auto Loans	878,844.36
14	Investments in equity and other capital instruments of institutions listed in stock exchange	989,223.99
15	Investments in equity and other capital instruments of institutions not listed in the stock exchange	3,184.95
16	Staff loan secured by residential property	158,215.02
17	Other Assets (as per attachment)	1,530,328.70
18	Off Balance Sheet Exposures	453702.2324
	<b>Total</b>	<b>45,374,688.42</b>



### Amount of Non-Performing Assets (NPAs) [both Gross and Net]

Particulars	Balance	Provision Amount	Net
Bad	979,873,914.81	979,873,914.81	-
Doubtful	597,511,070.96	298,755,535.48	298,755,535.48
Substandard	666,609,790.47	166,652,447.62	499,957,342.85
<b>Grand Total</b>	<b>2,243,994,776.24</b>	<b>1,445,281,897.91</b>	<b>798,712,878.33</b>

Particulars	NPA Ratios
Gross NPA To Gross Advances	4.90%

### 3. Risk Management Framework

In compliance with Nepal Rastra Bank Directives 6 on "Corporate Governance", the Board of Bank has established a Risk Management Committee with clear terms of reference. As at the date of this report, the Bank's Risk Management Committee comprised of the following:

S. No.	Members of Risk Management Committee	Designation
1	Non-Executive Director from Promoter	Chairperson
2	Coordinator, Audit Committee	Member
3	Head of Operation Department	Member
4	Chief Risk Officer	Member secretary

The Committee meets at least four times annually to oversee and review the fundamental prudential risks including operational, credit, market, reputational, capital and liquidity risk etc.

The responsibilities of Risk Management Committee are as follows:

- Formulate policies and guidelines for identification, measurement, monitoring and control all major risk categories.
- Ensuring the Bank has clear, comprehensive and well documented policies and procedure.
- Defining the Bank's overall risk tolerance in relation to credit risk.
- Ensuring that Bank's significant risks exposure is maintained at prudent levels and consistent with the available capital.

Apart from Board Level Risk Management Committee the other committees and groups as mentioned below supports for Overall Risk Management.



## **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.

A standardized loan application forms has been in use for facilitating collection and analysis of all the relevant data for evaluating credit worthiness and proper evaluation of the credit risk of the prospective borrower. The factors considered in evaluating loan applications normally included prospects of the business, management of the firm/company, financial analysis-income statement, balance sheet, cash flow statement, key financial indicators, key risk and mitigates. Further, inspection and supervision are also conducted before approval of the loan for pre-analysis and after the disbursement of loan as well for monitoring the utilization of loan.

## **Market Risk**

Risks arising out of adverse movements in interest rates and equity prices are covered under Market Risk Management. Market Risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. Institution exposure to market risk arises principally from customer driven transactions.

In line with Risk Management Guidelines prescribed by NRB, the Bank focuses on risk management in addition to that interest rate risk is assessed at a regular interval to strengthen market risk management. The market risk is managed within the risk tolerances and market risk limits set by ALCO. ALCO regularly meets, analyses and takes decision over the Market Risk by analyzing the internal as well as external factor.

## **Liquidity Risk**

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 fixed nature asset positions is not available to the Bank on acceptable terms. The Liquidity Risk is managed by ALCO. The ALCO has developed the treasury circular for overall liquidity management of bank.



## **Operational Risk**

Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies, employee errors, system failures, fraud or other criminal activity, any event that disrupts business processes.

Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring. For the control of operational risk of institution, it has Financial Administration Policy, Employee Bylaws, Operational Manual, AML/CFT Policy, Suspicious Transaction Identification Procedure, and Politically Exposed Person Policy, which guides the day-to-day operations.

Each risk control owner is responsible for identifying risks that are material and for maintaining an effective control environment across the organization. Risk control owners have responsibility for the control of operational risk arising from the management of the following activities: External Rules & Regulations, Liability, Legal Enforceability, Damage or Loss of Physical Assets, Safety & Security, Internal Fraud or Dishonesty, External Fraud, Information Security, Processing Failure, and Model. Operational risks can arise from all business lines and from all activities carried out by the Bank. Operational risk management approach seeks to ensure management of operational risk by maintaining a complete process universe defined for all business segments, products and functions processes.

## **Qualitative disclosures**

The Bank has consistently upheld its capital adequacy in line with the Capital Adequacy Framework, 2015, mandated by Nepal Rastra Bank. As of the end of Ashwin 2081, the Bank's capital adequacy ratio stands at 11.78% for core capital and 15.48% for total capital.

The Board of Directors holds primary responsibility for ensuring the Bank meets its current and projected capital needs in alignment with its strategic objectives. Meanwhile, the management actively evaluates and monitors the scope and intensity of risks arising from various business activities. This risk analysis directly informs capital level requirements, driving the implementation of a robust risk management framework. The framework sets forth comprehensive control measures designed to address and mitigate each specific risk factor, thereby safeguarding the Bank's capital integrity and supporting sustainable growth.