Disclosure under BASEL III
As 14th January 2020 (2nd Quarter of FY 2076-77)

1. **Capital Structure and Capital Adequacy Related disclosure :**

- **Tier 1 Capital and breakdowns of its Components**

Particulars	Amount (Rs.)
Paid Up Equity Share Capital	18,975,879,857
Irredeemable Non-cumulative preference shares	-
Equity Share Premium	5,393,495
Proposed Bonus Equity Shares	-
Statutory General Reserves	3,823,345,835
Retained Earning	183,976,362
Un-audited current year cumulative profit/(loss)	1,506,246,067
Capital Redemption Reserve	-
Capital Adjustment Reserve	-
Dividend Equalization Reserve	-
Debenture Redemption Reserve	-
Other Free Reserve	1,581,920,551
Less: Intangible Assets	(213,176,165)
Less: Deferred Tax Asset	-
Less: Investment in equity of institutions with financial interests	(964,803,280)
Less: Purchase of land & building in excess of limit and unutilized	(31,360,000)
Adjustment under Pillar II	
Less: Loans & Facilities extended to related parties and restricted lending	-
Common Equity Tier I Capital	**24,867,422,723.83**
Additional Tier I Capital	
Perpetual Non Cumulative Preference Share Capital	**-**
Perpetual Debt Instruments	**-**
Stock Premium	**-**
Core Capital (Tier I)	**24,867,422,723.83**

- **Tier 2 Capital and breakdowns of its Components**

Particulars	Amount (Rs.)
Cumulative and /or Redeemable Preference Share	**-**
Subordinated Term Debt	1,200,000,000
Hybrid Capital Instruments	-
General Loan Loss Provision	1,906,705,752
Exchange Fluctuation Reserve	139,835,545
Investment Reserve Fund	43,256,261
Assets Revaluation Reserve	-
Other Reserve	-
Supplementary Capital (Tier II)	**3,289,797,557.73**

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

  The Bank has issued "10.25% Global IME Bank Ltd Debenture 2080-81" of Rs. 1,000 each during the FY 2018-19. The outstanding amount of the Debentures is Rs. 1,500 million. The maturity of the debenture is 2080 B.S i.e. 5 years from the date of issue. Only 80% of this amount has been reckoned as eligible for capital funds. Capital Redemption Reserve will be created from the year 2019-20 in accordance with the Central Bank's Directive 2076.

- **Deductions from capital**

  Deductions in Tier I Capital Fund have been made for equivalent amounts in respect of following items:

Particulars	Amount (Rs.)
Intangible Assets	213,176,165
Investment in equity of institutions with financial interests	964,803,280
Purchase of land & building in excess of limit and unutilized	31,360,000
Total Deductions	**1,209,339,445**

- **Total Qualifying Capital**

Particulars	Amount (Rs.)
Common Equity Tier I	24,867,422,724
Core Capital (Tier I)	24,867,422,724
Supplementary capital (Tier II)	3,289,797,558
Total Capital Fund	**28,157,220,282**

- **Capital Adequacy Ratio :**

Description	Ratio
Common Equity Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	10.13%
Tier 1 Capital to Total Risk Weighted Exposures(After Bank's adjustments of Pillar II)	10.13%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures(After Bank's adjustments of Pillar II)	11.47%

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

  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 (hereinafter referred to as ICAAP). 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.

  In addition to this, the Bank in the last 3 years has merged with other Banks and financial institutions and recently merged another A class Commercial bank Janata Bank Nepal Ltd to maintain the level of capital adequacy in line with the increase in business. The Bank further plans to adopt and implement sound polices for maintaining the capital adequacy in the future.

- **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 "10.25% Global IME Bank Ltd. Debenture 2080-81" of Rs.1,000 each during the FY 2018-19. The main features of the subordinated term debt issued by the Bank are as follows:

  - Maturity period: 5 Years.

- Interest rate: 10.25% per annum.
- Interest Payment frequency: Half Yearly.
- Capital Redemption Reserve shall be created from the year 2019-20.

2. Risk Exposure

- **Risk weighted exposures for Credit Risk, Market Risk and Operational Risk:**

Particulars	Amount (Rs.)
Risk Weighted Exposure for Credit Risk	213,803,815,690
Risk Weighted Exposure for Operational Risk	11,911,260,498
Risk Weighted Exposure for Market Risk	2,728,807,930
Total Risk Weighted Exposures	**228,443,884,118**
Add: 3% of the total RWE as per NRB directives (6.4 a 9)	6,853,316,524
Add: 3% of the total RWE as Desired level of disclosure requirement has not been achieved (6.4 a 10)	6,853,316,524
Add: additional capital charge of 3% of Gross Income as per NRB directives (6.4 a 7)	3,390,600,000
Total Risk Weighted Exposures (After Bank's Adjustments of Pillar II)	**245,541,117,165**

- **Risk Weighted Exposures under each of 11 categories of Credit Risk;**

Particulars	Amount (Rs.)
a) Claims on government & central bank	-
b) Claims on other official entities	555,419,056
c) Claims on banks	6,247,353,289
d) Claims on corporate & securities firms	106,399,805,434
e) Claims on regulatory retail portfolio	36,864,313,618
f) Claims secured by residential properties	12,424,129,259
g) Claims secured by commercial real state	1,403,265,445
h) Past due claims	13,662,937,745
i) High risk claims	9,209,791,330
j) Other assets	6,534,217,605
k) Off balance sheet items	20,502,582,910
Total Risk Weighted Assets	**213,803,815,690**

- **Total Risk Weighted Exposure Calculation Table:**

Particulars	Amount (Rs.)
Risk Weighted Exposure for Credit Risk	213,803,815,690
Risk Weighted Exposure for Operational Risk	11,911,260,498
Risk Weighted Exposure for Market Risk	2,728,807,930
Add: 3% of the total RWE as per NRB directives (6.4 a 9)	6,853,316,524
Add: 3% of the total RWE as Desired level of disclosure requirement has not been achieved (6.4 a 10)	6,853,316,524
Add: additional capital charge of 3% of Gross Income as per NRB directives (6.4 a 7)	3,390,600,000
Total Risk Weighted Exposures	**245,541,117,165**
Total Tier 1 Capital Fund	24,867,422,718
Total Capital Fund	28,157,220,276
Common Equity Tier 1 Capital to Total Risk Weighted Exposures	10.13%
Total Tier 1 Capital to Total Risk Weighted Exposures	10.13%
Total Capital Fund to Total Risk Weighted Exposures	11.47%

3. **Details of Non Performing loan (Total Amount and Net Amount)**

Particulars	Loan (Rs.)
Restructured and rescheduled loan*	-
Sub standard loan	1,008,298,573
Doubtful loans	313,344,594
Bad loan	1,071,917,406
Total	**2,393,560,572**
Provision For Loss	**1,468,727,509**
Net Amount	**924,833,062**

* *Rescheduled/ Restructured loan also considered as NPA as per NRB Directive.*

- **Non Performing Loan Ratio**

Particulars	Ratio
NPA / Total Loan	1.20%
Net NPA / Net Loan	0.47%

- **Movement of Non- performing Assets:**

Particulars	Current Quarter (Rs.)	Previous Quarter (Rs.)	Changes (%)
Non Performing Assets (Gross)	2,393,560,572	1,049,957,554	127.97%
Non Performing Assets (Net))	924,833,062	406,634,771	127.44%

- **Write off of loans and interest Suspense during the quarter :**

Particulars	Amount (Rs.)
Write off of loans during the year	-
Write off of interest Suspense during the year	-

- **Movements in Loan Loss Provisions and Interest Suspense**

Particulars	Current Quarter (Rs.)	Previous Quarter (Rs.)	Changes (%)
Loan Loss Provision	3,632,640,249	2,045,894,343	77.56%
Interest Suspense	732,272,167	280,724,614	160.85%

- **Details of additional Loan Loss Provision:**

Particulars	This Quarter End (Rs.)
Pass Loan	712,324,270
Watch List	49,016,909
Restructuring and Rescheduling	-
Sub-Standard	133,227,149
Doubtful	90,275,937
Bad/Loss	601,901,641
Total	**1,586,745,906**

4. Segregation of Investment Portfolio:

Particulars	Current Quarter (Rs.)
Held for Trading	-
Held to Maturity	32,955,864,730
Available for Sale	2,640,617,640
Total Investments	**35,596,482,369**

Risk Management Function:

Credit Risk

The Bank's credit strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring.

- The threshold of credit proposals that Credit Risk Management unit supervised has been reduced from existing level of Rs. 10 Mio to Rs. 5 million on individual account.
- Post Loan Disbursement Monitoring is being made more effective.
- Credit Risk Management Policy of the Bank has been approved and under implementation.
- Portfolio Analysis of the risk asset exposure of the bank is being carried out.
- The Bank has been using BRR (Borrower Risk Rating Model) model to assess the associated risk with respect to the borrower and have been also making the loan pricing based on the risk based model.
- The bank has established the credit monitoring practice through system developed reports, business site visits.

Credit Risk is the failure of customers (companies, individuals, banks, financial institutions, states etc) to perform their obligation towards Bank. Credit risk is paramount that bank is exposed to during the normal course of lending and credit under writing. Global IME Bank's credit Policy Guidelines is the highest level policy document and it reflects long-term expectations and represents a key element of uniform, constructive and risk-aware culture throughout the Bank in addition to other product paper "Regulatory Retail Portfolio" and "Claims Secured by Residential Property". Number of proactive credit risk management techniques and tools under a broad risk framework used by the Bank is outlined below:

- Credit applications undergo a comprehensive credit evaluation and Bank has procedures for Credit Approval for both retail and corporate credit proposals that ensure appropriate resources and tools are employed for the type of credit assessment.

- Credit proposals are routed through Credit Risk Department with evaluation of underlying risk, where borrowers are classified according to risk grade to reflect the risk of default. Lending authority has not been assigned to the staff under Credit Risk Department and headed by Chief Manager. This department is independent of business unit and directly reporting to Board Level RMC.

- Primary importance is given on understanding and assessing the existing and future cash flows of the business whereas secondary security is taken as fixed asset collateral security and personal guarantee / third part guarantee to support the life of loan as well as cash collateral to the possible extent.

- Once credit proposals are forwarded from Credit Risk Department, underling risks pointed out shall be addressed properly by lending officers with mitigants before approval. Bank is having various level approving authority depending upon proposed limits, inherent risks etc. Credit limits are approved under dual approval system.

- Approved loans are forwarded to Credit Administration Department that administers the post approval processes including review of security documentation, contracts and other legal paper in line with NRB directives, CPG, Product Papers and as per the approved terms and conditions. Credit Administration Department verifies the certification and completion of all formalities and disburses the loan in the system.

- Credit exposures once approved / disbursed are effectively monitored and reviewed on annual basis to determine changes in risk levels. Bank has standard procedures for credit review and monitoring systems, which is documented in Credit Policy Guidelines.

- Early warning signals from customers in financial difficulties are read early and remedial management action is implemented to minimize risk of default / loss.

- Bank reviews and monitors credit on a quarterly basis through diary notes, visit reports, customer's call/visit report and irregularity reports with respect to the management of excesses, overdue payments of principal or interest and past due bills and deficiencies identified therein reported to credit chain. The working capital loans are monitored through verification of statement of current assets provided by the borrower ensuring the utilization of limits are within the approved drawing power.

- Loans are priced appropriately through a Risk Based Pricing model. A template to this effect has been developed and circulated to branches. Relationship managers and Branch managers to identify/compute return on regulatory capital.

- Periodic reviews at portfolio levels are made in order to track performance and changes in quality of loan portfolio. Periodic business evaluation and quality of security / collateral to be done so as to avoid event of any negative downturns in their values. Various credit portfolio analyses to single client group, product and segment wise exposures etc. are reviewed on regular frequency and used to form strategies in future. Compliance of Acts, Policies and Laws promulgated by various governing bodies like Unified Directives, BAFIA, Company Act, Monetary Policy, Muluki Ain, etc. are being ensured.

- Bank has undertaken strategy to grow majority of business in the corporate sector followed by SME/Retail base in the current fiscal year in order to better manage the portfolio risk of the Bank. Product paper on various products have been developed/reviewed on periodic basis with settling of prudential lending limit to a single client / obligor along with portfolio level in different product on corporate level.

- Periodic review on product papers of regulatory retail portfolio, claims secured by residential properties and credit policy guidelines by Risk Management Committee and update as per the requirement.

- Risk Management Committee is constituted by the Board of Directors. Risk Management Committee oversee portfolio analysis, stress testing, existing product papers, policy, procedures on credit, market and operational risk management on regular interval.

Market Risk

ALCO of the Bank have been monitoring the market risk as on date and recently Market Risk Unit have been established to closely monitor the fluctuations in interest rate and price and shall be involved in developing the policies related to market risk management. The strategy shall also be on strengthening Treasury Middle office.

Interest rate risk: Interest-rate risk can be defined as the effect of changes in rates on income and on the market value of an institution's equity position. The effect of changes in rates on income is referred to as income-at-risk. GAP analysis is also one of the methods for measuring the level of interest-rate risk and so is Duration analysis as it focuses on value-at-risk with much more accurate tool for gaining a sense for the potential long term effect of changes in rate on capital. It considers both principal and interest cash flows. With interest rate swap points not being available in our market context, the interest rate hedging is achieved with matching maturities of cash flows.

Market risk and settlement risk: is the risk of adverse deviations of mark-to-market value of the trading portfolio during the period required to liquidate the transactions. The four standard market risk factors are: Equity risk (Share prices/Dividend yields), Interest rate risk (Changes in the yield curve/Credit spreads/Banking book mismatch), Currency risk (revaluation risk/FX rates), Commodity risk (Price of oil, metals) and credit spread risk.

Market risk control mechanisms (Trading book Limit structure):

- Currency exposure limits
- VaR limits
- Dealer level limits
- Asset class limits
- Tenor limits(bonds)
- Liquidity limits
- Counterparty limits
- Open-Position limits
- Rating limits/Inter Bank Limits

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external causes, whether deliberate, accidental or natural.
Operational Risk Management unit under Integrated Risk Management Department oversees the operational risk aspect. Operational risk is inherent in all business activities. Whilst risks can never be eradicated, we follow a number of procedures and practices to manage and mitigate them to preserve and create value of our business. We manage our operational risks through standardization of internal processes and monitoring mechanisms. Staffs allowed participating in various trainings, workshops, conferences in different arena of the banking function to minimize operational risk caused due to lack of knowledge and skills on the part of staffs.

Operational Risk for the current years and previous year has been calculated based on the profit calculated as per previous audited financials.

Compliance Risk

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. The main Compliance Risk components are generally referred to as regulatory, financial reporting and legal risk. We are constantly monitoring and mitigating compliance risk through the adoption of appropriate policies and timely reporting as per the regulatory requirements.

Liquidity Risk

Managing the risk has been integral part of the banking business. Risk can be defined as the degree of uncertainty of future returns as well as transactions. This uncertainty has varied dimensions and therefore can be defined in diverse ways .In present context of financial markets worldwide on account of severe competition, deregulations of interest rates both on lending as well as on deposits and other developments, banks have been increasingly exposed to various types of risk as mentioned below.

Liquidity Risk arises from funding needs during challenging money market conditions. Liquidity risk can be defined as 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. A large government securities portfolio is easily convertible into cash level funds during times of liquidity tightness. Regular stress tests have also help assess hypothetical 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.

- **Types of eligible credit risk mitigants used and the benefits availed under CRM**
  Eligible collateral to reduce the credit risk are Deposit with the Bank and Deposit with Other Banks/FI.