NCC Bank

नेपाल क्रेडिट एण्ड कमर्स बैंक लि.

Nepal Credit & Commerce Bank Ltd.

Your Business Bank

CONTINGENCY FUNDING PLAN 2018

Nepal Credit And Commerce Bank Ltd
Bagbazar, Kathmandu

Approved by:

687th Board Meeting

Held on 28th May 2018 (2075-02-14)

The Board Meeting No. 687th
held on 2075.02.14 (28th May, 2018)
has decided to approve, the

"CONTINGENCY FUNDING PLAN, 2018''

Kapil Gnawali
Company secretary
2075-02-14

BOD : 687 : 1 (GA) : 2075:02:14

CONTINGENCY FUNDING PLAN

1. Introduction

In order to develop comprehensive liquidity risk management framework, banks should have in place plans to address stress scenarios. Such a plan is commonly known as Contingency Funding Plan (CFP). A CFP is a projection of future cash flows and funding sources of a bank under market scenarios including aggressive asset growth or rapid liability erosion. To be effective it is important that a CFP should represent management's best estimate of balance sheet changes that may result from a liquidity or credit event. A CFP can provide a useful framework for managing liquidity risk both short term and in the long term. Further it helps ensure that a bank can prudently and efficiently manage routine and extraordinary fluctuations in liquidity.

Contingency Funding Plan shall be the part of Treasury Management Policy which acts as the guiding principle to utilize the available funds in stress situation simultaneously maintaining adequate liquidity in the bank.

2. Asset Liability Management Information System

An effective management information system (MIS) is essential for sound liquidity management decisions. Information should be readily available for day-to-day liquidity management and risk control, as well as during times of stress. Data should be appropriately consolidated, focused, and available in a timely manner. Ideally, the regular reports a bank generates will enable it to monitor liquidity during a crisis; managers would have to prepare the reports frequently. Managers should keep crisis monitoring in mind when developing liquidity MIS. There is usually a trade-off between managing liquidity risk accuracy and timeliness. Liquidity problems can arise very quickly, and effective liquidity management may require daily internal reporting. Since bank liquidity is primarily affected by large, aggregate principal cash flows, detailed information on every transaction may not improve analysis.

Management should develop systems that can capture significant information. The content and format of reports depend on a bank's liquidity management practices, risks, and other characteristics. However, certain information can be effectively presented through standard reports such as "Funds Flow Analysis," and "Contingency Funding Plan Summary". These reports should be prepared as per the bank's needs. Other routine reports may include a list of large funds providers, a cash flow or funding gap report, a funding maturity schedule, and a limit monitoring and exception report. Day-to-day management may require more detailed information, depending on the complexity of the bank and the risks it undertakes.

Management should regularly consider how best to summarize complex or detailed issues for senior management or the board.

3. Arising of Contingencies

I. Indicators of liquidity problems

Following indicators give warning to the arising of liquidity problems. Bank should take into consideration the contingency funding plan at these cases.

- A negative trend or significantly increased risk in any area or product line,
- Concentrations in either assets or liabilities,
- Deterioration in quality of credit portfolio,
- A decline in earnings performance or projections,
- Rapid asset growth funded by volatile large deposit,
- A large size of off-balance sheet exposure,
- Deteriorating third party evaluation (negative rating) about the bank and negative publicity,
- Unwarranted competitive pricing that potentially stresses the banks.

II. Marketable Assets

The predominant liquid asset is the Bank's holdings of GON bonds and Treasury Bills. These account for over 50% of the Bank's stock of liquid assets. The assets are held for investment purposes and could be converted to cash in the event of adverse circumstances. These assets would be eligible for the SLF or outright sale with same day settlement. For a more prudent approach these marketable assets are included in the liquidity gap analysis at their final maturity date. The bank also has a portfolio of foreign currency assets. These assets may be used as collateral for foreign currency borrowings.

III. Stress Management

Liquidity risk stress test assesses the bank's ability to discharge its liabilities during the stressed events. Adequate portfolio of liquid assets i.e. cash, bank balances, and money at call and investment in government securities shall be ensured to meet daily liquidity requirement.

If a period of potential liquidity stress were identified, the ALCO would monitor the daily positions closely. In adverse circumstances each large future maturity would be examined in the light of prevailing conditions and a more stringent view is taken of likely withdrawals. Contact would be made with large depositors in advance of the maturity date to establish the likely maturity profile. The maturity of a liability is rated as to its likely withdrawal as either high, medium or low. A 'worst case scenario' cash flow would be produced on an ongoing basis and liquidity would be provided to cover the 'worst case scenario' cash flow.

Strategies are put in place to offset liquidity problems that might arise in such circumstances. These strategies would include having a stock of marketable assets available for outright sale or repurchase, reining back lending and having committed funding in place from a number of sources.

ALCO / Chief Executive Officer/ Chief of Treasury Department would decide the best strategy as to the use of the repurchase facilities, the sale of marketable assets, whether lending should be reined back and whether adjustments should be made to the gap limits to provide more short-term liquidity.

A stock of liquid assets shall not be less than 25% of total deposit liabilities. If it becomes less than 25%, bank shall further maintain cash balance at NRB or invest in government treasury bills and development bonds.

4. Provisions of NRB Unified Directives 2074

Following provisions of NRB Directives should be compiled at the event of contingencies:

4.1 NRB Directive No-5(6) issued on 13.08.2074 explains about the provision relating to liquidity risk management. Banks shall classify its assets & liabilities into various time intervals on the basis of their maturity period and submit the report to NRB quarterly. Credit to Core Capital & Domestic Deposit (CCD Ratio) shall not exceed 80% subject to certain exceptions. Banks shall prepare Contingency Funding Plan (CFP) to avail the necessary funds at the time of crisis. BODs and top level management shall study and discuss on the liquidity risk related reports regularly.

4.2 NRB Directive No-13 relates to compulsory cash reserve (CRR). CRR shall be maintained at 6% of the local currency on account of Current, Savings Deposit and Fixed Deposit liabilities. In case of default in maintaining the same, penalties shall be imposed at the normal bank rate, 1.5% and 2% on bank rate of deficit amount for the first, second, third or more times respectively on local currency.

4.3 Statutory Liquidity Ratio (SLR) shall be maintained at 12%. For this purpose liquid assets such as Nepal government securities, amount deposited at NRB for statutory reserve, cash at vault, investment in debentures issued by international financial institutions in Nepalese currency, amount deposited in economic reform fund shall be considered. However, investment in Repo, Standing Liquidity Facilities (SLF) and interbank borrowing are excluded from liquid assets. In case of default in maintaining the same, penalties shall be imposed at normal bank rate, 2% and 3% on bank rate of deficit amount for the first, second, third or more times respectively on local currency respectively.

4.4 According to NRB Directive No-23(10 & 11), the Bank may borrow fund from various options available until the fulfillment of requirement. The inter-bank market is one of the primary sources of liquidity for the bank for which the bank has inter-bank transaction relationship with number of local bank counterparts. These uncommitted facilities and drawings would depend on the available liquidity in the market. These could not be relied upon in stressful market conditions.

4.5 According to Clause 12 of revised NRB Directive No. 5, 2074 issued on 13.08.2074, all the commercial banks shall conduct stress testing by computation of market risk, credit risk and liquidity risk in a regular manner by implementing Stress Testing Guidelines 2012 issued by NRB. BODs and top level management shall discuss on the result obtained from stress testing based on every quarterly ended financial statements. Stress Testing Report shall be submitted to NRB unit within 30 days from the end of each quarter.

4.6 The Chief of Treasury Department shall hold following rights:

1. Instruct credit department either not to further disburse loans or call back the already disbursed loans to maintain adequate liquidity position and to maintain credit deposit ratio to comply the regulatory provisions in stress situation.
2. Advise marketing department to mobilize the deposits in an appropriate way so as to react and to overcome from the stress scenario.
3. Advise management verbally or in written manner to manage adequate liquidity at the event of stress scenario.

The Bank has a Standing Liquidity Facilities (SLF) with Nepal Rastra Bank for short term liquidity management, the amount of which is based on the bank's holdings of Treasury Bills, GON Bonds / amount up to 90% of the Bank's stock of liquid assets. Further the facility can be used as a 'lender of last resort' for maximum of six months against the collateral securities of statutory reserve, government securities and good loans of the bank including the SLF facility.

NCC Bank shall comply with the necessary amendments of the above provisions in NRB directives from time to time.

5. USES OF CFP

NCC Bank shall apply the Contingency Funding Plan 2018 as:

I. Use of CFP for routine liquidity management

For day-to-day liquidity risk management, integration of liquidity scenario will ensure that the bank is best prepared to respond to an unexpected problem. In this sense, a CFP is an extension of ongoing liquidity management and formalizes the objectives of liquidity management by ensuring:

a. A reasonable amount of liquid assets are maintained;
b. Measurement and projection of funding requirements during stress scenarios; and
c. Management of access to funding source.

II. Use of CFP for emergency and distress environments

It is not always that a liquidity crisis persists. It shows up gradually. However, in case of a sudden liquidity stress, it is important for a bank to seem organized and efficient to meet its obligations to the stakeholders. Since such a situation requires a spontaneous action, the bank if already have plans to deal with such situation could address the liquidity problem more efficiently and effectively. A CFP can help ensure that bank management and key staffs are ready to respond to such situations. Bank liquidity is very sensitive to negative trends in credit, capital, or reputation. Deterioration in the bank's financial condition (reflected in items such as asset quality indicators, earnings, or capital), management composition, or other relevant issues may result in reduced access to funding. The management needs to be proactive to handle such situations.

6. Reaction To Contingencies

Treasury Department in viewing high liquidity cash shortage (due to various reasons including contingency withdrawals) or finding better investment opportunities may enter into outright sale of government securities or any form of such instruments issued by NRB or other companies from time to time. This right shall be given to Chief Executive Officer / Chief of Treasury Department or competent authority.

7. Exceptions

All the Exceptions beyond policy will be approved by CEO/ALCO or the Board as the case may be.

Board of Directors:

S.N.	Name	Position	Signature
1.	Mr. Upendra Keshari Neupane	Chairman	
2.	Mr. Iman Singh Lama	Director	
3.	Mr. Chandra Prasad Bastola	Director	
4.	Mr. Madhav Prasad Bhatta	Director	
5.	Mr. Krishna Shrestha	Director	
6.	Dr. Kailash Patendra Amatya	Director	