NCC Bank
नेपाल क्रेडिट एण्ड कमर्स बैंक लि.
Nepal Credit & Commerce Bank Ltd.

MEDIUM TERM CREDIT STRATEGY, 2072-75

Approved by the Management Committee (Board) Meeting No. 535

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MEDIUM-TERM CREDIT STRATEGY, 2072-75

BACKGROUND

This credit strategy has been formulated to provide a brief framework regarding credit related issues in order to achieve the growth target set up by the bank for the years with equal focus towards improving the quality of risk assets, diversification of portfolio, reduction of portfolio volatility, proper management/administration of credit as well as reduction/ management in the non-performing and Non Banking Assets.

Similarly, Monetary Policy issued by Nepal Rastra Bank has required the commercial banks to diversify adequate lending towards productive sector, especially towards agriculture, energy, tourism, cottage & small scale industry, other infrastructure sector and deprived sector. Specifically, the directives require the commercial banks to increase the exposure in the specified sectors up to 20% of total lending of which 12% of total lending require to lend on agriculture and energy sector. Similarly, commercial banks are required to extend 5% of total lending (total exposure of two quarter ago) in deprived sector.

This Medium Term Credit Strategy 2072-75 addresses the bank's policy/strategy as well as productive sector lending strategy. Accordingly, this paper is divided into three Parts viz.

Part I: General Credit Strategy, and
Part II: Lending Growth and Regulated Lending
Part III: Other Credit Strategies

Part I

General Credit Strategy

1. **Title**
   This document shall be called "NCC Bank Medium Term Credit Strategy, 2072-75

2. **Objectives**
   The objectives of this strategy paper are:-
   a) To define a clear-cut strategy in order to manage/enhance the credit portfolio sector-wise and maintain quality of risk assets.
   b) To develop common understanding in achieving the goal set by the bank and using common approach in serving the customer.
   c) To develop common understanding in credit administration
   d) To manage probable risk on credit portfolio of the Bank.
   e) To follow an active credit portfolio management
   Active credit portfolio management is a portfolio management designed to:
   - Diversify the portfolio better

- Manage expected loss, reduce portfolio volatility (unexpected loss) and mitigate probable credit risk
- Improve return/risk based on the higher risk higher return principle
- Use economic capital more efficiently
- Create capacity to do more business
- Penalize illiquid exposures
- Reduce concentration/ excessive origination in single names and/or industry.
- Increase Shareholder value

3. Acceptability

a) This Credit Strategy is an internal document of the Bank, which is prepared for the use of Nepal Credit & Commerce Bank Ltd (NCC). All the provisions of this Credit Strategy shall be applicable to all the branches of the Bank.

b) However, its applicability shall be subject to the Memorandum and Articles of Association of the Bank, Directives of Nepal Rastra Bank and other relevant Acts and Circulars, Directives, Policy issued by the Bank from time to time. The Credit Control Department shall make regular efforts to revise the provisions of this strategy should that warrant on account of the new directives of the Board, Nepal Rastra Bank, or changes in other statutes

c) The Management Committee (Board) of NCC Bank has approved the revision of the Credit Strategy for execution by the bank. This Credit Strategy forming part of the Credit Policy of the Bank has been issued under the authority of the Board of Directors and come into force with immediate effect from the date of internal circular.

d) This Mid-Term Credit Strategy shall be in effect primarily up to close of FY 2074/75 (2017/18). However, review of the strategy/policy will assume a continuous process and amendments will be made as may become necessary depending on the prevailing situation at any point of time during its specified tenure.

4. Sector Wise Strategy:

Enhancing loan exposure towards productive sector has remained prime objective of the bank. This policy would continue during the tenure of this strategic period as well. With the issuance of specific directives by Nepal Rastra Bank to maintain 20% of total lending in productive sectors, it has altogether become an absolute necessity to concentrate and divert the fresh loans. During the tenure of this policy, the Bank shall envisage following overall strategy in the selected sectors mentioned below.

The strategy is inclusive of financing for fixed assets and working capital loan. The business is to be procured directly and/or through participation in consortium wherever necessary.

1) Manufacturing Sector

S.n.	Sub sector	Assumed Policy
1	Textile and Garment	• Maintain existing portfolio • Avoid further financing, particularly in garments
2	Carpet/Handicraft	• Maintain existing customers • Procure few selective new customers
3	Cement	• Maintain existing customers • Procure few selective new customers
4	Pharmaceuticals	• Recover the old due • Procure few selective new customers
5	Iron, Steels	• Maintain existing customers

6	Food Based Industries	• Explore new business units and marketing for the existing business houses on selective basis
7	Metallurgical Industries	• Explore new business units and marketing for the existing business houses on selective basis
8	Other manufacturing units	• Explore new business units and marketing for the existing business houses on selective basis

2) Tourism Sector

S.n.	Sub sector	Assumed Policy
1	Hotel and Tourism	• Recover the old due at best possible • Procure few new loans on selective basis in line with the growth of tourism business
2	Recreation centers	• Procure few new loans on selective basis
3	Tourist services of types	• Procure new loans on selective basis

3) Energy Sector

S.n.	Sub sector	Assumed Policy
1	Hydropower Generation, transmission line and distribution	• Recover the old dues • Explore new business units on selective basis • Participation in consortium , wherever possible • Finance up to Single Obligor Limit if the project is feasible
2	Clean renewal energy including solar power	• Maintain existing customers • Procure few new selective customers
3	Other energy sector	• Procure few new selective customers

4) Other Infrastructure Projects

S.n.	Sub sector	Assumed Policy
1	Infrastructure projects (including BOOT projects)	• Take selective approach for portfolio under this sector • Participation in consortium , wherever possible
2	Mining	• Take selective approach for portfolio under this sector • Participation in consortium , wherever possible

5) Service Sector

S.n.	Sub sector	Assumed Policy
1	Health (Hospitals, clinics etc)	• Maintain existing customers • Take selective approach for portfolio under this sector • Explore new business units and marketing for the existing business houses on selective basis
2	Education (Institution) (Medical College)	• Take selective approach for portfolio under this sector • Explore new business units and take lead role for consortium financing based on the selective regional

		potentiality
3	Information Technology	• Take selective approach for portfolio under this sector
4	Transport except commercial HPs including cable car projects	• Maintain existing customers • Take selective approach for portfolio under this sector
5	Communication, Telecom services plus sale of devices	• Maintain existing customers • Take selective approach for portfolio under this sector
6	Professional services (doctors, lawyers, engineers, accountants)	• Procure selective new customers
7	Other services	• Maintain existing customers

6) Aviation Sector

S.n.	Sub sector	Assumed Policy
1	Airlines	• Be selective in new entrants

7) Real Estate/Land Developments

S.n.	Sub sector	Assumed Policy
1	Real Estate	• Recover the old at best possible level • Be selective in new entrants

8) Housing Sector

S.n.	Sub sector	Assumed Policy
1	Personal consumer Home Loan	• Procure the business from end users
2	Apartment/Housing colony development	• Be selective in new entrants

9) Automotive/Hire purchase

S.n.	Sub sector	Assumed Policy
1	Commercial vehicle	• Reduce the over reliance on commercial vehicles • Avoid financing low quality vehicles • The recovery of defaulting HP customers to be stressed on • Financing for promotion of environment friendly vehicles • New customers on selective basis
2	Personal vehicles	• Procure the business from end users

10) Construction/Contracting sector

S.n.	Sub sector	Assumed Policy
1	Construction Companies/Contractors	• The existing relation should be continued and improved based on the viability of business • New entrants to be entertained on selective basis considering the risk vis-à-vis mitigating factors

11) Deprived Sector

S.n.	Sub sector	Assumed Policy
1	Individual	• Procure the business form end users
2	Group members	• Enhance exposure through Organized institutions and Cooperatives of rural area • Explore rural local cooperatives (like Abhiyan Nepal, Birtamode) through which micro-finance activities may be pushed
3	Institutional Support	• Continue existing relationship • Procure selective Institutions • Participate in new MFIs to be promoted by the bank with others

12) Margin Lending

S.n.	Sub sector	Assumed Policy
1	Loan against Share	• Take selective approach for portfolio under this sector

13) Import Finance

S.n.	Sub sector	Assumed Policy
1	Import of Industrial products (equipment, raw materials etc)	• Maintain existing customers • Procure new customers
2	Import for trading	• Maintain existing customers • Procure new customers

14) Export Finance

S.n.	Sub sector	Assumed Policy
1	All export business	• Maintain existing customers • Procure new customers

15) Trading Loan (Other than import financing)

S.n.	Sub sector	Assumed Policy
1	Wholesale	• Maintain existing customers • Procure new customers
2	Retail	• Maintain existing customers • Procure new customers

16) CSI and MEs

S.n.	Sub sector	Assumed Policy
1	All cottage and small scale industries	• Maintain existing customers • Procure new customers

17) Agricultural Sector

S.n.	Sub sector	Assumed Policy
1	cereal crops, Food grains	• Maintain existing customers

	cultivation	• Procure new customers
2	Jute	• Maintain existing customers • Procure new customers
3	Poultry	• Maintain existing customers • New Projects on selective basis.
4	Sugar	• Recover the old due (outside consortium) • Procure new selective customers
5	Fisharies, Livestock	• Maintain existing customers • Procure new customers
6	Cash Crops and others	• Maintain existing customers • Procure new customers

18) All other sector

S.n.	Sub sector	Assumed Policy
1	All other sectors & purpose loans	• To be advised on case to case basis

The above sector-wise grouping may be readjusted as per requirement.

5. Tenure of Credit Facilities

In general the tenure of funded credit facilities will be as follows:

a. Project Term Loans (fixed assets): As per the proposal facilitating proposed debt service capability. However, the length of such project term loans shall be restricted up to 16 years.
b. Working Capital Loans: Irrespective of the names given, all loans of working capital nature (cash credit, overdraft, demand loans, short term loan etc.) shall have tenure of not exceeding one year. Review and renewal thereafter shall be on merit basis with proper credit underwriting process.
c. Demand Loan: As approved, but not exceeding 6 months.
d. Packing Credit: Up to 3 months or date of LC negotiation, whichever is earlier.
e. Trust Receipt: Up to 120 days.
f. Forced Loan: Following day but not exceeding 3 months.
g. Hire Purchase: As approved. However, the length of HP loans shall be restricted up to 7 years.
h. Home Loan (personal): As approved. However, the length of such home loans shall be restricted up to 20 years.
i. Against Fixed Deposit Receipt: Not exceeding the maturity date of FDR.
j. Personal Loans: As approved, but not exceeding One Year. However, personal loan of term nature shall be up to 5 years.
k. Consortium Loans: As approved by the consortium.
l. Loan against Gold: As approved, but not exceeding One Year. However this category of loan shall be extended on selective basis.
m. Product Paper Loan: As approved in the respective product papers.
n. Existing working capital/short term Loans, on expiry, are renewable as per the terms acceptable to the bank. Similarly, term loans and consortium may be rescheduled/restructured on case to case basis in the terms acceptable to the bank abiding by NRB directives to this effect.

6. **Exposure Limit:**
   a. The management may fix maximum proportion of exposures to be undertaken for each sector/sub-sector mentioned above. As a general guideline, it shall remain the policy of the bank as not to exceed exposures in excess of 10% of its total portfolio in one particular sector.
   b. Similarly, exposure to a specific sector shall be limited to 100 percent of the capital fund of the bank.
   c. Any excessive exposure (10% of total portfolio as well as 100% of capital fund to a specific sector) shall be subject to the approval of the Board of Directors. Such approval may be on case to case basis and/or in principle including through the annual budgetary plan.
   d. The bank shall fully remain adhered to the Single Obligor Limit (SOL) as well as other mandatory directives restricting the sector-wise exposures prescribed by Nepal Rastra Bank at all times.
   e. With a view to achieve the exposure targets, the management may fix indicative targets to individual branches, including application of higher interest rates where the branch exposure in a particular non-prioritized sector exceeds the principally approved target.
   f. Banks three years Productive Sector Lending Strategy is given in the Second Part of this strategy paper

7. **Selection of Clients:**
   a) During past 19 years of bank operation, it has been able to create a sound customer base. Our focus should stretch towards "Mass Banking" i.e. we should be able to serve customer of different class who falls within our criteria of lending. With our wide range of products, we will be serving a small entrepreneur to big business units.
   b) Moreover, our target market/customer will be those who are prominent player in the concerned locality in their business. However, this will not be limited to serving the customer who falls under our criteria of lending.
   c) Identify the retail business financing area (SME's) with the average size of lending size of Rs. 5 million and maximum up to Rs.10 million. However, it will be guided by product paper approved by the Board. With the increasing scope of SME business (to be determined by market trend), this limit shall be revised upward as appropriate under the recommendation of Credit Committee and approval thereof from the Board.
      i. Extensively focusing towards Trade Finance Business- Specifically the import and export financing.
      ii. Increase fee based income
   d) Increase the wallet size of existing customer, if found feasible.
   e) Cross selling of the products of the Bank

8. **Business Assignment to the Branch:**
   a) Each branch of the Bank is considered as independent profit centre. Therefore, the branch should procure further business and new areas of the business looking into overall scenario and opportunities. The proposal received by the Corporate Office shall be advised to the nearest branch center of the branch from the location of the business unit.
   b) Branches are categorically instructed that the chronic loan of the other Banks should not be swapped whatsoever be the expected yield of the loan.

c) Care shall be extended to ensure that a customer/ customer group is served from a single branch, wherever possible.

d) The credit proposals received by the branch should preferably be within the nearest place of the branch center. It will be a wise decision of each branch to refer the credit proposals to the nearest branch from the location of the business centre of the borrower which in turn reduces the administrative cost.

9. Introduction of New Products:

a) In order to streamline the existing portfolio of the bank under consumer loan segment and further enhance the same, different products have been approved and circulated to the branches for the purpose of streamlining the portfolio and reduce processing time.

b) The bank will further formulate new product papers observing the potentiality of business and better credit management.

10. Arrangement of Buffer Limits:

To impart an efficient service to the valued/prime customer/s of the branch/es and to reduce the processing time, branch may, on selective basis having regard with appropriate justification thereof, propose for a Buffer limits (for BB and STL only) additionally on the top of regular limit proposals which shall no longer be advised to the client in their offer letter formally but shall be made available in case of urgency by branch itself provided regular limits are fully occupied. Such unadvised limits shall attract 1% premium rate additionally to the corresponding regular limit. Any irregularity/delinquencies in account performance shall require this facility get suspended forthwith.

11. Security Arrangement:

a) In order to have full compliance in the security documentation, branch officials/Branch Manager should verify the status of security documents once in every year, including site visit and the verification report should be kept in file. There will be zero-tolerance in security documents compliance.

b) Where the exposure is against working capital the branches shall ensure the "drawing power" monthly/quarterly as the approved modality may be on the basis of particulars of net working capital statement submitted as per the specified interval. Branch manager may suspend the "drawing power" to clients who fail to submit the periodic net working capital statement on time.

c) Wherever the bank is involved in multi-banking finance to a business unit, pari-passu arrangement over the hypothecated assets should be explored so that charge over hypothecated assets can be strongly created. Nonetheless statutory arrangements to this effect changing from time to time shall be equally applicable/mandatory in such cases.

d) The existing standard security documents will be reviewed to strengthen its applicability and fresh documents if required, from time to time.

e) The bank shall prefer to obtain first party collateral security.

12. Case-to-Case Approval:

a) No ad-hoc or enhancement in the existing credit facilities shall be provided to the borrower who has overdue principal/interest in any form unless there is justified revival program which is approved by the competent authority.

non-fund based facility to the beneficiary. In such a scenario, bank has to fulfill its commitment by making payment to the beneficiary. In order to avoid tendency of Forced Loan/PAD, proactive steps in making follow ups with the customer should be taken. At the same time, our commitment has to be fulfilled immediately in order to avoid reputation risk.

b) The Bank shall charge highest interest/commission rates in such loans and the borrower should be kept under close monitoring. Timely settlement of such loans should be always prioritized.

c) The Bank shall prefer to exit from the relationship with the customer who repeats the cases on a best effort basis.

d) Notification of Force loan or PAD loan shall be notified to the CEO through Credit Risk Department along with settlement plan enclosed therewith.

14. Collateral Valuation:

a) The securities should be inspected physically by the two Bank staff and one of which must be Branch Manager or Credit In-charge. A site visit report must be prepared and recorded in the file.

b) The real estate property to be accepted by the bank should have minimum road access of 8 ft unless otherwise is expressed by the regulator/statutory bodies or the same is located at commercially important places. Waiver if any, in the issues should be placed with proper justification.

c) Land registered with "Guthi" should not be taken as collateral. However In case of "Pashupatinath Guthi land", the same may be accepted subject to building is constructed in such land and 30% of the value of the land is considered for the purpose of valuation. Waiver if any, in the issues should be placed with proper justification.

d) The branch shall verify/visit the business unit/location and Inspection Report shall be filed.

e) Over reliance on a single valuator will be avoided.

f) Give opinion as to the appropriateness of the collateral and assigned value.

g) Valuation of landed collateral shall be computed based on 70% of market value and 30% of government value. Valuation of landed properties of remote VDCs can also be done by 5 member valuation of the resident peoples. However, value of other fixed assets shall be computed based on depreciated book value of the assets.

15. Collateral Coverage:

a) Normally the fund based credit facility should be covered by 167% of security values. Such securities include real estate collateral security, and/or project fixed assets and/or current assets of the borrowing entity. In case of real estate collateral security this rate of advance is applicable to the Distress Value thereof.

b) In case of Trust Receipt Loan (TR), Bank can finance up to 80% of the value of document against which TR loan is being provided and in case of other Working Capital loans Bank can finance up to 70% of the value of net current assets (NCA) hypothecated to the Bank. However based on regular cash flow analysis, cash conversion cycle, account roll over and past track record this rate of advance may be stretched up to 80% exclusively on merit basis.

c) The competent loan approving authority may relax the security coverage. However, any funded credit limit which has less than 100% security coverage requires reporting to one level higher CAD holder.

c) The competent loan approving authority may relax the security coverage. However, any funded credit limit which has less than 100% security coverage requires reporting to one level higher CAD holder.

d) Standard Hire Purchase for both commercial and personal vehicles/equipment exposures may be only up to 70 percent of the cost of vehicle/ equipment. Cost shall include the expenses to be incurred for bringing in the equipment/vehicle up to the point of delivery (e.g., customs and transport, insurance) and making the vehicle/equipment serviceable (e. g. body building). Such financing may be enhanced up to 80% on case to case basis on the basis of the availability of collateral security and personal reputation/ business relationship of the borrower.

e) In case of the guarantee business, the real estate collateral coverage may vary according to the types of facilities required and also depends on the category of the clients. The following table may be considered as reference.

f) In case of the construction company, the following are the coverage required for the different types of Bank Guarantees.

Type of Customer		**Required Coverage**		
		Bid Bond	**Performance Bond**	**Advance Payment**
Construction Company	A Class	5 % to 10%	40% to 50%	100%
	B Class	10% to 20%	100%	100%
	C Class	20% to 30%	100% to 125%	150%
	D Class	-	-	-
Other Companies		30% to 50%	125% to 150%	150%-167%
Other Guarantees			**Required Coverage**	
Guarantee to Airline Co.			167%	
Guarantee to Revenue Department			167%	
Suppliers' Credit Guarantee			167%	

**Above coverage range is calculated on the Distress Value only if real estate collateral is provided.

g) The above proportion of security shall be calculated less cash margin and placement of bank's Fixed Deposit Receipts.

h) Normally the class of contractor shall be as per the license provided by Government of Nepal.

i) The Board of Directors can delegate the waiver authority on the required security coverage to the Credit Committee or any Committees constituted by the Board of Directors or the Chief Executive in case of deviation to the provisions laid down above.

16. Documentation:

Before allowing any credit facilities, all the required documents, including additional documents as per the sanction letter, shall be executed and incase of genuine grounds where some documents cannot be executed before disbursement of the facility, approval from the competent authority shall be obtained with proper justification. Any lacking in documentation will be viewed seriously.

17. Credit Risk Management/Credit Operation/Credit Administration:

A. Credit Risk Management

a) Credit Risk Management covers both the decision making process and monitoring the credit relationship. The Credit Risk Management can be done through the diversification of loan by managing the loan concentration, securitization and credit derivatives.
b) Internal credit risk rating guideline will be implemented. (draft enclosed)
c) Risk based pricing will be encouraged based on risk rating and grading.
d) Credit risk management committee as well as the integrated risk management committee will monitor Bank's credit and integrated risks. A separate credit risk management unit/department may also be established if so directed by the bank at a later stage. Unless such a separate department/ unit are established, the Credit Administration Unit shall perform the function.
e) Credit and integrated risk management guideline will be prepared and implemented.

B. Centralized Credit Operation Department/Centralize Trade Operation

a) In order to better credit risk management Centralized Credit Operation Department and Centralized Trade Operation Department are established.
b) CCOD will perform all the post approval credit jobs of the bank. The department will be further divided into Credit Support Unit, Security Custodian Unit and Credit Administration Unit.
c) CTOD will perform all the trade related operational works including guarantee business of the bank.
d) Credit Support Unit of CCOD shall perform the pre disbursement jobs such as security documentations, execution and disbursement etc.
e) Credit Administration Unit shall perform CIC related, Limit Insertion, reporting, compliance, advisory and reporting.
f) The department of Corporate Office will be further strengthened in terms of its monitoring, compliance, advisory & reporting.
g) The branches will be encouraged to establish adequate internal control system for effective credit administration.

18. Inspection:

a) The unit and the collateral will be inspected by the branch officials at regular intervals. The real estate property will be inspected once in every year by at least 2 officials of the branch. The business unit will be inspected at least once in every six month and more frequently in case of irregular accounts.
b) Statement of Stock/Book Debts/ Creditors shall be obtained in the interval as provided in approval memo.
c) Hypothecated inventory shall be physically inspected once in every six months and more frequently as the case may require.
d) Hire purchase financed vehicles shall be inspected at least once in six months. Branch shall make recovery efforts, including detention of the vehicle, should the condition of the vehicle found in inspection warrant.
e) Branch shall maintain records showing date of inspection, receipt of periodical stock/receivable statements etc.
f) Report of inspection/verifications shall be filed. Managers and Relationship Officers are encouraged to make note of conversations made with the borrower/related party at

any point of time and file. This would help concerned officials update with the relevant developments.

g) Full compliance of the requirements of Bank's procedural manual for periodic statements to be obtained will be ensured throughout the year.

19. Insurance:

a) Hypothecated inventory, collateral properties shall be fully insured unless waived by the competent authority
b) Insurance records will be kept intact.
c) No policies shall remain expired at any point throughout the year.
d) Insured assets shall cover all risks associate with banker clause.
e) Insured amount shall be at least assets value or loan value which is higher with 10% addition.
f) Insurance policy for the coverage of contractor all risk – CAR (for the construction in progress) of the big projects will be obtained.

20. Financial Statement:

a) The (audited) financial statement of the borrower will be obtained within 3 to 6 months of respective financial year end.
b) Records will be maintained at branch level to track non-submission of financial statements by concerned borrowers.
c) Financial analysis will be carried on for three consecutive years.

21. Firm Renewal/Tax Clearance:

a) The firm renewal/tax clearance or return of the borrower will be obtained within 3 to 6 months of respective financial year end.
b) Records will be maintained at branch level to track non-submission of such documents by concerned borrowers.

22. Renewal/Review of account:

a) Branches shall intimate borrowers as to the expiry of the existing facilities and requiring renewal request with necessary details.
b) Memo for renewal/ review of all loans shall be submitted to the Credit Risk Department at least 1 month prior to the respective expiry dates.
c) Temporary extension, along with valid reasons, shall be taken where regular renewal will take time.
d) The Credit Administration Unit of Corporate Office will monitor balance exceptions on daily basis.

23. Application of additional Interest

a) An additional interest at 0.5% (or the rate as decided by management from time to time) will be levied as <u>compliance charge</u> to the borrowers not fulfilling the terms and conditions of sanction letters within a reasonable time period, as follows:
   i. Submission of inventory/debtors statement is delayed beyond 15 days
   ii. Insurance policy is not procured/renewed beyond 15 days from loan disbursement/expiry date.
   iii. Bank's request for furnishing additional security/reduction in outstanding loan (e.g., margin call/excessive OD than permissible drawing power) is not fulfilled with 15 days from the date of notice.

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iv. Monthly financial statement (audited and provisional) is not submitted within 3 months of fiscal year end. Any genuine delay shall be considered by the management having valid reasons to believe that.
v. Non compliance of any other terms and conditions mentioned in the sanction letter.

b) The above additional interest is in addition to the regular penal interest
c) The fact as to levying additional interest shall be disclosed in the "offer letter".

24. NPA Management:

a) The overdue loan increases the likelihood of the loan becoming NPA. The same can be minimized with timely and regular follow-up measures. When an irregularity is observed, the credit department of the branch shall immediately follow-up the matter and pressurize the borrower for settlement.
b) The legal action is the last resort left with the bank for recovery of loan which cost heavy to the bank. Therefore, in order to cure loan turning in to NPA, proactive measures to be taken.
c) The HP loan, auto loan are generally financed with security interest on the asset financed and recovery of such loan depends up on how well the bank is following up with the borrower.
d) Taking possession of the HP financed assets shall be attempted once the payments become overdue by three installments.
e) Immediate recommendation for blacklisting the borrower shall be restored to if the situation as such warrants.

25. Compliance Monitoring:

a) Compliance to the strategies/policies laid down in this Credit Strategy, Credit Policy Guidelines together with general banking norms as well as the directives/guidelines issued by Nepal Rastra Bank and other regulators/statutes shall remain of paramount importance to all those involved in credit disbursement and administration.
b) Similarly, proper classification of credit facilities is also equally important so as to ensure proper reporting to Nepal Rastra Bank for capital adequacy purpose or general statistics as well as for internal use of the bank.
c) With a view to ensure the compliance of bank's policies and instructions, the Credit Risk Department will prescribe a "check list" as well as "Loan Classification Note" requiring the branches confirming adherence against each credit proposals forwarded to the CRD for approval.
d) Further to above, the CRD may also be issuing instructions to branches that are necessary from the point of view of credit operation/administration, control, including limiting the exposures, and compliance to statutory/regulatory requirements. It shall become obligation/duty of all staff members of the bank involved in credit related works to fully implement such instructions.
e) CRD may refuse to process proposals that are not in compliance with the laid down instructions. Repeated/serious non-compliance of instructions by the branches shall be liable to be noted for initiating disciplinary action.

26. Credit Approving Authority (CAD):

a) The Board of Directors of the bank shall remain the ultimate Credit Approving Authority.

b) Credit / Recovery Committee constituted by the Board of Directors shall exercise the authority of approving funded and non-funded credit facilities as may be delegated by the Board.
c) The Chief Executive Officer shall exercise the authority of approving funded and non-funded credit facilities as may be delegated by the Board.
d) The Chief Executive Officer may delegate CAD onto his/her subordinate executives/branch managers by the level of position held and/or in personal names at will with or without stipulating any special terms/conditions.
e) The Board of Directors, Credit Committee or any Committees constituted by the Board of Directors or the Chief Executive Officer shall not be restricted to take any decision even in deviation to the provisions laid down in this strategy in case of necessity.

27. Amendments in Credit Strategy:

a) This Credit Strategy of the bank shall stand amended as may be required by the content of NRB circulars/directives.
b) Clear policies/procedures for margin type lending as well as Credit Sale/ Purchase/ Repurchase & Takeover will be defined and incorporated in the Credit Strategy as and when required.
c) The Credit Strategy shall be reviewed after the specified tenure or as the prevailing situation may warrant.

28. Repeal and save

a) Credit Strategy-2067-70 has been repealed. All acts performed under the said strategy shall be considered as performed under this Medium-Term Credit Strategy 2072-75.

Part II

Lending Growth and regulated lending

Under millennium goal, Government of Nepal has set target to upgrade from Least Developed Nation status to developing nation status within 2015 AD which require 8% growth rate in GDP. Based on above data NCC Bank is projected to:

- Increase total loan and advances at least by 20% each year of strategic period or 4 times of GDP growth percentage.
- Market share of will managed to increase up to 3%,
- Maintain NPA level below 1%,
- Maintain Spread rate around 3%-4%,
- Achieve regulatory requirement under Deprived Sector, Agriculture and Energy Sector and Productive Sector, and
- Build foundation for Basel III Implementation

Strategies and targets set out in this paper is liable for alteration/change as may be necessary in due course so as to ensure the attainment of the target within the given timeframe.

29. Current Status and Projection

Figure in million

Projection	Actual Poush 2072	Projection			
		Revised Ashadh 2073	Ashadh 2074	Ashadh 2075	Ashadh 2076
Loan and Advances	21,726	22,378	26,853	33,567	41,958
NPA	1.30%	1%	0.75%	0.75%	0.75%
CD Ratio (Credit/Deposit)	74.58%	80%	80%	80%	80%
Deposit Mobilization	26,636	27,972	33,567	41,958	52,448
Spread Rate (%)	3.92	4.00	4.25	4.50	4.50
Deprived Sector Lending (%)	5.07%	5%	5%	5%	5%
Agriculture and Energy (%)	16.68%	17%	17%	17%	17%
Productive Sector (%)	25.05%	25%	25%	25%	25%

30. Underlying Assumption

2.1 Resource Mobilization

In comparison to F/Y 2066/67, NCC Bank has achieved 100% growth in deposit mobilization to 21 billion in 2069/70 in three years. To maintain 80% C/D ratio during projected period total growth rate in deposit mobilization is projected to 72 % in 2073/74 in comparison to 2070/71. The deposit base is expected to be attained on account of normal increment as well as through branch expansion.

2.2 Lending Activities

Growth in lending is achieved 100% increment in three years to 16 billion in f/Y 2069/70. Total growth in lending for next three is 72% of lending as at 2073/74 which is around 20% growth in each year.

2.3 Capital Fund

In addition to the increment in deposit basis and lending the bank will need to enhance its capital base accordingly. As per NRB directives, NCC Bank is required to increase its paid up capital base to 8 billion within Ashadh 2074.

Policy: The bank has paid 16.84% returns in F/Y 2071/72 and expected to pay minimum 20% returns to the shareholders in each successive F/Y. Accordingly, bank will follow the policy of paying Bonus share till the bank's paid capital will not marked as the requirement set by NRB. The bank could significantly expand its business with the given capital base and hence further appreciation through issuance of bonus shares would not be necessary and warranted. In a situation where bank could not attain its capital base as set by NRB directives, the bank will approach for merger/acquisition to increase capital base.

The projected capital base as above will comfortably accommodate the business expansion plan of the bank.

In terms of revenue, the bank will be ensuring adequate return on its loan portfolio remaining well within the NRB guidelines on interest spread and maintenance of liquidity. For projection purpose, a general assumption as to attaining operating profit at 3% of total loan portfolio has been made.

Limitations: The assumptions as to attaining profitability as well as distribution of dividend (bonus shares and cash) entirely depend on the successful write back of NPA provision and disposal of above NBA. Delay in recovery/disposal of the same would require separate planning as to the attainment of requirement of minimum capital fund. However, since the expected business volume remains quite normal, the execution of the business plan as per this paper would not be hampered

31. Branch Expansion

The bank shall expand/relocate its branch network more in coming years to expedite its target growth.

32. Regulated Lending Strategy

Regulated lending strategy is required on following sector as follows:

Sector	Definition	Current Status
1) Deprived Sector	Lending to Deprived people (direct and indirect lending)	5.07%
2) Agriculture and Energy	Lending to Agriculture sector defined on NRB 9.3 Report	16.68%
3) Productive Sector	Lending to productive sector including Agriculture, Energy, Tourism and Other Cottage and small scale industries	25.05%

1. Deprived Sector Lending

Deprived sector is defined as person or group of person having low level of income and socially backward people or group of people, women, indigenous, Dalit, physically disable people, marginalized community and small farmers, kaligadh, labour and people having no land ownership.

Bank is required to lend given (%) of total loan and advances as of six month before the current quarter.

Year End Closing	Total Loan	Req. (%) ***	Required Amount *	Increment
Poush 072	21,726	5.00%	1,072	-
Ashadh 2073 *	22,378	5.00%	1,158	8.00%
Ashadh 2074 *	26,853	5.00%	1,389	20.00%
Ashadh 2075 *	33,567	5.00%	1,667	20.00%
Ashadh 2076 *	41,958	5.00%	2,001	20.00%

** Total loan figures are projected figures.*

*** Assumption is that from next year total requirement will increase to 5%*

Current exposure in this sector is 1,072 million which need to increase up to 2,001 million in next three years which is almost 87% increment of current exposure. Accordingly, whole deprived sector lending exposure has been made through indirect lending. In this ground, bank need to explore more business opportunities through direct as well indirect lending.

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Under direct lending, the bank shall lend to deprived people directly by launching different deprived sector lending product such as NCC Foreign Employment Loan, NCC Small Agriculture Loan etc.

Indirect lending shall be extended through wholesale lending to micro finance financial institutions and co-operative working in rural areas and NGOs which have license to work for micro-credit activities. Since, the bank has not specialization in direct lending, indirect lending shall prefer.

Currently, the bank has been lending to "D" class financial institutions. In the scenario of increasing volume of loan, band shall explore more micro financial institutions in future. In addition to that bank can extend deprived sector lending to co-operatives and NGOs established in rural areas. However, separate guidelines shall be developed for lending to co-operatives and NGOs. The bank requires monitoring indirect lending in half year basis.

2. Agriculture and Energy

Current exposure in Agriculture is 10.73% where as Energy sector lending is 6% of total loan. Total exposure as at Poush 2072 is 16.73%. As per NRB directive, the bank needs to extend its lending in Agriculture and Energy sector to 12%. Looking at current exposure the bank shall maintain its lending in this sector of 13% throughout the period however in Energy sector, the bank shall increase lending in this sector up to 10% of total loan.

1) Agriculture

(a) Livestock and livestock Services:

(b) One of the prospective areas for growth under Agriculture sector has been identified as Livestock/livestock Services. The change in consumption habit of the people of Nepal, poultry farming, piggeries, goat/buffalo farming etc. has also grown quite satisfactorily over the period. Also considering a satisfactory note that the country has started to export meat product in the recent past the future prospect of this industry seems good. The Bank's experience of lending in this sector over the period has also been satisfactory. The bank will adopt cautious growth strategy in this sector and look for procuring some new good accounts. The bank will increase exposure on existing good clients and book few new accounts on selective basis. Narayangarh, Banepa, Thankot, Butwal, Biratnagar, Siddarthanagar will be encouraged to grow the portfolio in this sector looking into the prospect of this industry in these areas.

(b) Other Agriculture and Agro Services:

Another area for growth is other Agriculture and Agro Services. Nepal being an agriculture country there is a good scope for growth in this area. The bank will increase exposure level on the existing established units and book few new accounts engaged in agriculture product processing units viz rice, oil and other agriculture product processing units. Our current exposure in this sector is 8.20% and aim to increase the exposure over the period of three years. Birtamod, Biratnagar, Birgunj, Kalaiya, Siddharthanagar, Mahendranagar, Narayangarh and Kathmandu Main Branch will be encouraged to increase our exposure in this area.

(c) Dairy and forestry:

The bank will also adopt a strategy to increase its exposure in dairy and forestry sector as well. Considering very small current exposure in these areas, bank will adopt a strategy to procure some new units involved in cow and buffalo farming, milk collection units, milk processing units, herbal collection units and processing units, manufacturer of goods using raw materials from forest viz. kattha processing, lokta processing, wooden furniture, etc. These activities shall be conducted from all the Branches of the Bank and the new accounts will be booked on a selective basis.

2) **Energy**

(a) Water Resources

The bank will adopt a grow strategy mainly on financing Hydro-Power Development Projects. Considering the country's immense prospect in development of Hydro-Electricity and current production level there is a big scope for development in this area. Further being capital intensive, a single Bank cannot finance for the single project. Hence it will continue to adopt grow strategy in this sector under the consortium arrangement with other Banks. Being larger exposure sector, and most probably under consortium, some of the A+ Branches will be assigned to grow the exposure in this sector.

(b) Solar Power:

The Bank will adopt a grow strategy to increase its lending in Solar Power Sector. Solar power generation has been popular these days in Nepal. Several projects are up-coming for development of alternative energy targeting the urban and rural areas. The development agencies are also providing financial assistance for development of solar and other alternative energy targeting mainly rural areas as well as urban areas. Our target will be to increase exposure to solar power development companies, fabricators and manufacturing units. The Bank will adopt a grow strategy for financing in this sector up to 1% of total loans. The Bank will put serious efforts to procure few fabricating, manufacturing units within this sector. As these type of units are concentrated within Kathmandu Valley, Kathmandu Main branch and New Road Branch will be assigned to look into these sectors.

(c) Gas/Bio Gas:

The Bank will adopt a grow strategy on few new LPG Gas plants. The Banks current exposure in this industry is 0.03% and bank have targeted to increase exposure in this sector up to 0.5% of total loans and advances. The industry is expected to grow in the years to come with the urbanization of the country and change in life style of the people. Pokhara Branch, Kathmandu Main Branch and Narayangarh Branch will be assigned to increase exposure in this sector

3. **Productive Sector**

Productive sector includes Agriculture, Energy, Tourism and Small scale industries. Current exposure in this sector is 25.15% (NRB 17.1). As per NRB directive, total requirement is 20% of total loans. Since total loan has been projected to increase by 20% each year; total exposure in this sector shall also need to increase accordingly. Projection for next three year shall be 25% in projected period.

(a) Tourism:

As of POUSH 2072, the bank has exposure of Rs. 625 million (2.87%) in this sector. The bank has been gaining experiences with respect to its larger exposures in star hotels under the consortium. Since insurgency is over in the country, follow of international tourist as well domestic tourist increasing in number. The enthusiasm is high and accordingly investment in tourism sector is bound to grow. The bank will make every effort to support the sector, in large as well as smaller projects/activities.

(b) CSI/SME Sector:

(a) Handicraft:

Handicraft is one of the potential sectors for export and can be a source of foreign currency to the country as well to the Bank. The Bank will take a strategy to grow this sector in line of growth of the industry. However considering the slow growth of the industry the bank will adopt cautious growth in this industry and will procure few new units on a selective basis. Kumaripati Branch, New Road Branch, Kathmandu Main Branch, Butwal and Birgunj Branch will be assigned to increase portfolio in this sector.

(b) Sewing and Weaving:

The bank will adopt grow strategy in this sector mainly in woolen carpet weaving. We will target few new established carpet weaving units. Chabahil Branch, other Kathmandu Valley Branches and Pokhara Branch will be assigned to increase portfolio in this sector.

(c) Printing and Publishing:

Printing and publishing has been identified as one of the prospective sector. We will adopt grow strategy in this sector and few new units will be procured over the period of next three years on a selective basis. All the Branches of the Bank will be encourage to increase exposure in this sector on selective basis.

(d) Leather Products:

The bank will adopt a grow strategy in this sector at the present exposure rate. Few new selective leather goods manufacturer will be procured to maintain current exposure percentage. Kathamdnu Main Branch, Biratnagar and Birgunj Branch will be assigned to increase exposures in this sector.

(e) Fabricated Metal Products :

The bank will adopt grow strategy in this sector to maintain Banks exposure at the present exposure level. Few new metal utensils, metal decorative items manufacturer will be procured over the period. Kumaripati Branch, Birgunj Branch, New Road Branch and Butwal Branch will be assigned to increase exposure in this sector looking in to the prospect of the industry in these areas.

(f) Other Cottage and Small Industries:

As has already been mentioned in the preceding paragraph the Bank will adopt to increase its exposure in the SME's sector by establishing separate unit at the corporate level. The banks current exposure on Cottage and Small industry is 4.84% and the bank intend to increase exposure level up to 5% of total loans and advances of the Bank. The Bank has introduced a product paper on SME's which will help to increase the exposure in this category of lending. All the Branches of the bank including new branches to be established will be encourage to increase lending in this sector.

33. Lending Strategy (sector wise)

As per NRB directive 3, the bank is not allowed to extend loan and advances (funded and non-funded) beyond 100% of core capital as of immediate last quarter. Additionally, the bank is also restricted to lend upto 25% of core capital as of immediate last quarter to a single or group of single customer i.e. SOL is 25% of core capital. SOL for manufacturing firm/company is 30% and 50% for Hydropower Company with condition that PPA has been signed. However, the bank is not restricted to lend beyond 100% of core capital in single sector but needs ratification by the board of directors.

In this scenario total lending will increase by 20% each strategic period, some sectors have been identified to increase more than 20% where as some sectors shall have been contracted based on possibility of business expansion and NPA level in such sector.

In addition to productive sectors described above, sectors which are identified as expansion are:

(a) Agriculture, Forestry and Beverage (Packaging and Processing):

Current exposure in this sector is at 8.48% of total loan with NPA of 83 million (0.38%). The sector includes Food Processing, agricultural primary products processing such as sugar, tobacco, lumber woods, and beverages etc. Despite of NPA of Krishna Modern Dal, the bank will increase lending in this sector with 30% increase in next three year each. Total exposure in this sector will reach 9.64% at the end of strategic period. Processing of primary agricultural products shall be given priority in selection of client base. Additionally, exposure in Alcohol shall be contracted as possible. The bank will ratified the lending in this sector where total lending crosses the core capital of the bank.

(b) Non-food Production Related:

Current exposure in this sector is at 13.41% of total lending with NPA of 45 million (0.21%). The sector includes manufacturing of handicrafts, textile & garments, paper & allied, printing and publishing, medicine, refine oil and coal products, leather, plastic, cement, stone, clay & glass, metal-iron and steel, metal-plant and machinery and other miscellaneous production. Manufacturing sector is back bone for growth of economic activities in the country. Current exposure in cement and iron & steel are at 3.42% and 1.58% respectively. Assumption is that construction work in the country ever growing and investment in infrastructure projects will grow, the bank will increase its lending in these sectors to 10% of total lending together. Lending activities in this sector is vital. Looking at the NPA level of 0.21% (Anil textile: 0.16%), the bank will increase lending

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activities in this sector by 30% which will reach 15.26% of total lending at the end of strategic period. The bank will ratified the lending in this sector where total lending crosses the core capital of the bank.

(c) Construction:

Current exposure in this sector is at 11.42% of total lending with NPA of 12 million (0.05%). This sector includes construction residential as well non residential houses and heavy construction. Proportion of residential and non residential construction is 8.73% of total loan. The bank will solicit new customers on selective basis to increase its lending to 15% of total loan. However, exposure in heavy construction shall cautiously increase on selective basis. The bank will increase its lending on this sector by 30% in each strategic year with total increment at the end of strategic period wil be 13.05% of total lending.

(d) Energy, Electricity, Gas and Water

Current exposure in this sector is at 4.08% of total lending with nil NPA. This sector includes Hydropower, Solar (renewal energy), Gas and water. Out of 4.08%, lending in hydropower is at 3.95%. The country has not supplying enough electricity as per demand and running through load scheduling. In this scenario, the bank will increase its lending target in hydropower sector by 50% in each strategic year and will targeted to increase its lending up to 7.14% of total lending at the end of strategic period.

(e) Metal Production, Machinery & electronic equipment

Current exposure in this sector is at 1.95% of total lending with nil NPA. This sector includes fabricated metal products, machinery tools, electric equipments, home appliances, communication equipments and medical related equipments. The bank will adopt status quo, increase by 20% in each strategic year. Total exposure at the end of strategic year will be 1.75% of total lending.

(f) Transport, Communication and Public Utilities:

Current exposure in this sector is at 8.93% of total lending with NPA 4 million (0.12%). This sector includes transport related vehicles and communication related services. The bank will adopt status quo strategy (20% increases in each strategic year) for this sector. Total lending will be remains 7.99% of total loan at the end of strategic period.

(g) Wholesaler, retailers and Importers

Current exposure in this sector is at 21.93% with NPA of 31 million (0.14%) and 161% of core capital. The sector is already crossed 100% of core capital. Lending this sector need to ratify from the board of directors and shall make decision regarding for further enhancing the lending activities in this sector. The bank will adopt both increment as well as decrement strategy in the strategic period. All NPA shall be recovered in the period. However, the bank will maintain its current exposure in this sector. Increment of 30% in each strategic year will maintain its exposure of 24.94% of total lending at the end of strategic period. The bank will ratified the lending in this sector where total lending crosses the core capital of the bank.

(h) Finance, Insurance and Real Estate:

Current exposure in this sector is at 6.80% with NPA of 83 million (0.38%). This sector contains lending to "D" class micro finances, Co-operatives and real estate exposures. Whole 1.01% NPA is from real estate exposures. Therefore, further enhancement of real estate exposure is restricted and recovery of NPA shall be put forward. Exposure of "D" class BFIs (deprived sector loan) is at 4.48% of total loan which need to increase gradually to comply with regulated lending in deprived sector. Throughout the strategic period, the will maintain its lending on deprived sector minimum of 5% of total lending.

To meet this level, the bank will increase its lending deprived sector by 30% each strategic year

(i) Hotel and Restaurant:

Current exposure in this sector is at 2.87% of total lending with nil NPA. This sector is also a part of productive sector lending. Therefore, the bank will adopt increment strategy by 30% each strategic year. The clientele base shall be on selective basis. If possible, consortium lending shall be given priority. With this increment total exposure will be 3.27% of total lending at the end of strategic period.

(j) Other Services:

Other services include exposure on service providers such as hospital, clinics, and educational services. Total exposure in this sector is at 5.34% of total lending with NPA of 1 million. The bank will adopt increment strategy with 20% increment in each strategic year. Total exposure at the end of strategic period will be 4.78% of total lending. However, selection of clientele base shall be strictly followed with good net worth of promoter/director, quality of education etc.

(k) Consumption Loan:

Consumption loan includes FD loan, Gold loan, personal auto loan and share loan. Current exposure of this sector is at 2.92% of total lending with NPA of 0.21 million. There is nil NPA for Gold and FD loan due provision of NRB not to classify these loan under NPA even when there is due. However, whole 0.21 million NPA is part of vehicle loan. A prudent product for lending on share is developed to minimize risk of lending. It has been observe that there are remarkable amount of due in gold loan. Therefore, loan for consumer (end user) and trading purpose shall be separated to minimize the risk inherent with type of customers. The bank will maintain its exposure in this sector at 3.32% of total lending at the end of strategic period. However, share loan shall be recovered as soon as possible.

(l) Other Loans:

Other loans includes loan which can not identified as particular loan type mentioned above. These loan are, basically, personal loan, easy loans etc. Current exposure in this sector is 7.46% of total lending with 0.09% NPA. The bank will adopt the policy every loan will classify as prudent as possible. No loan will be classified as other loan as possible. The will adopt contraction strategy for this sector for strategic period.

34. Lending Strategy (Risk Weighted Assets wise):

NRB has circulated Basel II framework to calculate risk weighted assets in order to calculated capital adequacy ratio (CAR). The Basel II framework has segregated the banking risk as Credit risk, Operational risk and Market risk. In credit risk, the framework identifies 11 type of credit risk which applies different weigh-age (%) of risk inherence. They are:

1. Claim on government & central bank
2. Claim on other official entities
3. Claim on Banks
4. Claim on corporate and securities firms (100%):62% of total loan
5. Claim on regulatory retail portfolio (75%):14% of total loan
6. Claim secured by Residential properties (60%):6% of total loan
7. Claim secured by commercial real estate (100%):4% of total loan
8. Past due claims (150%):2% of total loan
9. High risk claims (150%):5% of total loan
10. Other assets

11. **Off Balance sheet items**

Out of these, this strategy paper covers 4, 5, 6, 7, 8, 9 and 11. There is proportionate relation between risk weight-age assets and capital charge. Currently, for fund based, lending on domestic corporate is 66% of total lending which apply 100% risk weight. It has been observed that proportion of lending on regulatory retail portfolio (RRP) and claim secured by residential properties (RP) is very small (20%).

However, High risk claim which is 5%. The bank shall develop separate product paper to include gold loan and FD loan in RRP. After inclusion of gold loan and FD loan in RRP, granularity criteria (ceiling for inclusion in RRP is 0.5% of total RRP) of RRP will increase accordingly and low level of capital charge will apply.

The bank will increase the lending base for RRP and RP to 30% of total lending in the strategic period by soliciting new clients and converting existing clients into retail loans which meet such criterion.

Past due claims which includes all regular NPA and account having NPA status in last two year is 2% of total lending. The bank will recover the NPAs in the strategic period.

High risk claim includes share loan, personal guarantee loan and all remaining loans which are not included in above RWA. The bank will develop product paper for these loans to include in RRP criteria.

For non fund based, contingent liabilities for short term commitment and long term commitment are 1639 million and 667 million which attract 50% and 20% capital charge. The bank will adopt minimization of unutilized commitments in appraising the credit proposal appropriately.

35. Lending Strategy (security wise):

Currently, 68% of total lending is secured by landed properties, 11.31% is secured by vehicles registered in the name of the bank, 5.32% is secured by hypothecation over current assets. The will continue the strategy to secured the lending as possible by the landed and fixed assets.

Part III

Other Credit Strategy

36. Credit Operation, monitoring and Administration

Separate department for centralized credit operation has already established. The detail function and procedure for operation of the department also approved by the management. Currently, the department is not in operation in full fledged functional as described in the approval. The department will be in complete operation in full fledged by the end of upcoming strategic years,

37. Loan Recovery

Loan recovery included recovery of NPA, NBA and written off accounts.

Current level of NPA is 283 million 1.30% of total lending. The bank will downsize its NPA level in next three strategic years to 1%, 0.75% and 0.75% respectively.

Current level of NBA is 560 million including 441 million of Harisiddhi Brick, DNS Investment of 116 million and 3 million of Shakti Auto. The bank will recover all the NBAs during the period of strategic period.

Total written-off loan the bank is 1449 million which includes 551 million of principal and 898 million of interest. Total number of 118 clients has been written-off. The bank has circulated recovery manual. The bank will file cases of all written-off accounts in the court (appellate or DRT) wherever seems appropriate in the strategic period.

38. Internal Credit Risk Rating Framework

The bank has already designed system for internal credit rating framework pending approval from the board of directors. After approval from the board, the framework shall be implemented forthwith.

39. Stress Testing

Stress testing has been calculated as per guidelines designed by NRB on monthly basis. However, this will further be guided by the methodology devised in Risk Management Guidelines.

40. Risk Management Guidelines

Risk management guidelines shall be finalized. The guidelines will be the key document to minimize the risk associated with the business of the bank.

41. Human Resource Development Strategy

The bank will develop efficient human resource in order to achieve its strategic goal. Proper and effective training will be organized for the credit appraisal analysis, credit operation, credit related legal documentation, administration, monitor and compliances.

42. Build foundation for Basel III implementation

Basel III is a global regulatory framework for more resilient banks and banking system. Implementation of Basel III is very crucial to protect interest of public stakeholders as well as develop public confidence in the banking system. Since, Basel II does not cover all the risks prevailed in the market such as liquidity risk, leverage risk, counter cyclical risk etc, implementation of Basel III will be necessary in future. In this connection, NRB has issued a framework regarding implementation of Base III from 2015 onward in commercial banks.

To deliver compliance against Basel III, the banks must now ensure that risk and finance teams have quick and easy access to centralized, clean, and accurate data. This data must reflect their bank's credit, market, concentration, operational, impairment, and liquidity risk.

The bank will form Basel III implementation committee consisting of department heads of all risk units of the bank such as credit, operation, market and finance or representatives nominated by them. The committee shall study the requirements for Basel III and shall build database for it.

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Sector Distribution of Loan and Advances as at Poush 2072

Figure in million

S.N.	Loan Sector	Loan	NPA	% age of Loan	NPA (%)	% of Core Capital	Growth by	Fiscal Year		
								2073-74	2074-75	2075-76
1	**>> Agricultural and Forest Related**	**780**	-	**3.59%**	-	**26.49%**				
1.01	Crop and Crop Services	52	-	0.24%	-	1.75%				
1.02	Vegetables	0	-	0.00	-	0.00				
1.03	Tea/Cofee	22	-	0.10%	-	0.74%				
1.04	Tobacco	-	-	-	-	-				
1.05	Jute	109	-	0.50%	-	3.70%				
1.06	Other Cash crops	-	-	-	-	-				
1.07	Fruits & Flowers	-	-	-	-	-				
1.08	Cold stores	-	-	-	-	-				
1.09	Fertilizer & Insecticides	-	-	-	-	-				
1.10	Animal husbandry / Slaughter house	86	-	0.40%	-	2.93%				
1.11	Poultry	424	-	1.95%	-	14.40%				
1.12	Bee Keeping	-	-	-	-	-	**As per Productive Sector Lending**			
1.13	Other Agricultural and Agro Services	73	-	0.34%	-	2.47%				
1.14	Irrigation	-	-	-	-	-				
1.15	Forestry	14	-	0.00	-	0.00				
2	**Fishery**	**22**	-	**0.10%**	-	**0.76%**				
3	**>> Mining Related**	**146**	-	**0.01**	-	**0.05**				
3.01	Metal and Ore (Iron, Lead etc.)	138	-	0.01	-	0.05				
3.02	Coal	5	-	0.00	-	0.00				
3.03	Limestone	-	-	-	-	-				
3.04	Magnetite	-	-	-	-	-				
3.05	Chalk (Talc)	-	-	-	-	-				
3.06	Oil and Gas Extraction	3	-	0.00	-	0.00				
3.07	Other Mining and Quarrying	-	-	-	-	-				
4	**>> Agriculture, Forestry & Bevarage**	**1,841**	**83**	**8.48%**	**0.38%**	**62.51%**	30%	2,394	3,112	4,045
4.01	Food Processing(Packaging & Processing	1,014	83	4.67%	0.38%	34.44%	Total Loan	10.93%	11.96%	12.96%
4.02	> Agricultural and Forest products	591	-	2.72%	0.00%	20.06%	Core Capital	62%	67%	72%
4.021	Sugar	100	-	0.46%	-	3.39%				
4.022	Tobacco Processing	-	-	-	-	0.00%				
4.023	Lumber and Wood Products/Furniture	470	-	2.16%	0.00%	15.95%				
4.024	Others	21	-	0.10%	-	0.72%				
4.03	> Beverages(Beer, Liquor, Soda etc)	236	-	1.09%	0.00%	8.01%				
4.031	>Alcoholic	236	-	1.09%	0.00%	8.01%				
4.032	>Non Alcoholic	-	-	0.00%	-	0.00%				
5	**>Non-food Production Related**	**2,913**	**45**	**13.41%**	**0.21%**	**98.90%**	30%	3,788	4,924	6,401
5.01	Handicrafts	58	-	0.27%	-	1.97%	Total Loan	17.29%	18.92%	20.50%
5.02	Textile Production & garments	129	36	0.59%	0.16%	4.37%	Core Capital	97%	106%	114%
5.03	Paper & Allied Products	143	-	0.66%	-	4.86%				
5.04	Printing & Publishing	55	-	0.25%	-	1.85%				
5.05	Medicine	63	7	0.29%	0.03%	2.15%				
5.06	Refined Oil & Coal Products	-	-	0.00%	-	0.00%				
5.07	Resin & Turpentine	-	-	-	-	-				
5.08	Rubber Tire	16	-	0.07%	-	0.54%				
5.09	Leather	119	-	0.55%	0.00%	4.04%				
5.10	Plastic	211	2	0.97%	0.00	7.16%				

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5.11	Cement	742	-	3.42%	-	25.19%				
5.12	Stone, Clay and Glass Products	550	0.49	2.53%	0.00%	18.68%				
5.13	Other construction related	49	-	0.23%	-	1.66%				
5.14	Metals-Basic Iron & Steel Plant	343	-	1.58%	-	11.65%				
5.15	Metals-Other Plant / Workshop	8	-	0.04%	-	0.27%				
5.16	Miscellaneous Productions	427	-	1.97%	-	14.50%				
6	**>> Construction**	**2,492**	**12**	**11.47%**	**0.05%**	**84.59%**	30%	3,240	4,211	5,475
6.01	Residential (Residential Purpose)	1,727	5	7.95%	0.02%	58.63%	Total Loan	14.79%	16.18%	17.53%
6.02	Non Residential (Commercial Purpose)	170	-	0.78%	-	5.76%	Core Capital	83%	90%	98%
6.03	Heavy Construction(Highway, Bridge	595	6	2.74%	0.03%	20.20%				
7	**>> Energy, Other Electricity, Gas and W**	**887**	**4**	**4.08%**	**0.00**	**30.13%**	50%	1,331	1,997	2,995
7.01	> Energy	867	-	0.04	-	29.42%	Total Loan	6.08%	7.67%	9.59%
7.011	Hydropower	857	4	3.95%	0.00	29.11%	Core Capital	34%	43%	53%
7.012	Renewal Energy	9	-	0.04%	-	0.31%				
7.02	Other Electricity Services	0	-	0.00%	-	0.00%				
7.03	Gas and Gas Pipeline Services	6	-	0.03%	-	0.19%				
7.04	Water	15	-	0.00	-	0.01				
8	**>> Metal Prod, Machinary & Electronic Eq**	**424**	-	**1.95%**	**0.00%**	**14.41%**	20%	509	611	733
8.01	Fabricated Metal Products	204	-	0.94%	-	6.94%	Total Loan	2.32%	2.35%	2.35%
8.02	>Machinery Tools	23	-	0.00	-	0.79%	Core Capital	13%	13%	13%
8.021	Machinery-Agriculture related	6	-	0.03%	-	0.19%				
8.022	Machinery-Construction, Oil, Mining	-	-	-	-	0.00%				
8.023	Machinery-Office & Computing	-	-	0.00%	-	0.00%				
8.024	Machinery-Others	18	-	0.08%	-	0.60%				
8.03	Electrical Equipment	32	-	0.15%	-	1.09%				
8.04	Home Appliances & Other durable good	27	-	0.12%	-	0.91%				
8.05	Communication Equipment	86	-	0.40%	-	2.92%				
8.06	Electronic Components/ Assoccesories	25	-	0.11%	0.00%	0.83%				
8.07	Medical Related Equipment	24	-	0.11%	-	0.82%				
8.08	Generators	3	-	0.00	-	0.00				
8.09	Turbines	-	-	-	-	-				
9	**>> Transport, Communication and Public U**	**1,940**	-	**8.93%**	**0.00%**	**65.86%**	20%	2,328	2,794	3,352
9.01	Motor Vehicles, Parts & Accessories	172	1	0.79%	0.00	5.85%	Total Loan	10.63%	10.74%	10.74%
9.02	Jet Boat/water transport	-	-	-	-	-	Core Capital	60%	60%	60%
9.03	Aircraft & Aircraft Parts	-	-	-	-	-				
9.04	Transport Related Other productions	511	1	2.35%	0.00%	17.35%				
9.05	Means of Rail/Road Passenger	375	-	1.73%	0.00%	12.74%				
9.06	Truck Services & Warehousing	832	1	3.83%	0.01%	28.24%				
9.07	Other all services (Trans,Comm, Util	49	-	0.23%	-	1.67%				
10	**>> Wholesaler & Retailer**	**4,764**	**31**	**21.93%**	**0.14%**	**161.71%**	30%	6,193	8,051	10,466
10.01	Wholesale Trade-Durables	1,138	3	5.24%	0.02%	38.62%	Total Loan	28.27%	30.94%	33.52%
10.02	Wholesale Trade-Non Durables	711	20	3.27%	0.09%	24.13%	Core Capital	159%	173%	187%
10.03	Automotive Dealer / Franchise	505	8	2.33%	0.00	17.16%				
10.04	Other Retail Trade	1,745	-	8.03%	0.00%	59.24%				
10.05	Import Business	619	-	2.85%	0.00%	21.01%				
10.06	Export Business	46	-	0.21%	-	1.56%				
11	**>> Finance, Insurance and Real**	**1,477**	**83**	**6.80%**	**0.38%**	**50.12%**	30%	1,920	2,495	3,244

	Estate									
11.01	**"A" Class BFIs**	-	-	-	-	-	Total Loan	8.76%	9.59%	10.39%
11.02	**"B" Class BFIs**	-	-	-	-	-	Core Capital	49%	53%	58%
11.03	"C" Class BFIs	-	-	-	-	-				
11.04	"D" Class BFIs	949	-	4.37%	-	32.20%	30%	1,233	1,603	2,084
11.05	Savings & Credit Cooperatives	25	-	0.12%	-	0.85%	Total Loan	5.63%	6.16%	6.67%
11.06	Provident Fund & Insurance Companies	-	-	-	-	-				
11.07	Other Financial Institutions	-	-	0.00%	-	0.00%				
11.08	Non Financial Government Institution	-	-	-	-	-				
11.09	Private Non Financial Institutions	1	-	0.00%	-	0.02%				
11.10	Other Investment Institutions	-	-	-	-	-				
11.11	Real Estate	502	83	2.31%	0.38%	17.05%				
12	**>> Hotel or Restaurant**	**625**	**-**	**2.87%**	**0.00%**	**21.20%**	30%	812	1,055	1,372
12.01	Tourism(Trek,Travel Agnt,Resort,Raft	61	-	0.28%	-	2.08%	Total Loan	3.71%	4.06%	4.39%
12.02	Hotel (Including Other Service)	561	-	2.58%	0.00%	19.06%	Core Capital	21%	23%	25%
12.03	Entertainment, Recreation, Films	2	-	0.01%	0.00%	0.06%				
13	**>> Other Services**	**1,161**	**1**	**5.34%**	**0.00**	**39.41%**	20%	1,393	1,672	2,006
13.01	Advertisement	-	-	-	-	-	Total Loan	6.36%	6.42%	6.42%
13.02	Automotive Services	7	-	0.00	-	0.00	Core Capital	36%	36%	36%
13.03	All other Service Companies	8	-	0.04%	-	0.29%				
13.04	Hospital, Clinic etc.	696	-	3.20%	-	23.62%				
13.05	Educational Services	450	1	2.07%	0.00	15.27%				
14	**>> Consumption Loans**	**634**	**3**	**2.92%**	**0.01%**	**21.52%**	30%	824	1,071	1,393
14.01	Gold and Silver	264	3	1.22%	0.00	8.97%	Total Loan	3.76%	4.12%	4.46%
14.02	Fixed Deposit Receipt	186	-	0.85%	-	6.30%	Core Capital	21%	23%	25%
14.03	Securities (Shares, Bonds)	8	-	0.04%	0.00%	0.27%				
14.04	Credit Cards	-	-	-	-	-				
14.05	Hire Purchase (Personal Consumption	176	0.21	0.81%	0.00%	5.97%				
15	**Local Government**	-	-	-	-	-				
16	**Others**	**1,620**	**17**	**7.46%**	**0.08%**	**54.99%**	Total Loan	**26,853**	**33,567**	**41,958**
~~	**Total**	**21,727**	**283**	**100.00%**	**1.30%**		Core Capital	**3,889**	**4,666**	**5,600**

Distribution of Lending based on Risk Weighted Assets as at Poush 2072

Fig in million

Description	Weight	Loan Balance	% age
For Credit Risk Mitigation (FDR, Gold Loan)	0%	399.51	2%
A0 Balance with NRB	0%	-	-
A1 Investment in Nepal Govt Securities	0%	-	-
A2 All Other Claim on GON	0%	71.84	0.33%
A3 Investment in NRB Securities	0%	-	-
A4 All Other claim on NRB	0%	-	-
A5 Investment in Foreign Govt. Securities (ECA : 0-1)	0%	-	-
A6 Investment in Foreign Govt. Securities (ECA : 2)	20%	-	-
A7 Investment in Foreign Govt. Securities (ECA : 3)	50%	-	-
A8 Investment in Foreign Govt. Securities (ECA : 4-6)	100%	-	-
A9 Investment in Foreign Govt. Securities (ECA : 7)	150%	-	-
B0 Claim on BIS, IMF, ECB, EC	0%	-	-
B1 Claim on MDB recognized by the framework	0%	-	-
B2 Claim on Other MDBs'	100%	-	-
B3 Claim on Public Sector Entity (ECS: 0-1)	20%	-	-
B4 Claim on Public Sector Entity (ECS: 2)	50%	-	-
B5 Claim on Public Sector Entity (ECS: 3-6)	100%	-	-
B6 Claim on Public Sector Entity (ECS: 7)	150%	-	-
C0 Claim on Domestic Banks that meets CAR	20%	589.27	3%
C1 Claim on Domestic Banks that do not meet CAR	100%	254.40	1%
C2 Claim on Foreign Banks (ECA:0-1)	20%	-	-
C3 Claim on Foreign Banks (ECA:2)	50%	-	-
C4 Claim on Foreign Banks (ECA:3-6)	100%	-	-
C5 Claim on Foreign Banks (ECA:7)	150%	-	-
C6 Claim on Foreign Bank in SAARC region (with >=1% CAR)	20%	-	-
D Claims on corporate & securities firms	0%	-	-
D0 Claim on Domestic Corporate	100%	13,660.00	62%
D1 Claim on Foreign Corporate (ECA: 0-1)	20%	-	-
D2 Claim on Foreign Corporate (ECA: 2)	50%	-	-
D3 Claim on Foreign Corporate (ECA: 3-6)	100%	-	-
D4 Claim on Foreign Corporate (ECA: 7)	150%	-	-
E Claims on regulatory retail portfolio (RRP)	0%	-	-
E0 Claim on Regulatory Retail Portfolio (Not Overdue)	75%	3,179.00	14%
E1 Claims fulfilling all criterion of RRP except granularity	100%	-	-
F Claims secured by residential properties (RP)	0%	-	-
F0 Claim Secured by RP	60%	1,353.83	6%
F1 Claims not fully secured by residential properties	150%	-	-
F2 Claims secured by residential properties (Overdue)	100%	12.21	0.00
G Claims secured by commercial real estate (CRE)	0%	-	-
G0 Claims secured by Commercial real estate	100%	789.57	4%
H Past due claims	0%	-	-
H0 Past Due Claims (except for claim secured by RP)	150%	405.10	2%
I High risk claims	0%	-	-
I0 High Risk Claims	150%	43.76	0.20%
I1 Investment in equity of Institution not listed in SE	150%	-	-
I2 Investment in equity of Institution listed in SE	150%	-	-
I3 Other Loan and Advances (not in from RRP or RM)	150%	968.01	4%
J Other assets	0%	-	-
J0 Interest receivable/claim on Govt. Securities	0%	-	-
J1 Investment in equity or regulatory capital of securities firms	100%	-	-

J2 Cash items in transit (CHQ, DD, TC)	20%	-	-
J3 Fictitious assets	150%	308.65	1%
J5 Staff Housing Loan (Residential)	60%	-	-
J4 Other assets (as per Attachment)	100%	-	-
Total Funded	**0%**	**22,035.16**	**100%**
Off balance sheet items	0%	-	
Ka Revocable commitments	0%	-	-
Kb Bills under collection	0%	-	-
Kc Forward exchange contracts	10%	-	-
Kd LC maturity up to 6 months (domestic)	20%	1,626.26	28%
Ke LC maturity up to 6 months (ECA: 0-1)	20%	-	-
Kf LC maturity up to 6 months (ECA: 2	50%	-	-
Kg LC maturity up to 6 months (ECA: 3-6)	100%	-	-
Kh LC maturity up to 6 months (ECA: 7	150%	-	-
Ki LC maturity over 6 months (domestic)	50%	112.77	2%
Kj LC maturity over 6 months (ECA: 0-1)	20%	-	-
Kk LC maturity over 6 months (ECA: 2)	50%	-	-
Kl LC maturity over 6 months (ECA: 3-6)	100%	-	-
Km LC maturity over 6 months (ECA: 7)	150%	-	-
Kn Bid bond and Performance bond (domestic)	50%	3,017.71	52%
Ko Bid bond and Performance bond (ECA: 0-1)	20%	-	-
Kp Bid bond and Performance bond (ECA: 2)	50%	-	-
Kq Bid bond and Performance bond (ECA: 3-6)	100%	-	-
Kr Bid bond and Performance bond (ECA: 7)	150%	-	-
Ks Underwriting commitments	50%	-	-
Kt Lending of Bank's securities or posting of security as collateral	100%	-	-
Ku Repurchase Agreements, assets sale with resources	100%	-	-
Kv Advance Payment Guarantee	100%	902.07	15%
Kw Financial Guarantee	100%	-	-
K0 Acceptance and Endorsement	100%	164.15	3%
k2 Unpaid Guarantee Claims	200%	35.46	1%
Total Non Funded		**5,858.42**	**100%**
Kx Unpaid portion of partly paid share and securities	100%	-	
Ky Irrevocable credit commitments (Short term)	20%	1,638.94	
Kz Irrevocable credit commitments (Long term)	50%	667.39	
K1 Cotangent Liabilities	50%	125.18	
Grand Total		**30,325.09**	