NCC Bank

नेपाल क्रेडिट एण्ड कमर्स बैंक लि.

Nepal Credit & Commerce Bank Ltd.

Your Business Bank

Liquidity and Funding Risk Management Policy 2019

Nepal Credit & Commerce Bank Ltd.

Bagbazar, Kathamadu

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Nepal Credit & Commerce Bank Ltd.
Your Business Bank

The Board Meeting No. 733rd

held on 2075.11.02 (14th February, 2019)

has decided to approve, the

" Liquidity and Funding Risk Management Policy, 2019"

Kapil Gnawali
Company secretary
2075-11-02

Approval Sheet

Particulars	Name and Designation	Signature	Date
Prepared By	Saroj Bhandari Operation, Market and Liquidity Risk Management Department		
Reviewed and Supported By	Mukunda Subedi Chief Risk Officer		
Supported for Board Approval	Ramesh Raj Aryal Chief Executive Officer		
Board of Directors			

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Liquidity & Funding Risk Management Policy, 2019

1. Introduction

Liquidity Risk is the risk that a financial institution loses its ability to fund its assets or to meet its obligation as they come due without incurring unacceptable cost or losses. In other word, liquidity risk is the risk that bank may be unable to meet short term financial demands. This usually occurs due to the inability of Bank to convert a security or hard assets to cash without a loss of capital and/or income in the process. The liquidity risk of banks arises from funding of long-term assets by short-term liabilities, thereby making the liabilities subject to rollover or refinancing risk. The major cause of liquidity risk is unstable deposits or unexpected withdrawal of deposits. Unplanned expansion of credit, undrawn loan commitments, off-balance sheet commitments and other contingent liabilities are also the source of liquidity risk.

Effective liquidity risk management enables the bank to ensure a bank's ability to meet its obligations as they fall due and reduce the probability of an adverse situation. Liquidity risk management can be split into short-term liquidity risk management and long-term liquidity risk management. Liquidity risk can be managed through controlling concentrations, relative market sizes of portfolios, diversifications, securing credit lines, back-up funding plan, limiting cash flow gaps ect.

Bank shall consider the following elements for managing the Liquidity Risk:

a. Funding Liquidity Risk:

Funding Liquidity Risk is the risk that a bank will not be able to meet efficiently the expected and unexpected current and future cash flows and collateral need without affecting either its daily operations or its financial condition.

b. Market Liquidity Risk

Market Liquidity Risk is the risk, that a bank cannot easily offset or eliminate a position at the prevailing market price because of inadequate market depth or market disruption.

c. Episodic Liquidity Risk

Episodic Liquidity Risk is the risk that is arises from the sudden use of some of the credit limits granted to counterparties or sudden withdrawal of customer deposits.

d. Intraday Liquidity Risk

Intraday Liquidity Risk is the risk that bank may face difficulties to settle its financial obligations in due time during the day.

e. Funding Cost Risk

Funding Cost Risk is the risk that a Bank can replace maturing funding only at higher costs to fund its assets.

This Policy has been prepared in line with the Risk Management Guidelines, 2018 of Nepal Rastra Bank and other regulatory requirements. The document has outlined the Bank's initiative towards management of liquidity & funding risk so that objective of the bank can be achieved optimally. It shall be the duty of all the staff members of the Bank to make themselves acquainted with the provisions incorporated in this policy and other policies referred herein.

2. Objectives

The main objective of this policy is to put in place a robust liquidity risk management system within the Bank. This policy has been formulated for guiding the bank to identify, access, measure, monitor, control and mitigate the liquidity & funding risk. Followings are the objectives behind formulation of this policy:

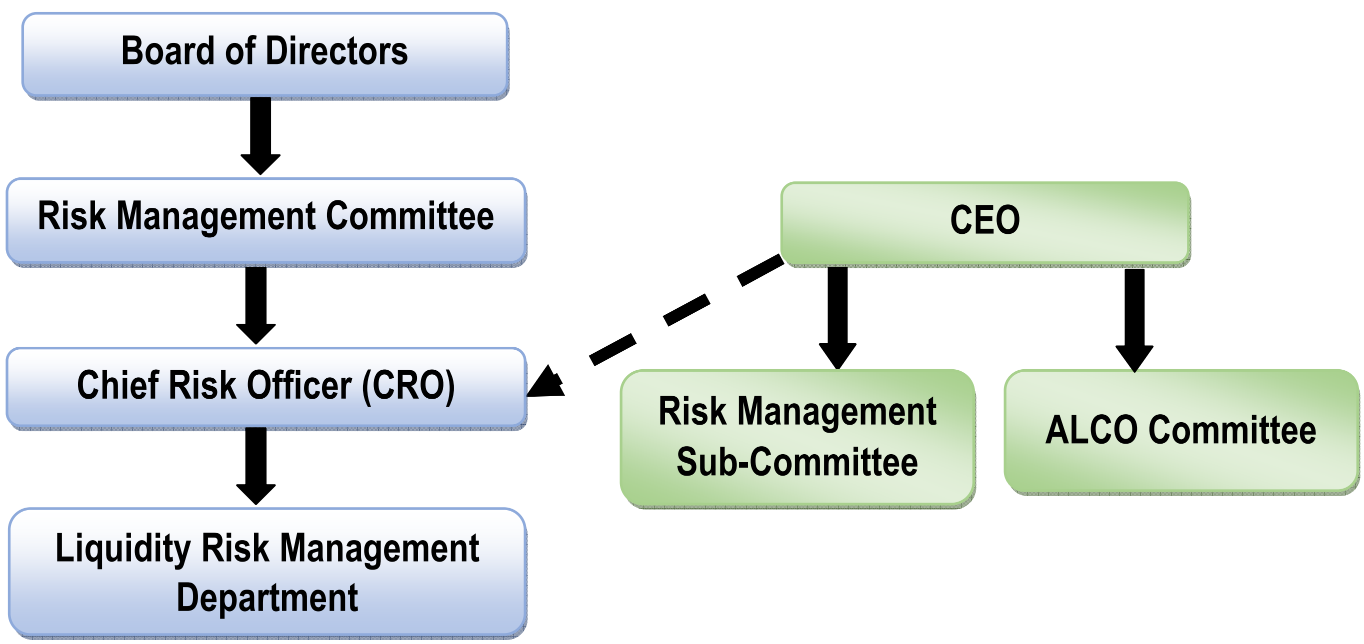
- To lay down a framework for achieving robust liquidity & funding risk management procedure in alignment with regulatory requirements, best practice and the Bank's overall risk management policy;
- To ensure that the Bank has adequate systems to identify, measure, monitor and control liquidity risk;
- To ensure adequate, prioritized and focused attention from the board and senior management level on significant liquidity & funding risk exposures and measures of mitigations
- To protect the bank against unexpected losses and to contribute to income stability through independent identification, assessment and understanding of business liquidity & funding risk,
- To contribute to bringing the bank's functional structure and management process in line with the best international practices and to set minimum standards for liquidity & funding risk control,

- To create transparent, objective and consistent information system of the liquidity & funding risks as a base for reasonable decision-making,
- To establish an appropriate reporting and monitoring tools with regards to the liquidity & funding risk management

3. Liquidity Risk Management Structure and Framework

Board level Risk Management Committee (RMC) of the Bank shall oversee the issues of liquidity & funding risk and risk management practices in the bank. There shall be a Risk Management Sub-Committee (RMSC) in management level for the overall monitoring and controlling of the liquidity risk. Likewise, Assets-Liability Management Committee (ALCO) is also responsible for the supervision / management of liquidity risk. Bank shall have a separate Liquidity Risk Management Department to look the issues and monitor the liquidity risk. The department put continuous efforts and vision for the identification, assessment, measuring, monitoring and controlling the liquidity risk. The department ensures the effective implementation of policies and strategies related with the liquidity risk. The department will report to the Chief Risk Officer and shall present the liquidity risk issue in Risk Management Sub-Committee and Board level Risk Management Committee.

The Liquidity & Funding Risk Management structure of the Bank shall be as follows:



Every staff of the bank shall takes the responsibility of controlling risk or losses while performing their duties. Bank integrate its systems and procedures as a primary risk culture and risk mitigations.

4. Basic Principles for Liquidity & Funding Risk Management

- Bank shall have sound risk management process for identifying, measuring, monitoring and controlling liquidity risk. This process shall include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate time horizon.
- Bank shall actively monitor and control liquidity risk exposures and funding needs within and across business lines and currencies, taking into account legal, regulatory and operational limitations to the transferability of liquidity.
- Bank shall have funding strategy that provides effective diversification in the sources and tenor of the funding.
- Bank shall maintain an ongoing presence in its chosen funding markets and strong relationships with funds providers to promote effective diversification of funding sources. Further, bank shall regularly gauge its capacity to raise funds quickly from each sources.
- Bank shall identify the main factors that affect its ability to raise funds and monitor those factors closely to ensure that fund raising capacity remain valid.
- Bank shall actively manage its intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions.
- Bank shall conduct stress tests on a regular basis for a variety of short-term and long term institution-specific and market-wide stress scenarios to identify sources of potential liquidity strain and to ensure that current exposures remain within the Bank's internal risk appetite and tolerance level.
- Bank shall use stress test outcome to adjust liquidity risk management strategies, policies and positions and to develop effective contingency plans.
- Bank shall have Contingency Funding Plan and Asset & Liability Management Policy Guidelines for the strategies of addressing liquidity shortfalls in emergency situations. The Contingency Funding

Plan shall also outline the procedures to manage a range of stress environment, establish clear lines of responsibility and include clear invocation and escalation procedures.

5. Roles and Responsibilities

Roles and responsibilities of all concerned shall be to understand in identifying, assessing, monitoring, measuring and controlling liquidity risks. Bank shall assign the following responsibilities, but not limited, to following functions:

5.1 Board of Directors

Board of Directors shall be primarily responsible for ensuring in place an effective liquidity & funding risk management policy at the Bank. Board of Directors is also responsible to advise and approve appropriate liquidity & funding risk management strategy, define Bank's overall tolerance in relation to liquidity risk and overseeing the implementation status for proper functioning of the policy. The board shall also ensure that the policy is comprehensive for key business and support functions and establish the method for monitoring compliance of the same.

5.2 Risk Management Committee

Risk management committee shall be responsible to review the liquidity risk profile of the bank, monitor the nature and level of risk being taken by the bank and monitor the risk related to risk appetite and tolerance limit of the bank. Committee shall recommend the Board for the formulation of policies and strategies in line with the provision of regulator, internal limit and appropriate practices for liquidity risk management. Committee shall also ensure that all material risks are identified, monitored and controlled. Committee shall also review the liquidity risk appetite, adequacy of resources being assigned to mitigate risks, result of stress testing, adequacy of internal control and recommend suitable control/mitigating strategy for management. The committee periodically updates the status of risks to the Board.

5.3 CEO and Senior Level Management

CEO and senior level management is primarily responsible for implementing and ensuring effective compliance of the liquidity & funding risk management policy and strategy approved by board and formulate appropriate procedures, guidelines, framework for the management of liquidity & funding risk. CEO and Senior Management shall ensure that Bank has a strong control environment, formulated policies, process, system, internal control, risk mitigating strategy are in effective implementations and the staff members of the bank are well versed with banks liquidity & funding risk management strategy.

5.4 Risk Management Sub Committee

Risk Management Sub Committee shall ensure the implementation of the liquidity & funding risk management policy and framework at working level. The committee shall ensure the bank activities are conducted professionally and monitor the risks. The Committee shall check, review and ensure that the necessary resources are available to manage liquidity risk. Committee also ensure the adequacy and effectiveness of risk management process in the Bank. The sub-committee shall review the liquidity risk report submitted by department and give necessary instruction for management and mitigation of identified liquidity risk.

5.5 Assets-Liability Management Committee (ALCO)

ALCO shall be responsible for the supervision/management of Liquidity Risk. The committee shall monitor composition of assets and liabilities and its performance, determine fund acquisition and allocation strategy, guide in investment decision in case of excess liquidity. Committee shall also monitor the external environment with particular emphasis on interest rate volatility and trends, market liquidity, exchange rate movements, local economic conditions, local monetary and fiscal policies and competitor activities. ALCO shall also oversights both the short-term and long-term liquidity. The overall responsibilities of the ALCO committee for the management of liquidity risk shall be as defined in the Bank's Asset & Liability Management Policy, Investment Policy and in Contingency Funding Plan.

5.6 Chief Risk Officer (CRO)

Chief Risk Officer (CRO) shall be responsible for overall monitoring of the liquidity risk activities of the Bank. CRO shall ensure the establishment of early warning or trigger system for breaches of the bank's risk and risk appetite or limits of various sectors. CRO shall ensure the liquidity risk-taking activities and liquidity risk exposures are in line with the board-approved risk appetite, risk limit and capital planning. CRO shall report to the Risk Management Committee and shall update to CEO on liquidity risk profile of the bank and all liquidity risk-mitigating activities of the Bank.

5.7 Liquidity Risk Management Department

Bank shall have an independent Liquidity Risk Management Department which is independent from risk taking unit. Primary responsibility of the Liquidity Risk Management Department is to disseminate and implement the liquidity & funding risk management policies, strategy, procedures, guidelines and framework in the bank. Followings are the major responsibilities of the department:

- Disseminate and implement the liquidity & funding risk management policies, strategy, procedures, guidelines and framework of the bank.
- Report all issues and status of the liquidity risk profile of the bank to the CRO.
- Prepare and provide agenda and report for the Risk Management Committee and Sub-Committee.
- Identify, access, measure, monitor and report the liquidity risk.
- Review the liquidity risk issues ensuring that the Bank's assets & liabilities remains healthy and any early warning signals in the assets & liabilities is timely tracked and well managed.
- Review of the policy as soon as change in regulatory requirement occurs and incorporate the changes on reviewed document.
- Review the existing system, procedures required changes/improvements of a particular business segment and recommend to the management for any improvements.
- Track/monitor the regulatory changes and macro/micro economic events which has potential to increase risk or risk profile
- Review liquidity profile, gap analysis, various regulatory ratio, identify the warning signals and recommend for management of such warning signals
- Establish and prepare early warning or trigger signals for breaches of the Bank's risk appetite and tolerance limit,
- Review of report of treasury department, finance department, identify the probable liquidity risk area and give constructive feedbacks for management of such risk area.

5.8 Departments / Branches

Departments and Branches are responsible to ensure the implementation of risk parameters and principles as per the product, policies and procedures. Departments and Branches shall report the issues and incidents to the risk management department. Departments and Branches shall maintain zero level of non-compliance and ensure the prudent / ethical banking on the day to day functionality maintaining the well practice of risk culture and risk understanding.

6. Liquidity Risk Management Process

Bank shall apply sound process for identifying, measuring, monitoring and mitigating liquidity risk. Following procedures shall be applied for the liquidity risk management:

6.1 Liquidity Risk Identification and Assessment

Risk identification is paramount for subsequent development of a possible liquidity risk monitoring and control system. Effective risk identification considers both internal factors (such as: bank's structure, nature of activities, products, quality of human resources, organizational changes and employee turnover) and external factors (such as: changes in the industry and technological advances) that could adversely affect the achievement of the bank's objectives. For the identification and assessment of the liquidity risk, bank shall use following techniques:

- Bank at regular interval shall evaluate each major on and off-balance sheet position, un-utilized portion of committed limits and other contingent exposures that may affect the Bank's sources and uses of funds, and identify the probable effects on liquidity.

- Assets and liabilities will be plotted in various liquidity buckets according to their maturities for the identification of the liquidity risk and shall identify the liquidity gap

- Bank shall consider the relationship between liquidity risk and other types of risk which bank is exposed. Other risk such as operational risk, interest rate risk, credit risk, foreign exchange risk, legal risk, reputational risk that may influence the liquidity profile shall also be considered for identifying the liquidity risk.

- Bank shall ensure that assets are prudently valued and liabilities are prudently reported so that probable liquidity risk can be identified and managed.

- Key risk indicators and early warning signals shall also be developed and used to identify the probable liquidity risk.

- Regular stress testing shall be done to identify the probable area of liquidity risk.
- Finding observed by audit (internal, statutory, NRB or special audit) and compliance review reports shall also be used by the bank as indicator of liquidity risk.

6.2 Liquidity Risk Measurement

Risk Management process include risk measurement of the identified risk associated with material products, activities, processes and systems. Bank shall follow the steps outlined below for measuring liquidity risk.

- Bank shall use various ratios for the measurement of the liquidity use
- Liquidity profile analysis shall also be considered for the measurement of the liquidity risk
- Stress testing on various scenarios shall also be considered for the measurement of the liquidity risk

6.2.1 Ratios Analysis

a. Liquidity Ratio

Liquidity ratio is the ratio between the liquid assets and the liabilities of the bank. This ratio is indication of Banks ability to use its near cash or quick assets to extinguish or retire its current liabilities immediately. Bank shall use the procedures prescribed in Basel III for measurement of liquidity ratio as follows:

Particulars		**Amount**
A	**Total Deposit**	
B	**Liquid Assets**	
	a. Cash	
	b. Bank Balance	
	c. Money at call and short notice	
	d. Investment in government securities	
	e. Placement up to 90 days	
C	**Borrowings payable up to 90 days**	
D	**Net Liquid Assets (B-C)**	
E	**Net Liquid Assets to Total deposit (D/A)**	

Bank shall calculate the liquidity ratio on daily basis for the identification of probable warning signal on liquidity risk. Any deviation from Bank's internal risk appetite and tolerance limit shall be immediately reported to the higher authority for management of liquidity risk.

b. Credit to Core Capital and Deposit (CCD) Ratio

CCD ratio is the ratio of amount of credit disbursed to the borrower from deposit collected from customer and core capital. As required by NRB Directive, Bank can lend its fund up to 80% of total deposit and core capital. The ratio indicate how much bank utilize its deposit collected and core capital effectively. Bank shall use procedures prescribed in NRB directives for calculation of CCD ratio as follows:

CCD ratio = Total LCY Loans / (Total LCY Deposit + Core Capital)

Bank shall calculate the CCD ratio on daily basis for identification of any crunch situation and liquidity risk.

c. Compulsory Reserve Ratio (CRR)

CRR is the ratio of average weekly local currency balance (LCY) maintained with Nepal Rastra Bank divided by average weekly local currency deposits of two weeks prior to the week for which CRR is calculated. Bank shall calculate CRR ratio on daily basis using procedures prescribed in NRB Directives for identification for any deviation and liquidity risk.

d. Statutory Liquidity Ratio (SLR)

SLR is the liquidity maintained by bank in the form of cash in vault, investment in government securities and funds in NRB accounts for maintaining CRR. Bank shall calculate SLR on daily basis using procedures prescribed in NRB Directives for identification for any deviation and liquidity risk.

e. Deposit Mix Analysis

As portion of deposit mix are always critical for the Bank in its liability management, Bank shall focus in maintaining the target deposit mix to increase the profitability in long run and reduce liquidity risk. Bank shall set the ratio of particular deposit product to total deposit in its risk appetite and tolerance policy. Bank shall calculate ratio of various type of deposit such as current, saving, fixed, margin, call to that of total deposit on regular basis and identify whether there is any warning signal on liquidity risk.

6.2.2 Liquidity Profile Analysis

Liquidity profile is the statement of assets and liabilities prepared on the basis of maturity ladder approach as per the residual maturity of assets and liabilities. Liquidity profile shall provide snap shot view of bucket wise liquidity mismatch as well as cumulative mismatch. Liquidity profile also measures the bank's ability to meet current liabilities and obligations.

In case Bank is reliant on short term funding, additional short term buckets shall be added and in case Bank wants to make strategies alteration in product maturities, long term buckets shall be added. Bank shall use following maturities ladder for calculating the liquidity profile of the Bank:

S.N.	Particulars	1-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	Total Amount
Assets							
1.	Cash Balance						
2.	Balance with Banks & FIs						
3.	Investment in Foreign Banks						
4.	Call Money						
5.	Government Securities						
6.	Nepal Rastra Bank Bonds						
7.	Inter Bank & FI Lending						
8.	Loans & Advances						
9.	Interest Receivable						
10.	Reverse Repo						
11.	Receivables from other Institutions under Commitment						
12.	Payment to be made for facilities under s.no 20,21 & 22						
13.	Others						
Total of Assets							
Liabilities							
14.	Current Deposits						
15	Saving Deposits						
16	Fixed Deposits						
17	Debentures						
18	Borrowings:						

S.N.	Particulars	1-90 days	91-180 days	181-270 days	271-365 days	Over 1 year	Total Amount
	(a) Call/Short Notice						
	(b) Inter-bank/Financial Institutions						
	(c) Refinance						
	(d) Others						
19.	Other Liabilities and Provisions						
	(a) Sundry Creditors						
	(b) Bills Payable						
	(c) Interest Payable						
	(d) Provisions						
	(e) Others						
20.	Payable to other institutions under Commitment						
21.	Unutilized Approved Facilities						
22.	Letter of Credit/Guarantee (Net of Margin)						
23.	Repo						
24.	Payment to be made for facilities under S.No 11						
25.	Others						
Total Liabilities (B)							
Net Financial Assets (A-B)							
Cumulative Net Financial Assets							

Finance & Planning department shall analyze the behavioral maturity profile of various components of on and off balance sheet items at least on monthly basis. The ALCO and Risk Management Committee shall review the liquidity profile of the bank on regular basis.

6.2.3 Stress Testing and Scenario Analysis

Stress and scenario testing is a risk management technique used to evaluate the potential effects on the institution's financial condition within the set of specified changes in risk factors corresponding to exceptional and plausible events. Bank shall examine future capital resources and capital requirements under various scenarios and shocks.

Bank shall use stress testing tool to measure and manage liquidity risk. Under stress testing, various scenarios are developed and the potential shocks on capital adequacy are measured.

Bank conducts stress test to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with the Bank's established liquidity risk tolerance. The Bank then use stress test outcome to adjust its liquidity risk management strategies, policies and positions and to develop effective contingency plans. Following scenarios are considered to measure impact of the potential liquidity shocks:

Scenario	Pre Shock Liquidity (%)	Impact in Net Liquid Assets	Post Shock Liquidity (%)
Withdrawal of deposits by 5%			
Withdrawal of deposits by 10%			
Withdrawal of deposits by 15%			
Withdrawal of deposits by 20%			
Withdrawal of deposits by top 2 institutional depositors			
Withdrawal of deposits by top 3 institutional depositors			
Withdrawal of deposits by top 5 institutional depositors			
Withdrawal of deposits by top 2 individual depositors			
Withdrawal of deposits by top 3 individual depositors.			
Withdrawal of deposits by top 5 individual depositors.			
Default on Interbank by Top 2 Counterparties			
Withdrawal of deposits: 1st day by 2%			
Withdrawal of deposits: 2nd day by 5%			
Withdrawal of deposits: 3rd day by 10%			
Withdrawal of deposits: 4th day by 10%			
Withdrawal of deposits: 5th day by 10%			

For developing different scenarios for stress testing, the ALCO may decide the percentage change in the liquidity risk factors.

6.3 Risk Monitoring, Control and Mitigation

Bank shall have the appropriate monitoring and reporting mechanism to support the proactive management of liquidity risk. Once liquidity risk is identified, assessed and measured, Bank decides to take the risks, these risks shall be controlled with a strong control environment in place through policies, processes, systems, internal controls, risk mitigations and / or transfer activities. Bank shall periodically review the risk limitation and control strategies and adjust the liquidity risk profiles accordingly using appropriate strategies, in light of the overall risk appetite and profile. Those risks that cannot be controlled, bank decides whether to accept these risks, reduce the level of business activity involved or withdraw from this activity completely.

Bank shall use following monitoring, control and mitigation tools to manage the liquidity risk:

6.3.1 Culture and organizational structure

Bank shall have prudent risk culture along with well-defined values, beliefs, practices and management's attitudes. Bank shall have the culture of regularly reviewing liquidity profiles with bank's risk appetite and tolerance policy. Bank shall have the culture of reward and penalty for the staff involved in management of liquidity for their vigilance and negligence.

Bank shall have liquidity risk management function independent of the risk-taking unit. Bank shall have well defined organization structure for liquidity risk management.

6.3.2 Policies, Procedures, Strategies, Guidelines, Manuals, Framework

Bank shall have Asset & Liability Management Policy and Investment Policy to regulate and guide the overall functioning related with the liquidity & funding and liquidity risk handling. The policy clearly define the Bank's policy on assets and liability management, assets and liabilities gap analysis, deposit management, borrowing capacity management, determination of marketable assets, intraday liquidity management and various liquidity related limits.

Further, Bank shall have Contingency Funding Plan (CFP) which is designed to address short-term liquidity shortfalls in emergency situations. The pre-defined processes in the CFP shall be regularly tested and reviewed to ensure that it will reflect changing market conditions and the business and risk profile of the Bank. The contingency funding plan shall acts as the guiding principle to utilize the available funds in stress situation so that sustainability of the Bank can be ensured. The CFP of the bank shall consider both: idiosyncratic risk (risk within the Bank) and market-wide (risk in whole financial system) to manage the liquidity crisis.

Bank shall have a well-defined Risk Appetite and Tolerance Limit Policy which shall clearly define the deposit mix, various regulatory and internal ratio related to liquidity, concentration on single and group of depositor, concentration on top depositors, etc.

6.3.3 Limit Structure

Bank shall have well defined limit structure on concentration of funding by counterparty, product-type, currency, geographic market and other strategic segment of the Bank. The limit structure for day-to-day liquidity management and long term liquidity management shall be set. The result of the stress testing shall also be used to determine the limit structure of the liquidity management.

6.3.4 Early Warning Signals (EWS) / Key-Risk Indicator (KRI)

Bank shall develop liquidity risk indicators for identifying the Early Warning Signals (EWS) / Key-Risk Indicator (KRI). Bank shall list out the possible early warning signals, review it and prepare report on periodical basis. Such EWS / KRI shall be used to identify any negative trend. Bank shall periodically review the possible early warning signals. Some EWS / KRIs that shall be taken into account by Bank are as follows:

- A negative trend or significantly increased risk in any area or product line
- Rapid asset growth funded by volatile large deposit
- A large size of off-balance sheet exposure
- Growing concentrations in either assets or liabilities
- Deterioration in quality of credit portfolio
- Significant deterioration in earnings performance or projections,
- Portfolio having nature of multiple banking
- Deteriorating third party evaluation (negative rating) about bank and negative publicity
- Competitive pricing that potentially stress the bank
- High mismatch in maturity period of the assets and liabilities

- Very tight liquidity position, frequent interbank borrowing, frequent breach of CCD ratio
- High concentration in corporate depositor, high percentage deposit of single depositor etc.

6.3.5 Deposit Concentration Management and Funding Plan

Considering the strategic plan, annual budget and risk profile of the Bank, bank shall have well defined deposit concentration structure. Bank shall diversify its deposit in terms of client, maturity and structure. Bank shall diversify its deposit base line to meet the long term and short term lending strategy. Bank shall also identify the alternative sources of funding that strengthen banks capacity to withstand a variety of severe idiosyncratic and market-wide liquidity shocks. Bank's Asset and Liability Management Policy and Investment Policy and Contingency Funding Plan shall identify and prescribe the potential alternative sources of funding. However, bank may consider following as an alternative potential sources of funding:

- New issues of short-term and long-term debt instruments
- Interbank borrowing or borrowing from central bank or borrowing from foreign bank
- Lengthening of maturities of liabilities
- Fresh capital issue or issue of right share
- Repo of highly liquid assets
- Retention of the earning for certain period

6.3.6 Exception Monitoring

Bank shall have exception monitoring system which is the key measures on identifying and controlling the liquidity risk. Treasury Department, Finance & Planning Department, business unit and branches shall review the exception report on daily basis. Such exception shall be obtained from CBS, utility software or from other regular reporting. Exception shall be view as breach of regulatory ratio, difficulties in disbursement of approved credit, difficulties in repayment of interbank borrowing, very high concentration on fixed deposit etc.

6.3.7 Stress Testing

Bank shall conduct the stress testing on regular basis to monitor the liquidity risk trend and indication. Stress testing shall be an integral part of the overall governance and liquidity risk management culture in bank. NRB provisions and methodologies given for stress testing and additional scenario shall be applied for regulatory requirements and internal uses. Management uses the result of stress testing as alerts of adverse or unexpected outcomes and takes appropriate proactive decisions to address the vulnerabilities identified.

6.3.8 Management Information System

Bank shall have Management Information System Policy/Guidelines which clearly defines the scope and information that shall be reported and reviewed by the management. Information shall be readily available for day-to-day liquidity management and risk control, as well as during times of stress. Data shall be appropriately consolidated, comprehensive yet concise, focused and available in a timely manner. There is usually a trade-off between accuracy and timeliness as liquidity problems can arise very quickly and effective liquidity management requires daily internal reporting. The adequacy and scope of information shall be reviewed on a periodic basis at least annually by business line managers, risk management function, senior management and the board to ensure that it is sufficient to the complexity of the business. The MIS guidelines of the bank shall further specify the reports, their preparation frequency and reporting channel.

7. Liquidity Risk Management Model

The bank shall follow below mentioned three line of defense approach as a liquidity risk management model:

Line of Defense	Responsible Unit
First Line	Business / Functional units
Second Line	Compliance/ Risk Function
Third Line	Internal Audit

First Line: The first line of defense is the Bank’s Treasury Department, Finance and Planning Department, Branches and Business Unit. This include front-line employees who are responsible for managing liquidity position, dealing for interbank borrowing, debt issuance, collection of deposit and more. Employee at first line of defense have primary responsibility for all liquidity risk management. They are also responsible for implementing corrective actions to address process and control deficiencies.

Second Line: The second line of defense is the Bank's Compliance and Risk Functions that provide independent oversight of the risk management activities of the first line of defense. The responsibilities of second-line defense include reviewing risk reports and validating compliance according to the requirements of risk management framework. Second line of defense is responsible for establishing policy and process for risk management, provide guidance, oversight over risk areas and bank's objectives.

Third Line: The third line of defense is audit function. The audit function regularly review the first and second line of defense activities and results, including the risk governance functions, to ensure that the risk management arrangements and structures of the Bank are appropriate and are discharging their roles and responsibilities completely and accurately. The results of reviews of these audit functions need to be effectively communicated to the management and board of directors in order to take appropriate action to maintain and enhance the risk management culture of the Bank.

8. Disclosure Requirement

Annual report of the bank shall make a full disclosure of approaches followed by the bank for identification, assessing, monitoring, measuring and controlling liquidity risks. Disclosure shall include methods applied by bank to determine liquidity risk, measurement method used for liquidity risk and other relevant information.

9. Implementation, Review and Updates

This Policy will be effective upon the approval of BoD. This Liquidity & Funding Risk Management Policy shall be reviewed annually. The review shall include identification of current risk exposure, emerging risk trends, control measurements and response to changes on organizational environment, business circumstances, legal conditions or technical environment.

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	