ASSET & LIABILITY MANAGEMENT GUIDELINES AND INVESTMENT POLICY

2075

Approved by:

687th Board Meeting

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

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

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

"ASSET & LIABILITY MANAGEMENT GUIDELINES AND INVESTMENT POLICY, 2018''

Kapil Gnawali
Company secretary
2075-02-14

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

ASSET & LIABILITY MANAGEMENT GUIDELINES AND INVESTMENT POLICY 2075

1. INTRODUCTION

1.1. Overview

Nepal's formal financial system began less than one and a half centuries ago. The establishment of Tejarath Adda in 1880 can be conceived as the beginning of the process of credit mobilization in Nepal. However, this institution although formally established was not allowed to take public deposit and provide credit to public – the fund had been provided by the government for credit to their staffs and landlord only. Even the urban people in need of the financial support had to rely on Shahus (merchants) and landlords because of the limited activities of Tejarath Adda. It was only with the establishment of Nepal Bank Limited (NBL) in 1937 that the financial services were made available to the general public. In this regard, the establishment of NBL was the epoch-making since it signified commencement of formal banking system in Nepal.

Then, with the establishment of NRB in 1956 under NRB Act 1955 and after the promulgation of the NRB Act 2002, the process was made easier for the establishment of banks and financial institutions in the country.

Nepal initiated its economic liberalization program in the mid-1980s. This included deregulation of the financial sector, trade liberalization, current account convertibility, abolition of major trade restrictions, several privatization programs and policies, revision of the trade treaty with India, financial reform programs, and downsizing of the role of government. Accordingly, Nepal made bilateral agreements with 18 countries. Likewise, on April 23, 2004, the country joined the World Trade Organization (WTO) as the 147th member.

In Nepal, banks are now operating in a fairly deregulated environment and are required to determine their own interest rates structure for deposits and loans. The yields on Treasury bills and other GON bonds are now market related. There is intense competition between banks for business on both sides of the balance sheet. This will bring about a narrowing of margins and spreads between assets and liabilities. These pressures call for structured and comprehensive risk management systems for the bank to base business decisions in line with bank's strategies and objectives.

Managing Assets and Liabilities is one of the key issues of banking industry. After the Global Financial Crisis, managing the liquidity & market risk are top two challenges in this industry. The outcome of this concern was well reflected in the activities of the Basel Committee for Banking Supervision while formulating Basel III documents.

Assets & Liabilities Management on banks in Nepal will be centered on above 3 ratios after implementation of Basel III. Assets & Liabilities management is an essential process for banks & when not well managed, it creates a threat to the existence of bank itself. Nepal Credit & Commerce Bank (NCC Bank) in the normal course of business is exposed to various assets and liability portfolios as well as above mentioned risks. It recognizes the importance in having effective risk management system to address these risks. The system involves a framework for measuring and monitoring interest rate, liquidity, investment and foreign exchange risk both on continuous basis.

1.2. Assets and Liabilities Management Organization

The process is at the crossroads between risk management and strategic planning as is not just offering solution to mitigate or hedge the risks arising from the interaction of assets and liabilities but is conducting the bank from a long term perspective.

Asset and liability Management (ALM) of the bank deals with the optimal investment of assets in view of meeting current goals and future liabilities. The keyword of ALM is the joint evaluation of risks and benefits for assets and liabilities. Among the different risks faced by the bank (such as market, credit, liquidity, operational and business) ALM focuses on financial risks as indicated in the following definition by the Society of Actuaries.

The traditional ALM programs focus on interest rate risk and liquidity risk because they represent the most prominent risks affecting the organization balance sheet (as they require coordination between assets and liabilities). But ALM now seeks to broaden assignments such as foreign exchange risk, equity price risk and capital management.

ALM is the ongoing process of formulating, implementing, monitoring and revising strategies related to assets and liabilities to achieve an organization’s financial objectives, given the organization’s risk tolerances and other constraints. Assets may be viewed as expected cash inflows, and liabilities as expected cash outflows. Although short-term risks arising from the possibility that the bank’s assets will not cover its short-term obligations are important to assess and quantity, ALM is usually conducted from a long term perspective. As such, ALM is considered a strategic discipline as opposed to a tactical one. The scope of the ALM function to a larger extent covers the hereafter processes:

1. **Liquidity Risk**

   Liquidity risk arises from either the bank's inability to meet its obligations as they fall due or to fund increase in assets without incurring unacceptable cost or losses. Liquidity Coverage Ratio introduced recently covers a wider aspect of liquidity risk detection and monitoring by the banks under stress situation. The ALCO should closely monitor the developments around various liquidity issues in each and every meeting. The effectiveness of the Contingency Funding Plan should be analyzed as when required.

2. **Interest Rate Risk**

   Interest rate risk is the potential impact on a bank's earnings and net asset values due to changes in market interest rates. Interest rate risk arises when a bank's principal and interest cash flows (including final maturities), both on- and off-balance sheet, have mismatched re-pricing dates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. Bank's lending, funding and investment activities give rise to interest rate risk. Interest rate risk management must be conducted within the context of a comprehensive business plan. The immediate impact of a variation in interest rates is on the bank's net interest income, while a long term impact is on the bank's net worth since the economic value of bank's assets, liabilities and off-balance sheet exposures are affected.

3. **Foreign Exchange Risk**

   The risk is market related risk which results from movements in exchanges rates. Dealing in different currencies brings opportunities as also risks. If the liabilities in one currency exceed the level of assets in the same currency, then the currency mismatch can add value or erode value depending upon the currency movements. Mismatched currency position, besides exposing the balance sheet to movements in exchange rate, also exposes it to country risk and settlement risk. Banks & FIs undertake operations in foreign exchange such as borrowings and making loans in foreign currency, which exposes them to currency or exchange rate risk. The simplest way to avoid currency risk is to ensure that mismatches, if any, are reduced to zero or near zero. However, irrespective of the strategies adopted, it may not be possible to eliminate currency mismatches altogether.

4. **Equity Price Risk**

Equity price risk is the risk of losses caused by changes in equity prices. These losses could arise because of changes in the value of listed shares held directly by the bank; changes in the value of listed shares held by a bank subsidiary; changes in the value of listed shares used as collateral for loans from a bank or a bank subsidiary, whether or not the loan was made for the purpose of buying the shares; and changes in the value of unlisted shares. Equity price risk associated with equities could be systematic or unsystematic. The former refers to sensitivity of portfolio's value to changes in overall level of equity prices, while the later is associated with price volatility that is determined by firm specific characteristics.

5. **Funding and capital management**

As all the mechanism to ensure the maintenance of adequate capital on a continuous basis, it is a dynamic and ongoing process considering both short and longer term capital needs and is coordinated with a bank's overall strategy and planning cycles (usually a prospective time horizon of 2 years).

6. **Credit Risk**

In addition, ALM is dealing with aspects related to credit risk as this function is also to manage the impact of the entire credit portfolio (including cash, investments and loans) on the balance sheet. The credit is, specifically in the loan portfolio is handled by a separate risk management function and represents one of the main data contributors to the ALM team.

a. **Formulation of ALCO**

The Asset & Liability Committee (ALCO), headed by the Chief Executive Officer and consisting of the bank's senior management team, has been set up to supervise the adherence to the exposure and tolerance limits set for the bank. The ALCO also decided the business strategies in line with budgets and risk management objectives of NCC Bank.

The details as to the composition of as well as Terms of ALCO are provided separately below.

1.3. ALM Management Information Systems

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

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

NCC Bank has a wide network, which are all connected with the main server place at the corporate Office. The branches are also connected through ABBS. Data relating to assets and liabilities are collected and processed on daily basis (Daily Activity Report). The existing Chart of Accounts provides sufficiently elaborated data on the nature and types of assets and liabilities of the bank. The investment decision, money market operation and foreign exchange transactions are centralized in Corporate Office.

1.4. ALM GAP ANALYSIS

Gap analysis is a technique of asset-liability management that can be used to assess interest rate risk or liquidity risk. Duration is appealing because it summarized with a single number, exposure to parallel; shifts in the term structure of interest rates. Gap analysis is more cumbersome and less widely applicable but it assessed exposure to a greater variety of term structure movements.

Cash flow matching is an effective, but largely impractical means of eliminating interest rate risk. Interest rate risk arises from either positive or negative net future cash flows. The concept of cash matching is to eliminate interest rate risk by eliminating all net future cash flows. A portfolio is cash matched if

a. Every future cash inflow is balanced with an offsetting cash outflow on the same date, and
b. Every future cash outflow is balanced with an offsetting cash inflow on the dame date.

ALM Gap Analysis Process

The data collected from the branches and corporate office is converted to a Gap Analysis for liquidity and interest rate management and is updated on a monthly basis. These Gap Analysis reports are the prime instruments used for interest rate and liquidity management. From the Interest Rate Gap Analysis a report showing the bank's exposure to interest rate variations if produced and limits are set to reduce the bank's exposure in this regard.

The data and assumptions made in the production of Gap analysis will be refined and updated over time with experience gained and the spread of computerization.

1.5. ALM Policies

An integral part of the ALM Guidelines are the policies set by the Bank for risk management covering liquidity, interest rate, investment, foreign exchange and proprietary trading. These policies and the terms of reference for the ALCO are set out n following sections.

1.6. Deposit Management

Deposit account is a savings account, current account, or other types of bank account, at a banking institution that allows money to be deposited and withdrawn by the account holder. These transactions are recorded on the bank's books and the resulting balance is recorded as a liability for the bank and represents the amount owed by the bank to the customer.

The bank shall always adhere to a better management of deposit liabilities.

The bank may maintain various types of deposit accounts mainly grouped into various categories of non interest bearing and interest bearing deposits. Though no definite composition of the deposit under categories may be fixed, the bank management shall put best efforts toward maintain the same as per the banking norms.

Considering the present deposit mix (Curent-5 percent, Savings/Call-63 percent and Fixed-32 percent), the deposits shall be spread over current, savings including special time deposits/ call and fixed in the proportion of 10-15 percent, 50-60 percent and 25-30 percent respectively as general guideline. Deviations or likely deviations on the same shall be brought into notice of the board with appropriate planned corrective measure.

The development of any new deposit product has to be announced for the benefit of targeted group and the general public in general.

1.7. Treasury Department

The bank has a separate set up of a treasury department. One of the main functions of treasury department is to manage and control the bank's money (in terms of capital and liquidity) and to make sure that all parts of the bank can readily access the cash they need for their business activities. By doing so, it makes sure that the bank remains financially secure, stable and able to function effectively to help its clients. A treasury department is also responsible for liaising with bodies that regulate banks, which set rules regarding banks capital and liquidity. In order to ensure that the bank is better able to withstand any future markets stresses, its capital and liquidity requirements has become an area of increasing focus. Banks treasury departments work closely on these issues and have a critical role to play.

In addition the treasury function may also have a Proprietary Trading desk that conducts trading activities for the bank's own account, an Asset Liability management (ALM) desk that manages the risk of interest rate mismatch and liquidity; and a Transfer pricing or Pooling function that prices liquidity for business lines (the liability and asset sales teams) within the bank.

The primary functions of a treasury department at the bank involve asset/liability management. The statistics generated by the department are typically fed to the bank's asset and liability committee (ALCO), the group which is responsible for establishing guidelines for risk taking and balance sheet funding.

The treasury department generally performs other related functions such as updating the exchange rate, checking foreign currency position at regular interval, managing the bank's und, investment in Treasury Bills / Government Bonds, participate on Open Market Operation activated, provides interbank lending/ placements to local as well to international financial institutions, takes/borrows funds from financial institutions of national and international arena also, uses hedging tools of foreign exchange as an when required under the applicable rules of governing bodies, manages reserve and risk capital requirements, funding the bank's balance sheet through a number of creative strategies.

Further, the Treasury Department is responsible for carrying out the strategies and managing the liquidity positions on a day to day basis. Al ALOC meeting, the liquidity

positions are reviewed the volatility of the forth coming deposit maturities and other outflows are examined. Treasury Department ensures that combination of matching cash flows, sufficient interbank and other borrowing facilities in place to meet the banks obligations.
An appraisal is made of the prevailing market conditions with a particular emphasis on the liquidity of the market. Future cash flows are examined and a strategy for the period ahead is agreed.

Chief Treasury & Correspondent Banking/ In-charge of Treasury Department is the member secretary of ALCO and hence organized these meetings, including preparation of the issues to be placed for deliberation, market information and maintenance of minutes. A copy of such information prepared on liquidity position and market condition shall also be informed to the Chairman of the Board through CEO.

Contents of the daily activity report, prepared by Finance & Planning Department/ MIS consisting of total loan and deposit of the bank reflecting overall exposure of bank is being reported to management on the functioning of each branch with the variance on the daily basis. The Gap analysis report is the prime instrument used for the interest rate calculation and for effective liquidity management.

In addition to the bank's usual accounting and custodial record keeping, the Treasury Department will keep records of the portfolios investments, cash positions and interest accruals and produce the portfolios for review by the ALCO monthly or on ad-hoc basis.

The Internal Audit Department is responsible for independently monitoring the compliance with regulations and limits.

2. LIQUIDITY POLICY

2.1. Overview

ALCO has overall responsibility for the liquidity policy and fully accepts that adequate liquidity is of fundamental importance to the prudent management of the bank.

ALCO, under the broader policy guidelines of Board, sets limits for the loans/deposits ratio, asset and liability maturity mismatches and the level of liquidity to be maintained as a percentage of total deposits. ALCO also supervise the asset and liability positions and sets the liquidity strategy.

ALCO & senior management needs to monitor carefully some early warning indicators to ignite liquidity problems such as:

- A negative trend or significantly increased risk in any area or product line
- Concentrations in either assets or liabilities
- Mix of individual and corporate deposits
- Quality of credit portfolio
- Portfolio having nature of multiple banking
- A decline in earnings performance or projections
- Rapid asset growth funded by volatile large deposit
- A large size of off-balance sheet exposure
- Third party evaluation (negative rating) about the bank and negative publicity
- Competitive pricing that potentially stresses the banks

2.2. Borrowing capacity

The statutory cash reserve of the average daily balance requirement for each week held with Nepal Rastra Bank may be used on the day without notice to sustain the daily liquidity requirement.

The Bank may borrow fund from various options available until the fulfillment of requirement. The interbank market is one of the primary sources of liquidity for the bank for which the bank has inter-bank transaction relationship with number of local bank counterparts. These are uncommitted facilities and drawings would depend on the available liquidity in the market. These could not be relied upon in stressful market conditions.

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

2.3. Marketable Assets

The predominant liquid asset is the Bank's holdings of GON bonds and Treasury Bills. These account for over 50% of the bank's stock of liquid assets. The assets are held for investment purposes and could be converted to cash in the event of adverse circumstances.

These assets would be eligible for the SLF or outright sale with same day settlement.

For a more prudent approach these marketable assets are included in the liquidity gap analysis at their final maturity date.

The bank also has a portfolio of foreign currency assets. These assets may be used as collateral for foreign currency borrowings.

2.4. Daily Liquidity Management

The following reports are produced:

- A liquidity gap report showing assets and liabilities maturing within each month. The data is from the latest Statement of Deposits and Advances and is updated with the current data of deposits and liquid assets.
- A daily liquidity position report showing the current cash balances held in the bank's nostro accounts and cash in vaults.
- A Borrowing and Liquidity report showing the stock of liquid assets as a percentage of total borrowing.
- A report showing the bank's holdings of GON bonds, Treasury Bills and Open Market Operation Tools.

These reports are regularly prepared by the Treasury Department and with the help of Finance Department and circulated to the ALCO members. The Daily Liquidity Position reports are reviewed each morning to ensure that they are in line with the bank's liquidity management strategy. The positions are constantly changing as new deposits are received and loans disbursed. Appropriate action is taken by the Treasury department immediately as and when required to ensure that the positions remain within the Bank's liquidity policy.

All large cash flow items, such as deposit withdrawals, loan disbursements, new deposits, foreign exchange settlements and interbank activity are reported to Treasury department on an ongoing basis by relate departments. Treasury monitors the actual movements over the NOSTRO accounts on an ongoing basis. This permits timely action to be taken.

2.5. Branch Network

The Bank's branches do not have their own liquidity management strategy. This is centralized in corporate office in Kathmandu.

Surplus balances in the bank accounts of the branches are transferred into the account of corporate office as instructed by the Treasury Department. All the disbursements requested by the branches are approved and disbursed by the Treasury Department. The corporate office in Kathmandu provides all liquidity requirements of the branches on a continuous basis.

2.6. Stress Management

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

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

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

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

The ALCO would continue to be involved until normal conditions resume.

2.7. Limits

With respect to liquidity management under the normal conditions, the limits set by the ALCO are:

a. Maintain Statutory Cash Reserves (CRR) held with Nepal Rastra Bank not less than 6% of the Current, Savings Deposit and Fixed Deposit liabilities. Such reserve ratio shall change according to the directives received from Nepal Rastra Bank from time to time.
b. Maintain Statutory Liquidity Ratio (SLR) as per the directives of Nepal Rastra Bank.
c. Maintain sufficient cash in vault to meet the branches daily operational requirements.
d. Maintain as part of the overall liquidity policy as stock of liquid assets of not less than 25% of total deposit liabilities. The stock of liquid assets may be in the form of cash held with other banks or in vault and or GON bonds/ treasury bills/NRB bonds and others etc.

e. Considering the current excessive level of paid up capital of the bank, the loans/deposits & capital ratio not to exceed 80%. This ratio shall change according to the directives from Nepal Rastra Bank from time to time.

f. The policy also includes limits being imposed for maturity mismatches over particular time periods which shall have to be furnished by finance and planning department to ALCO committee which are as follows:
   - The net negative maturity mismatch in any month as a percentage of total assets to be not greater than 10%.
   - The gross negative cumulative monthly maturity mismatches as a percentage of total assets to be not greater than 5%.

g. As per clause 2.7 of Capital Adequacy Framework 2015 of Unified NRB Directives 2074, Leverage Ratio (LR) requirement to be met. Under Basel III, a simple, transparent, non-risk based leverage ratio has been introduced. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is intended to achieve the following objectives:
   - constrain the build-up of leverage in the banking sector, helping avoid destabilizing deleveraging processes which can damage the broader financial system and the economy; and
   - Reinforce the risk based requirements with a simple, non-risk based “backstop” measure.

Calculation of the Leverage Ratio / Minimum Requirement

- The provisions relating to leverage ratio are intended to serve as the basis for testing the leverage ratio during the parallel run period. Banks are required to maintain minimum Tier 1 leverage ratio of 4% during the parallel run period from Mid July, 2016 to mid July, 2018. After the parallel run final leverage ratio requirement might be revised by NRB after taking into account the prescriptions given by the Basel Committee.
- The leverage ratio shall be maintained on a quarterly basis. The Leverage Ratio shall be calculated as:
- Leverage Ratio = Capital Measure/Exposure Measure

  (Note to be followed):

  I. Capital Measure

  a) The capital measure for the leverage ratio should be based on the definition of Tier 1 capital as per NRB Directives of Capital Adequacy Framework 2015 (2.7(I).

b) Items that are deducted completely from capital do not contribute to leverage, and should therefore also be deducted from the measure of exposure.

II. Exposure Measure

The exposure measure for the leverage ratio should generally follow the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the following should be applied by banks:

a) on-balance sheet, non-derivative exposures will be net of specific provisions and valuation adjustments (e.g. prudent valuation adjustments for Available for Sale (AFS) and Held For Trading (HFT) positions, credit valuation adjustments);

b) Physical or financial collateral, guarantees or credit risk mitigation purchased is not allowed to reduce on-balance sheet exposures; and

c) Netting of loans and deposits is not allowed.

2.8. Contingency Funding Plan

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

- **Use of CFP for routine liquidity management**

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

  a) A reasonable amount of liquid assets are maintained;

  b) Measurement and projection of funding requirements during various scenarios; and

  c) Management of access to funding sources.

- **Use of CFP for emergency and distress environments**

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

The branches are totally funded by Corporate Office as the need arises. The liquidity strategy for the branches is managed and controlled by Corporate Office. The branches do not have authority to follow an independent liquidity strategy.

In addition, limits are adhered to in maintaining the statutory balance as Nepal Rastra Bank including Net transit amount deposited less withdrawal via Note Chest of not less than 6% of Current, Savings and Fixed Deposit accounts. The ALCO may set sub-limits to provide a more stringent level of liquidity control. The limits are conservative and are reviewed regularly to allow for the availability of adequate liquidity in all market conditions.

3. INTEREST RATE POLICY

Interest rates, in general, reflect the cost of funds-the interest rate can be viewed as the opportunity cost for money where the cost of not using money is its next best alternative.

Interest rate risk is the risk of negative effects on the financial result and capital of the bank caused by changes in interest rates. Changes in interest rates affect a bank’s earnings by changing its net interest income and the level of other interest-sensitive income and operating expenses. Changes in interest rates also affect the underlying value of the bank’s assets, liabilities and off-balance sheet instruments because the present value of future cash inflows change when interest rate change. The immediate impact of variation in interest rate is on bank’s net interest income while a long term impact is on bank’s net worth since the economic value of bank’s assets, liabilities and off-balance sheet exposures are affected.

3.1. Overview

Market risk shock tries to study the relationship between change in the market risk factor and the bank’s capital position. Bank’s capital position may vary, when there is a change in the interest rate, equity prices and exchange rates. Interest Rate Shocks means or shows what happens if, there is a change in market interest rate. The interest rate risk is defined as the exposure of the bank's net interest income to adverse movements in interest rates. The LAOC has overall responsibility for the management of interest rate risk.

3.2. Gap Analysis

Interest rate risk is assessed through the use of Gap Analysis and earnings at risk techniques. The Interest Rate Gap Analysis measures the difference between the volume of assets and liabilities subject to re-pricing within a given time period. Assets and liabilities are classified for this purpose according to their contractual re-pricing characteristics.

The Gap Analysis is produced from loans and deposit data collected from the accounting. This data is collected on a daily basis. The deposit data is updated to the total deposit amount on a maturity pro-rata basis. The Gap Analysis is updated with large movements in loan accounts as they occur. Data from money market operations, GON bills and bonds and foreign exchange transactions is collected on an ongoing basis.

In addition to the Gap Analysis, the impact of interest rate movements is measured through the use of net interest income simulations for a variety of possible interest rate scenarios.

3.3. Interest Rate Policy

The ALOC has overall responsibility for the management of the interest rate risk. The interest rate gap analysis measure the difference between the volume of assets and liabilities subject to re-pricing within a given time period. The gap analysis is determined through using following techniques:

a. Comparison of the loan and deposit data collected from all the branches in the consolidated manner in the activity report.
b. The information received through money market operations, Nepalese Government bills and bonds and foreign exchange transactions.
c. The volume of the interest income and interest expenditure on every quarter end is analyzed.
d. The decision pertaining to the movements of the interest rate change on the various products are as decided by the ALCO.
e. In addition to the gap limits, it is the policy of the bank to price new advances, where possible, on a variable interest rate basis, using short term Treasury Bills and existing market rates as a reference rate. This policy is to reduce the gap exposure created by the dependence on rate sensitive savings accounts.

f. Follow the Directives, Circulars and other notices of Central Bank of the country for compliance.

3.4. Source of Interest Rate Risk

The sources of interest risk are:

a. Re-pricing risk: This risk arises from the timing differences in the maturity (for fixed-rate) And re-pricing (for floating-rate) of bank assets & liabilities positions. For instance, a Bank that funded a long-term fixed-rate credit with a short-term deposit could face a decline in both the future income arising from the position and its underlying value if interest rates increase. These declines arise because the cash flows on the credit are fixed over its lifetime, while the interest paid on the funding is variable, and increases after the short-term deposit matures.

b. Yield curve risk: Yield curve risk arises when unanticipated shifts of the yield curve have adverse effects on a bank's income or underlying economic value. For instance, the underlying economic value of a long position in 10-year Treasury bond hedged by a short position in 5-year Treasury bond could decline sharply if the yield curve steepens, even if the position is hedged against parallel movements in the yield curve.

c. Basis risk: Basis risk arises from the changing rate relationships among different yield curves effecting bank activities. It arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics. When interest rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and OBS instruments of similar maturities or re-pricing frequencies.

d. Optionality: An additional and increasingly important source of interest rate risk arises from the options embedded in many banks' assets & liabilities portfolios. Formally, an option provides the holder the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract. Options may be stand-alone instruments such as exchange-traded options and over-the-counter (OTC) contracts, or they may be embedded within otherwise standard instruments. While banks use exchange traded and OTC options in both trading and non-trading accounts, instruments with embedded options are generally more important in non-trading activities.

3.5. Sound interest rate risk management practices

Sound interest rate risk management involves the application of following basic elements in the management of assets and liabilities:

a) Appropriate board and senior management oversight;
b) Adequate risk management policies and procedures;
c) Appropriate risk measurement, monitoring, and control functions; and
d) Comprehensive internal controls and independent audits.

4. TREASURY MANAGEMENT POLICY

Treasury management policy will be the guiding principle of daily treasury operation of the bank. Treasury Department of the bank headed by Chief / In-charge Treasury, Treasury Department under the supervision of the CEO with the support of Chief Resources Officer/Chief Operating Officer will monitor the implementation of policy on daily basis.

The Treasury Department will have three units namely Front Office Operation (FOO), Middle Office Operation (MOO) and Back Office Operation (BOO). The in-charge of the FOO and BOO will be Officer and above level. The daily front office operation shall be conducted by the FOO staffs, will be known as dealers of the bank and BOO will work as supporting and controlling unit of the Treasury Department under Operation wing of the bank. MOO shall be independent and prepares adequate reports & bridges overall activities of the Department.

4.1. Treasury Operations

The objective of this policy is to utilize the surplus funds in income generating activities simultaneously maintaining adequate liquidity in the bank. The policy not only ensures the implementation of guidelines set forth by central bank, but also evaluates withdrawal habits of the customers and daily liquidity requirement of the bank. The main objective of the bank is to maximize the profitability of the bank by efficient utilization of the funds. The investment however should be guided through the principle of the diversification of risk and maturity pattern.

To operate smoothly of the treasury operation in terms of liquidity, following programs are to be implemented.

a. Front Office Operation (FOO) ascertains weekly liquidity projection of the bank from the report of Back Office Operation (BOO) as per the requirement of central bank and monitors on daily basis and the Fund Position report to that effect to be prepared on daily basis.

b. FOO is required to obtain branch wise position on daily basis so that liquidity projection can be met.
c. FOO also obtains maturity wise list of fixed deposit/call deposits from central marketing department of the bank in co-ordination of each branches in advance so as to ensure likely withdrawal in advance for the management of the liquidity of the bank can be managed.
d. FOO is liable to obtain daily cash position of all branches on daily basis and ensure that hard currency is not remained excess / idle for longer tenure.
e. FOO effects inter branch transfer of funds, as per the requirement to ease the operation.
f. FOO is required to utilize the fund in the efficient manner so as to ensure earning.
g. FOO may enter inter bank borrowing / lending arrangements, including Repo / Reverse Repo, Deposit Collection, Outright Sale / Purchase, SLF (Statutory Liquidity Facility) and other arrangements introduced in Money Market with the approval of Chief – Treasury & Correspondent Banking.
h. Treasury Department is viewing high liquidity cash shortage (due to various reasons including contingency withdrawals) or finding better investment opportunities may enter into outright sale of government securities or any form of such instruments issued by NRB from time to time.
i. Middle Office shall be set up for smooth treasury operation on need basis.

Back office functions include passing of all the necessary vouchers and correspondence of the functions done by the front office and checking & monitoring of Nostro accounts and notify the FOO. The back office additionally looks after processing / assisting Foreign Inward Remittances to the respective branches, to ensure the release and settlement of all treasury transactions, ensure prompt transmission of related SWIFT messages and confirmation, daily input of foreign currency rates in core system, ensure setting up of Test Key/BKE/RMA arrangement with foreign banks etc.

5. FOREIGN EXCHANGE MANAGEMENT POLICY

5.1 Overview

Foreign exchange is the risk of negative effects in the financial result and capital of the bank caused by changes in exchange risks. It refers to the impact of adverse movement in currency exchange rates on the value of open foreign currency position. As a result, the bank may suffer losses due to change in discounts of the currencies concerned. It also may be defined as the exposure to the bank's net interest income to movements in exchange rates. When the assets in one currency exceed the liabilities in the same currency then the currency mis-match may add value or erode value depending on the currency movement.

The foreign exchange positions arise from the following activities:

- Trading in foreign currencies through spot, forward and option transactions as a market maker or position taker, including the unheeded positions arising from customer-driven foreign exchange transactions;

- Holding foreign currency positions in the banking book (e.g. in the form of loans, bonds, deposits or cross boarder investments); or

- Engaging in derivatives transactions that are denominated in foreign currency for trading or hedging purposes.

In the foreign exchange business, the bank may face the risk of default of the counter parties or settlement risks. The foreign exchange transactions with counter parties situated outside Nepal also involve sovereign or country risk.

The bank is a natural buyer of foreign currency, mainly USD, Euro, GBP etc. through remittances against payment of export LCs, from Nepalese people working overseas, and buying from the market. The bank encourages increasing volume of remittance business.

5.2 Foreign Exchange Policy

In general the policy is to close out customer foreign positions as they arise. Due to the nature of many of the customer deals, which are smaller than would be economic to cover in the inter-bank market, there is typically a residual balance in currencies. The ALCO may set limits to the open position that may be held in any currency. The bank may take proprietary trading positions as a conscious policy. These positions would be approved by the Chief Executive Officer and managed on a daily basis by Treasury Department.

5.3 Foreign Exchange Management

When the asset in one currency exceeds the liabilities in the same currency, then the mismatch occurs which may add value or erode value depending on currency movement. To track down the movement of the FCY position, the report of same shall be prepared with the consolidation of all the branches. To increase the FCY Position it is recommended to all branches to increase the FCY accounts for striving to have good volume of business.

The bank issues drafts, cards & LCs which require maintenance of adequate foreign currency, including Indian Currency. The Treasury Department looking at the drawings of drafts, withdrawals from cards, cash exchange and issuances of LCs shall evaluate need of foreign currency and shall be fulfilled as under.

- inflow of foreign currency into the bank
- purchase of foreign currency from the local banks
- purchase of foreign currency from Nepal Rastra Bank

The convertible position of the bank shall be USD as the base of currency. Basically, bank will maintain convertible foreign currency for the transaction motive and trading motive.

5.4 Transaction Motive

- Treasury department will obtain the list of weekly trade payment obligation from branches. Other payment obligation, including customer transfers shall be accounted for on daily basis. The position of currency shall be taken short and long looking at the volatility in the exchange rate and market information to be accounted. The exchange rate of foreign currency is changing in every second, the Department shall take the best decision based on the situation at the time of the doing transactions and fixation of rate of foreign currency.

- The bank may enter forward transaction including Non Deliverable Forward (NDF) as per need and keeping in line with the guidelines/circulars set by central bank. The forward premium of the bank at the time of forward and discounting rates for Letter of Credits shall be decided by Chief Treasury & Correspondent Banking/ Head- Trade Finance in consultation with the Chief Executive Officer. Further, if the forward rate and discounting rates have been fixed during the approval process looking towards the market rate, inherent risk therein and profitability of the bank; separate approval from the concerned department is not required.

5.5 Trading Motive

Bank will purchase and hold other foreign currencies namely GBP, EURO, JPY, AUD and other convertible currencies for the purpose of currency trading.

5.6 Others

Bank, at any time enter the SWAP deal with other banks including the central bank to cover its nostro position. Swap deal in USD/NPR, USD/EURO, USD/GBP, USD/JPY AND USD /AUD shall be performed to cover position of either of the currencies. To assessing its aggregate foreign currency liquidity needs and the acceptable mismatch in combination with its domestic currency commitments, the bank undertakes separate analysis of its strategy of each currency through ALCO meetings.

6. ALCO TERMS OF REFERENCE

6.1 Membership

The membership of the ALCO comprises of the following:

- Chief Executive Officer
- Deputy Chief Executive Officer
- Chief Risk Officer
- Chief SME and Retail
- Chief Operating Officer
- Chief Finance Officer
- Chief Corporate Banking
- Chief Marketing
- Chief Treasury & Correspondent Banking (Member Secretary)

Other members may be added with the approval of the CEO/ALCO.

6.2 Responsibilities

ALCO will be responsible to-

- Set investment policy and risk parameters and tolerance levels
- Ensure structure of the portfolios comply with the banks investment strategy
- Approve types of instruments for inclusion in the portfolios
- Review performance of the portfolios assessing various types of risk with investment returns

- Review transactions executed by the Treasury Department
- Approve recommendations to improve investment returns
- Review of markets and global economic outlook as and when required
- Ensure the record keeping and accounting of the portfolios are in line with Nepal Rastra Bank guidelines.
- Undertake planning and managing the capital and funding structure of the bank's balance sheet. This involves liaison with appropriate divisions regarding financial plans and budgets, business developments and new products, capital adequacy and liquidity.
- Review, amend and adopt policy statements in relation to the Asset and Liability management of the bank.
- Oversees the actual exposures of limits set by the ALCO for Inter-bank/ Counterparty Exposures, Interest Rate Risk Exposures, Foreign Currency Risk Exposures and Liquidity.

The Treasury department will be responsible for executing transactions in line with the recommendations and policies of the ALCO or the Chief Executive Officer and will monitor the portfolios on a daily basis in line with market conditions.

The ALCO also considers warning signs of future liquidity stress. These warning signs could be:

- Forecasts of an economic downturn domestically or in world markets and the ability of bank customers to service their obligations in these conditions.
- Adverse publicity and the likely effect on the deposit base.
- Illiquid inter-bank markets.
- Excess asset growth above budgets requiring more rapid funding needs.
- Changes in lending policies of major counterparts from whom the Bank borrows.
- Changes in regulatory compliance affecting the market as a whole.
- Changes in the investment pattern due to taxation or other general conditions, e.g. depositors shifting to other investment opportunities.

6.3 Interest Rate Risk Management

ALCO manages the rate sensitive assets and liabilities of the bank and the effect of interest rate changes, so as to preserve and optimize the interest return, within the ALCO limits.

6.4 Foreign Currency Risk Management

ALCO oversees foreign currency risk of the bank and the effect of rate changes, so as to preserve and optimize the return, within the ALCO limits.

6.5 Commissions & Charges

ALCO reviews, amends and adopts the schedule of commissions and charges for services offered to customers of the bank.

6.6 Working Modality

The ALCO would normally meet once a month or such period as is deemed necessary. In its meetings, it formally reviews the liquidity positions, discuss current market situation, reviews the pricing, explore the new investment avenues, and examine the maturities and likely liquidity conditions for the coming months.

The ALCO would consider normal liquidity conditions to be where the Bank has provided sufficient cover to meet all normal repayments and to meet all budgeted growth in the balance sheet.

Limits may be set by the ALCO at amounts and or periods less than that approved by the Board of Directors.

7. INVESTMENT POLICY

7.1 Introduction

The investment policy document deals with the policies, rules & regulations relating to investment of funds by the bank in different investment avenues (other than loans and advances related investments/ financing) for better yields and efficient risk management.

Unless specifically mentioned investments means investment made in the form of Equity or Bonds in institutions, investment in government securities and lending/ placements forwarded to Banks & Financial Institutions and other financial conglomerate.

This policy shall be effective from the date of approval by Board of Directors of Nepal Credit & Commerce Bank Ltd.

The contents of this policy partially or wholly may be amended/ altered by the Board of Directors of Nepal Credit & Commerce Bank Ltd., as and when necessary.

The management shall issue memorandums/circulars, as applicable, to all concerned staffs informing on the Investment policies of the bank and directing implementation of rules, regulations and working/operating procedures. All staffs of the bank, involved in any phase of investments, must understand and be familiar with the contents of this policy and any amendments/ alterations thereto.

This policy complies with the guidelines stated in Direction No. 8 of Nepal Rastra Bank (NRB) (Unified Directives 2074). Any change/ amendments in NRB's directions shall be brought to the attention of Board of Directors and the same shall be circulated to all concerned staffs of the bank.

7.2 Objectives

The objective of the investment policy of the Bank is to ensure that all investments in securities, including investments in GON Bonds / Treasury Bills are made with appropriate authority, with appropriate diligence and in compliance with Nepal Rastra Bank's directives and guidelines. Focus shall be given to overall Risk Management and Portfolio Management of the bank before deciding on any investment avenues.

The bank shall prescribe limits for investments and credit exposures to domestic and international banks and financial institutions for better and diversified risk management. These limits will be bounded by the limit delegated to CEO by the Board of Directors. The limits and exposures shall be reviewed at lease once every year and will be set by Treasury Back Office/ Finance & Planning as applicable and supported by Risk Management unit of the bank where applicable. Such approved limits will be forwarded to the Board of Directors of the bank for final review, any comments and suggestions forwarded by the BOD's will be incorporated in the limit set.

The bank shall look for new investment products and opportunities. The bank shall make all investment decisions focusing on optimum utilization of banks fund and liquidity position or assets-liabilities maturities.

7.3 Compliance with Regulatory Guidelines

The investments/transactions in securities/placements with other banks/financial institutions, whether domestic or foreign, are to be conducted strictly within Nepal Rastra Bank's directives and guidelines and relevant laws governing the security instruments.

The investment portfolios must also conform to Nepal Rastra Bank's directives and guidelines governing the same.

7.4 Investment Management

NCC Bank shall make investments to optimize utilizations of funds and maximize profits, but at all point of time shall ensure safety and security of shareholders and depositors. The following factors shall be taken into account while making investments:

- The Bank's liquidity position
- Return on yields on investments
- Financial positions of the institutions in which the investments are to be made
- Repayment or settlement tenor of investments
- Portfolio Management and Risk Management Guidelines of the bank
- NCC Bank's policies and Nepal Rastra Bank's rules and regulations

NCC Bank is permitted to make investments in foreign currency deposits in the form of Fixed Deposits/ Placements, securities issued by financial institutions and government debt instruments remaining under the guidelines of Nepal Rastra Bank.

No investments in bonds, hybrid instruments and shares of financial institutions licensed by NRB shall be made; however, investments made obtaining prior approval from Nepal Rastra Bank will not be subject to this clause.

NCC Bank is permitted to make investments in debt instruments such as corporate debentures and or commercial paper as and when these securities become available.

The bank is also permitted to invest in equity and or preference shares of entities that are required to meet mandatory or corporate obligations or in cases where such investments are strategic in nature or may result from a debt- restructuring proposal on a non-performing asset.

The maximum amount of investment in a single domestic commercial bank shall be restricted to 4% of local currency deposits of the bank, for single domestic development bank the limit shall be restricted to 1% of local currency deposits of the bank and for a single other financial institution the limit shall be restricted to 0.5% of local currency deposits of the bank. Likewise, the maximum amount of investment in a single international financial institution shall be restricted to 6% of total deposits of the bank. The international institutions in which the bank is to make investments shall be multilateral institutions and financial institutions with A+ ratings as per reputed rating agencies, classified by first class by Nepal Rastra Bank or should fall under the Top 1000 banks as rated by the Banker's Magazine. Notwithstanding, in both the above cases of investments, the bank shall place due considerations to the limits prescribed to each institutions. However, for placements/ inter-bank lending to local financial institutions, there shall be no limit to cash collateralized investments or Investment made against collateral of government securities.

Authority for various Investments/ Placements/ other Limits set in this policy can be delegated by the CEO of the bank to his/her subordinates based on their individual capacity and experience.

Other permitted level of investments in various instruments would normally be limited to the limit set below.

(a) Government Bonds/Bills

As per the need, the bank may invest its funds in government securities both on primary and secondary market up to the desired level and limit is not fixed for such type of investment due to the risk free investment opportunity.

To the possible extent, investment in government securities shall be made on regular basis and the maturity of the same should be as possible as fall on every month so that the liquidity cycle in maintained.

Investment in various categories of the government securities may further be limited to certain percentage of total deposit. The short term investment relatively yield lower rate of interest. On the other hand, long term investment, though yield relatively higher rate of interest, will be tied up for the longer period of time and thereby exposes to interest rate risk and high cost of liquidation incase of the contingency scenario. The limit of investment on these cases shall be as follows:

Treasury Bills	Less than 91 days	up to 35% of total deposit
	More than 91 days to 364 days	up to 25% of total deposit
Bonds	Up to 5 years	up to 15% of total deposit
	More than 5 years to 15 years	Up to 10% of total deposit

(b) Inter-Bank Placement/ Lending

- The regular and easiest investment opportunity of treasury operation is inter-bank placements. Treasury may invest short term excess funds up to 7 days in inter-bank lending in both local as well as foreign currency. Such investment can be rollover as per the request of the borrower as a fresh deal.
- The bank shall make foreign currency placements in the form of FD/ Automatic Overnight Placement/ Others for a maximum period of 1 Year. Any directives/circulars pertaining to placements and duration of such placements prescribed by Nepal Rastra Bank will be applicable and restriction thereof will surpass this clause. However, restriction on time duration will not apply if necessary approvals are in place.
- Chief – Treasury & Correspondent Banking shall submit a report of the inter-bank transaction to ALCO/CEO on monthly basis.
- To make the treasury operation easier and smoother, a clean limit to commercial banks and other financial institutions may be set up by ALCO.
- Where the clean limits for inter-bank lending to particular banks and financial institutions are set by ALCO, the inter-bank placement shall be limited such limit except approved by the CEO.

(c) Foreign bank placement

- Taping the interest rate variation and finding profitable opportunity, the bank may keep placements with foreign banks, ventures promoted by those banks, in which we maintain our Nostro accounts and also with other reputed banks in one off basis.

- The Bank, on need basis, may place its funds in foreign bank as collateral to operate transaction relating to trade finance.

(d) Investment in Corporate Debentures

- Investments in corporate debt securities (local as well as international), such as debentures or commercial paper, should follow the same internal discipline as loans and advances made to corporate entities and institutions.
- Investments in these instruments primarily entail assuming credit risk and therefore will be governed by the credit approval process of the bank. A memo covering a detail analysis of the company, its financials, industry etc., will need to be approved by the appropriate authorities.
- Investments in these instruments will be governed by the credit policy of the Bank as applicable from time to time.
- In addition, investments will also be governed by other parameters like economic profit, minimum returns as defined and or amended by the Bank from time to time.
- Interest may be payable quarterly, half yearly or annually or paid and /or converted on maturity as per the terms of the instrument or in the case of commercial paper may be purchased at a discount.
- The repayment of the instrument may be monthly, quarterly, semi-annually or annually or in the case of commercial paper may be for a broken period or in the case of convertible debentures it may be paid and /or converted partially or fully. The instrument may also carry a put/call option at the end of a certain period. It is preferable for investments beyond 1 year that the repayment is amortizing in structure.
- The instrument should be transferable in nature. Exceptions need to be specifically approved by the appropriate authority.
- Investment can be made in a primary issue or through a secondary market.
- Primary issues could be either bilateral or through a market offer.
- Proper documentation shall be executed with respect to allotment and debenture certificates. Any deferrals or waiver of any documents shall be approved on a case-to-case basis by the relevant approving authority.
- The Treasury Department will be responsible for completion of all the relevant security documentation.
- Monitoring will be identical to that undertaken for loans and advances to corporate entities. Covenants, as included in the term sheet, facility letter or debenture subscription agreement, will be monitored and reviewed by the Treasury Department. Breach of covenants, if any, will be reported to the Chief Executive Officer and course of action to be decided thereafter.

- The Treasury Department will monitor and confirm redemption or repayment of the Debentures. In case of delay in repayment, penal rate as agreed upon previously has to be levied.

(e) Investment in Shares, Mutual Funds

The bank may invest in equity or preference shares and Mutual Funds of entities.

- All such proposals have to be evaluated by the ALCO and will include an analysis of the benefits both in terms of financial returns and qualitative aspects, regulatory compliance etc, and recommendation made to the Board of Directors after a thorough study.

- All such investments can be made after approval of the type and class of such investments by the Board under the recommendation of ALCO/CEO.

- Subscription to the shares may be made in progressive stages up to the approved investment amount. Due diligence should be exercised in verifying the authenticity and validity of the security instrument and settlement limits obtained on the counterparty should settlement risk exist between time of payment and receipt of security. In case of advance subscriptions, credit limits on the issuer should be in place.
- Investments will be recorded at acquisition cost with dividend income recognized as and when it is received. In the extraordinary circumstances, when the investment ends up in acquiring controlling interest in the entity, the investment will have to be accounted for by the equity method or consolidation as is appropriate as per the accounting policy guidelines applicable from time to time.
- Divestment of shares from this investment portfolio may become desirable with changing circumstances and business requirements. All such divestments have to be recommended by the ALCO with proper justification and be approved by the Board.

(f) Underwriting of Public Share/ Debenture Issue

The bank may enter into an agreement for underwriting the public issue of shares and debentures of a public limited company.

- All such proposals have to be evaluated by the ALCO and will include an analysis of the benefits both in terms of financial returns and qualitative aspects, regulatory compliance etc, and recommendation made to Board of Directors after a thorough study.

- The Board, under the recommendation of ALCO, shall be the final authority to approve such underwriting activities.

- Booking of the instruments resulting on account of non-subscription of the public issue will be recorded at acquisition cost with commission income recognized separately.

- It should always remain priority of the bank to dispose such investment at the earliest opportunity available.

- Method of disposal and pricing shall be as approved by the Board under the recommendation of ALCO.

7.5 Organization Structure

There will be a clear functional separation of investment deal originations and operational functions. The investment proposers or deal originators will be from the Treasury Department. The deal originators main job responsibility is to identify investment opportunities in the marketplace, make appropriate investment recommendations and negotiate deals.

The Back Office Operation of Treasury Department is responsible for processing, settlement, custodial, accounting activities. They are also responsible for monitoring non-financial covenants, settlement risk and counter-party exposure.

Finance & Planning Department/ Central accounts Department as applicable shall be responsible for the guidance on the accounting principles and tax related issues applicable on the investment/returns/write-off's etc. from time to time.

7.6 Valuation of Investments

The bank shall value investments in shares, debentures and government securities at cost price or market price, whichever is lower, unless otherwise specifically approved by the competent authority.

Should the market price of the investment in shares, debentures and other securities listed in Nepal Stock Exchange Ltd., be lower than the cost price, adequate and sufficient provision shall be made for the difference amount and shown in the Balance Sheet after deducting provision. The difference amount equals to cost price less market price.

Investment in shares and debentures/bonds that are not listed with Nepal Stock Exchange Ltd., shall be shown at the cost price. Necessary Investment Adjustment Reserve shall be created if the investment have breached set guideline of this policy or have breached any directives/ circulars issued by Nepal Rastra Bank from time to time, unless otherwise specifically approved by the competent authority.

8. EXCEPTIONS

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

9. AUDIT

- Treasury Department's activities shall be subject to regular audit by the internal auditors on yearly basis.
- Investments will be subject to audit as applicable to other loans.

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	