NCC Bank

नेपाल क्रेडिट एण्ड कमर्स बैंक लि.

Nepal Credit & Commerce Bank Ltd.

Your Business Bank

Internal Credit Risk Rating Guideline- 2018

(***Review of Internal Credit Risk Rating Guideline- 2072***)

Approved by:

687th Board Meeting

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

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Nepal Credit & Commerce Bank Ltd.
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The Board Meeting No. 687th
held on 2075.02.14 (28th May, 2018)
has decided to review, the

"Internal Credit Risk Rating Guideline, 2018"

(Review of Internal Credit Risk Rating Guideline- 2072)

Kapil Gnawali
Company secretary
2075-02-14

Preamble

Internal Credit Risk Rating Guidelines 2072 has been reviewed and Internal Credit Risk Rating Guidelines 2018 has been prepared in order to accommodate the changes required and make the Guideline more comprehensive and effective tools for credit assessment. The following major changes are in this Guideline:

RISK GRADING STRUCTURE

Earlier there were 5 risk grades viz. A, B1, B2, C, D and in this amended guidelines 9 risk grades are provided viz. A1,A2, A3, A4, B, C, D, E, F and G. Loan downgraded as per NRB Directives are categorized under separate risk grade category named C, D, E, F and G.

Roles and responsibilities of Board, Senior management, Credit approving chain and other concerned department has been incorporated.

For SME LOANS

Following new parameters are added in this section:

- Profitability
- Cash Operating Cycle
- Sales to W/C limit

For CORPORATE LOANS

Following new parameters are added under "Capacity – Financial Strength" section:

- Current Ratio
- Cash Operating Cycle
- Sales to W/C limit

Separate risk grading system has been developed for Home loan, Vehicle loan/Hire purchase loan, Personal loan/ Easy loan and Margin lending. Previously, there was a single system for risk grading system for home loan/auto loan/easy loan.

For HOME LOAN

Following new parameters are added in this section:

Loan Amount

Loan Tenure

Income Type

For VEHICLE LOAN/HIRE PURCHASE LOAN

Following new parameters are added in this section:

Loan Amount

Loan Tenure

Income Type

Vehicle Brand

For PERSONAL LOAN/ EASY LOAN

Following new parameters are added in this section:

Loan Amount

Income Type

For MARGIN LENDING

Following new parameters are added in this section:

Loan Amount

Nature of Share

Internal Credit Risk Rating Guideline, 2018

1. INTRODUCTION

Credit risk arises from the potential that a borrower is either unwilling to perform the obligations or its ability to perform such obligation is impaired resulting to financial losses to the Bank. Bank's failure to assess and manage credit risk proactively may be detrimental to the financial health of the Bank and may lead to severe losses to the bank.

Risk management function is considered to have become more complex at present in view of the increased number of players in the banking sector, high competition amongst the respective industries, unfavorable external factors / environment, increased staff turnover, etc. With the growing complexity and competition in the banking business there is a need to have a more structured risk assessment and also be able to provide a timely decision to customers. An effective management of credit risk requires that the risk is identified and measured properly.

Credit risk grading is an important tool for credit risk management as it helps the bank to understand various dimensions of risk involved in different credit transactions. The aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio of the Bank or a Branch. The credit risk grading system is vital to take decisions both at the pre-approval stage as well as reviewing stage.

At the pre-approval stage, credit risk grading helps the approving authority to decide whether to lend or not to lend, what should be the loan price, what should be the extent of exposure, what should be the appropriate credit facility, what are the various facilities, what are the various risk mitigation tools to put a cap on the risk level.

Credit risk ratings are designed to reflect the quality of a loan or other credit exposure, and thus – explicitly or implicitly – the loss characteristics of that loan or exposure. This guideline contains guidance both on the factors that should be considered in assigning a grade, and how these factors should be weighed in arriving at a final grade.

2. OBJECTIVES

The internal credit rating guidelines has been developed to promote the Bank's safety and soundness in terms of credit decisions and monitoring through the informed decision-making through different dynamics of credits. Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns. At the reviewing stage, the

Bank can decide about the depth of the review or renewal, frequency of review and any other precautions to be taken.

Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile of a Bank. It is also relevant for portfolio level analysis.

3. RISK GRADING STRUCTURE

Risk grading of the credit facilities have been classified under the following grades.

<table>
<tr><th>Risk Grade</th><th>Grade Parameters</th><th>Risk Level</th><th>Additional Parameter</th></tr>
<tr><td>A1</td><td>90% and above</td><td>Superior- Virtually No Risk</td><td rowspan="4">Only Pass category loans under NRB Directives.

Loans provided under 100% cash security, Gold loan or Fixed Deposit loans shall be graded as A1 grade.</td></tr>
<tr><td>A2</td><td>80% to 89%</td><td>Good- Low Risk</td></tr>
<tr><td>A3</td><td>70% to79%</td><td>Acceptable- Medium Risk</td></tr>
<tr><td>A4</td><td>50% to 69%</td><td>Marginal- Below Medium but not to High Risk Level</td></tr>
<tr><td>B</td><td>Below 50%</td><td>High Risk</td><td>Preferably not acceptable</td></tr>
<tr><td>C</td><td></td><td>Watch List</td><td>All Watch list category loans under NRB Directives to be graded.</td></tr>
<tr><td>D</td><td></td><td>Restructured & Rescheduled</td><td>All restructured and rescheduled loans under NRB Directives to be graded.</td></tr>
<tr><td>E</td><td></td><td>Substandard</td><td>All Substandard loans under NRB directives.</td></tr>
<tr><td>F</td><td></td><td>Doubtful</td><td>All Doubtful & Loss categories loans under NRB Directives</td></tr>
<tr><td>G</td><td></td><td>Bad/Loss</td><td>All bad loans as per NRB Directives</td></tr>
</table>

Borrowers shall be categorized into seven categories viz.A, B, C, D, E, F and G. The A category shall further be sub-categorized into A1, A2, A3 and A4. Only the good loans fall under A and B category.

If the loan falls under the Watch List, Restructured/Reschedules or NPA, the loan should be graded accordingly under the grade C,D, E, F or G as per the quarterly loan loss provisioning report prepared as per the norms of Nepal Rastra Bank.

If the loan is graded under category B, it is best to decline the proposal. Branch should not propose for approval when the credit proposal falls under B category. Sometimes it may need to sanctions due to other strong risk mitigating factors, in such condition Credit Appraisal Memo (CAM) must incorporate the strong mitigating factors and conditions for justifying the risk as indicated. Such loan should be approved by one layer higher authority.

4. BENEFTIS OF CREDIT RISK GRADING SYSTEM

Credit Risk Grading is expected to:

- Serve as an Early Warning System that identifies treatment of non-performing loans. It helps in predicting likelihood of loss, using two distinct dimensions: (a) Risk / Likelihood of default and ability of the customer to repay the loan (b) Loss given default and loss in the event of non-payment of the loan.
- Guide pricing decisions
- Assist in making timely and cost-effective decisions and thus ensuring timely customer response. It is a step towards automation of credit decisions.
- Enable low risk revenue growth
- Facilitate centralised understanding and management of risk at the portfolio level
- Ensure quality assets & enhance internal efficiency
- Help in policy / strategy making / formulation of business plans.
- Serves as guidance for asset liability management
- Support in setting exit strategies.

5. CREDIT RISK GRADING PROCESS AND MONITORING

i. All the credit proposals should be preceded with the credit risk grading. It is applied on new proposal, renewal, enhancements, restructured etc irrespective of amount and tenure. Loans provided against Fixed Deposit of the Bank, Gold and 100% Cash Margin, this process is not required however Risk grade should be inserted on CBS.

ii. Risk factors are to be evaluated and weighted very carefully, on the basis of most up-to-date data and complete objectivity must be ensured to assign the correct grading. Actual parameter should be inputted in the Credit Risk Grading Score.

iii. Credit risk grading exercise should be originated by Relationship Officer of the branch and should be an on-going and continuous process. Relationship Officer shall complete the Credit Risk Grading Score Sheet and shall arrive at a risk grading in consultation with Credit In-charge and Branch Manager and document it as per Risk Grade Score Card, which then should be forwarded to approving authority along with the Credit Appraisal Memo (CAM).

iv. Reviewing and approving authority should review the risk grading minutely and may advise for any changes/revision i.e. upgrade or downgrade in credit risk grade based upon the due credit assessment. Credit approving channel shall review it and take a basis for decision making.

v. Risk grade should be updated in the Core Banking System (CBS) on each loan account based upon the approved sheet. Loan cannot be sanctioned or limit cannot be assigned without updating the risk grade on CBS. Centralized Credit Operation Department (CCOD) must be ensured on each new loan and renewals that risk grade are assigned on loan account.

vi. Bank has lots of existing and old accounts where the risk grades are not calculated. Those accounts are continuing before implementing the Guideline. Branch has to complete the grading of loan account by July 16, 2018. It is mandatory to have risk grade in all loan accounts maintained at CBS. Centralized Credit Monitoring Department should monitor the work status and make regular follow ups for the task. CCOD should develop a time line plan, get approved from Chief Executive Officer and implement accordingly.

vii. CCOD updates the credit grade on CBS based upon the loan loss provisioning under the risk grade C,D, E, F and G. If loans are come out from Watch list, Restructured or NPAs, it has to be further brought into the original risk grade. This process has to be done on quarterly basis.

viii. IT department make available the spaces to insert the risk grade on CBS. The changes on CBS would be recorded on history log.

ix. Credit Risk Management Department generates the report on credit exposure based upon the risk grade and submits the report to CEO. The report is further submitted to Risk Management Sub-Committee and Risk Management Committee on quarterly basis.

x. Officials of Credit approving chains should consider the risk grade as one of the major parameter during evaluation of credit proposal and decision making.

xi. Senior management should periodically review the total exposure of bank on various risk grade prepared by the concerned department and develop the future strategy accordingly.

xii. Broad shall approve as well as timely review this guideline. Further, it may give the necessary instruction to the management on the basis of review of Risk grade report prepared by the management.

6. BORROWER RISK GRADE

6.1 SME LOANS

Risk grading for SME borrowers, as prescribed by the PPG of the Bank, shall be on individual account basis as per followings:

S. No	Parameters	Weight	Scores			
			4	3	2	1
1	Real Estate Collateral (FMV)	35%	167% and Above	100% - 166%	75%-99%	Below 75%
2	Current Ratio	5%	Above 2.5:1	Above 2:1	Above 1.5:1	Up to 1.5:1
3	Leverage Ratio	10%	Up to 0.5	Up to 1.0	Up to 2	Above 2
4	Debt Service Coverage Ratio	10%	3 and Above	2.5 and Above	2 and Above	Up to 2
5	Profitability	5%	Minimum 3 years with profit	Minimum 2 years with profit	Minimum 1 year with profit	New registered
6	Management Quality	10%	Minimum 5 years experience in related field	Minimum 3 years experience in related field	Minimum 1 year experience in related field	New entrant
7	*Past Track Record	10%	3 years with satisfactory repayment history	2 years with satisfactory repayment history	1 year with satisfactory repayment history	Payment not made on or before due date
8	Cash Operating Cycle	5%	Below 45 days	45 – 90 days	90 - 120 days	>120 days
9	Sales to W/C limit	10%	> 4 times	3-4 times	2 -3 times	Upto 2 times

In case of new borrowers, 2 credit score to be given.

Additional consideration in the case of real estate collateral:

- *Type of property: Residential, commercial, agricultural or vacant land*
- *Ownership of property: Self-owned, family members*

6.2 CORPORATE/BUSINESS LOANS

The weights to be awarded to each factor, their parameters and the points of the defined parameters shall be as below mentioned.

a. *Security Coverage (Weight 30%)*

S. No	Type of security	Weight	Scores			
			4	3	2	1
1	Real Estate (FMV)	20%	167% and Above	100% - 166%	75% - 99%	Below 75%
2	Hypothecation over Fixed Assets/Current Assets	10%	143% and above	132% - 142%	111% - 131%	Below 111%

Additional consideration in the case of real estate collateral:

- *Type of property: Residential, commercial, agricultural or vacant land*
- *Ownership of property: Self-owned, family members*

b. *Capacity - Financial Strength (total weight 30%)*

S. No	Factors	Weight	Scores			
			4	3	2	1
1	Current Ratio	5%	3:1 and Above	2:1 and Above	1.5:1 and above	Below 1.5:1
2	Debt Service Coverage Ratio	5%	2 and Above	1.5 and Above	1 and Above	below 1
3	Operating Profit/Sales	5%	10% and above	7% and above	5% and above	Below 5%
4	Leverage Ratio (D:E)	10%	Below 1	1 and Above	2 and Above	4 and Above
5	Cash Operating Cycle	2.5%	Below 45 days	45 days and Above	90 days and Above	120 days and Above
6	Sales to W/C limit	2.5%	>4 times	3-4 times	2 -3 times	below 2 times

1. The debt service coverage ratio calculates the amount of cash available to meet debt obligations. Excluding tax considerations, Debt service coverage ratio = [Net Income + Depreciation & Amortization + Interest Expense] / [Interest Expense + Principal Payments].
2. Operating profit is defined as gross profit minus all regular (operating) expenses, excluding tax considerations. Audited Figures of latest completed financial year should be considered. However, in case of newly registered firm, projected figure of first financial year should be taken.
3. The leverage (Debt/Equity) ratio indicates the proportion of assets invested in the business that are financed by the borrowing. In theory, the higher the level of borrowing (gearing) the higher are the risks to the business, since the payment of interest and repayment of debts are not optional in the same way as dividends. However, gearing can be a financially sound part of business's capital structure particularly if the business has strong, predictable cash flows.

c. Credibility of Business (total weight 20%)

S. No	Factors	Weight	Scores			
			4	3	2	1
1	Past track record with the bank	5%	Excellent relationship over last five years or more with no overdue	Good relationship over last three years or more with interest/ principal payment overdue occasionally without willful intent.	Possibly a good customer. No significant departure from the arrangements over last two years or lower. The new customers shall fall under this category.	Account downgraded in any quarter during last 12 months.
2	Relationship with other group members (supplier/ customer relationship)	5%	Very strong. Always able to set terms and conditions	Strong. Well established relationships with the ability to influence terms and conditions	Price taker. Not able to influence terms of business	Restricted supply arrangements imposed. Difficulty in paying creditors and collecting debtors.
3	Market Positioning	5%	Dominant leader in the market.	Strong in principal market or strong player. Recognized advantage in product quality or cost.	Fair position in the market. Limited advantage in product quality or cost.	Declining with clear weaknesses and limited capability to alter position.
4	Reference	5%	No evidence	Occasional	Occasional	Frequent

	from other Banks/CIC		of defaults.	defaults but subsequently regularized within max 3 months.	defaults but subsequently regularized within 3 to 6 months	defaults. Un-acceptable

d. Capacity of Management (total weight 15%)

S. No	Factors	Weight	Scores			
			4	3	2	1
1	Qualification of CEO/ Management Team	5%	Graduation	Intermediate / 10+2	SLC	Below SLC
2	Experience / Track Record	5%	Experience of key executives above 10 years	Experience of key executives above 5 to 10 years	Experience of key executives above 3 to 5 years	Experience of key executives up to 3 years
3	Succession Plan	5%	Well structured succession plan	Some evidence of succession plans	Succession loosely planned or un-arranged	No succession plans

e. Conditions – SWOT (total weight 5%)

S. No	Factors	Weight	Scores			
			4	3	2	1
1	Strengths/ Opportunities	2.5%	Very Good	Good	Fair	Poor
2	Weakness/ Threats	2.5%	Low	Medium	High	Very High

SWOT analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective.

The Strengths, Weaknesses, Opportunities and Threats vary with nature of business as well as the conditions of related governing factors. As an exhaustive list of factors related with SWOT suitable to all industry cannot be specified, this guideline allows the concerned Relationship Officers/Managers to make rationale judgment based on the most probable situation to which the borrowers' business or project is expected to be exposed and assign risk points for possible SWOT conditions identified.

Many factors may have to be considered in SWOT analysis for risk grading. Each factor should be classified into four parameters for each risk point (i.e.; 4, 3, 2, & 1) and be awarded. The breakdown of each factor as mentioned in the table above shall be assigned with equal weights.

<u>*For example:*</u>

While evaluating Opportunity/Threats of any borrower, some factors may be evaluating the current conditions of the industry/ market and environmental threats to which the business of the borrower belongs to. The possible parameters for such factors may be:

Factor	***Scores***			
	4	***3***	***2***	***1***
Industry/Market	*Stable, excellent, growth prospects*	*Growing and effective or growth potential in next 3 to 5 years*	*Mature, limited or no growth potential*	*Mature and in decline with aggressive rivalry*
Environmental Threats	*No threats in the long term*	*No external threats in next 3-5 years*	*No short term threats however susceptible to economic cycles / conditions*	*Very limited capability to meet further competitive / economic pressures*

Therefore, the concerned RO/RM selects the most appropriate risk point with full justification.

Some of the factors which may fall under SWOT conditions, amongst others, are as follows:

1. Business cycle analysis of industry to which the business of the borrower belongs to.
2. Production & distribution capacity of borrower's business
3. Competition faced by borrower's business
4. Market reputation of borrower
5. Demand – Supply situation of borrower's business
6. Size of business of borrower.

7. RISK GRADING SYSTEM FOR PRODUCT PAPER BASED LOANS

Risk Grading for Product Paper based loan, guided by the respective Product Papers, shall be done on following basis. Though, these loans are security based lending, to mitigate the default risk and concentration risk, the security coverage, loan amount and repayment capacity/history has been taken into consideration:

7.1 HOME LOAN

S. No	**Type of security**	**Weight**	**Scores**			
			4	**3**	**2**	**1**
1	Real estate collateral coverage - Inside Valley	40%	225% and above	200% - 224%	-	-
2	Real estate collateral coverage - Outside Valley		200% and above	167% - 199	-	-

3	*Past Track Record	10%	Repayment made on or before due date	Repayment made within 15 days of due date	Repayment made within 30 days of due date	Repayment made within 90 days of due date
4	UMI:EMI	20%	Above 3:1	2.5:1 to 2.99:1	2:1 to 2.49:1	Below 2:1
5	Loan Amount	10%	Up to 5M	5M to 10M	10M to 15M	Above 15M
6	Loan Tenure	10%	Up to 5 Years	6-10 Years	11-15 Years	Above 15 Years
7	Income Type**	10%	Growing	Stable	Volatile	Uncertain

* *In case of new borrowers, 2 credit score to be given.*

. ***Growing: Income may be on increasing trend by its nature like: business growth, future prospects*

***Stable**: Income nature is stable type that the amount remains fixed over the period of loan like; house rent, salary*

***Volatile**: Income may have ups and down in the different time priods like: income from shares trading, agent commissions, vehicles etc*

***Uncertain**: Income is uncertain that it may be stopped or discontinue at any point of time in future like: foreign employment, fixed term employment etc*

7.2 VEHICLE LOAN / HIRE PURCHASE LOAN

S. No	Parameters	Weight	Scores			
			4	3	2	1
	Security - Vehicle itself	25%				
1	Vehicle Loan		154% and above	-	-	-
2	Hire Purchase Loan		167% and above	125%-166%	117%-124%	Below 117%
3	*Past Track Record	10%	Repayment made on or before due date	Repayment made within 15 days of due date	Repayment made within 30 days of due date	Repayment made after 30 days of due date
4	UMI:EMI	20%	Above 2.5	2.25-2.49	2-2.24	Below 2
5	Loan Amount	10%	Up to 5M	5M to 10M	10M to 15M	Above 15M
6	Additional Security:	15%	Upto loan amount	50% of loan	25 % of Loan	Below 25%

7	Vehicle Brand	5%	Strong Presence	Medium Presence	Weak Presence	New brand
8	Income Type **	15%	Growing	Stable	Volatile	Uncertain

* *In case of new borrowers, 2 credit score to be given.*

. ***Growing*: *Income may be on increasing trend by its nature like: business growth, future prospects*

Stable: *Income nature is stable type that the amount remains fixed over the period of loan like; house rent, salary*

Volatile: *Income may have ups and down in the different time priods like: income from shares trading, agent commissions, vehicles etc*

Uncertain: *Income is uncertain that it may be stopped or discontinue at any point of time in future like: foreign employment, fixed term employment etc*

7.3 PERSONAL LOAN / EAZY LOAN

S. No	Type of security	Weight	Scores			
			4	3	2	1
1	Real estate collateral Inside Valley	40%	250% and above	-	-	-
2	Real estate collateral Outside Valley		200% and above	-	-	-
3	Past Track Record	15%	Repayment made on or before due date	Repayment made within 15 days of due date	Repayment made within 30 days of due date	Repayment made after 30 days of due date
4	UMI:EMI	25%	Above 2.5	2.25-2.49	2-2.24	Below 2
5	Loan Amount	10%	Up to 5M	5M to 10M	10M to 15M	Above 15M
6	Income type *	10%	Growing	Stable	Volatile	Uncertain

* ***Growing***: *Income may be on increasing trend by its nature like: business growth, future prospects*

Stable: *Income nature is stable type that the amount remains fixed over the period of loan like; house rent, salary*

Volatile: *Income may have ups and down in the different time priods like: income from shares trading, agent commissions, vehicles etc*

***Uncertain**: Income is uncertain that it may be stopped or discontinue at any point of time in future like: foreign employment, fixed term employment etc*

7.4 MARGIN LENDING

S. No	Type of security	Weight	Scores			
			4	3	2	1
1	Security Coverage	40%	Above 250%	200%-250%	-	-
2	Past Track Record	15%	Repayment made on or before due date	Repayment made within 15 days of due date	Repayment made within 30 days of due date	Repayment made after 30 days of due date
3	UMI:EMI	25%	Above 3:1	2.5:1 to 2.99:1	2:1 to 2.49:1	Below 2
4	Loan Amount	10%	Up to 5M	5M to 10M	10M to 15M	Above 15M
5	Nature of Share	10%	All Ordinary Shares	Promoter Share up to 40% on total value of shares taken	Promoter Share 40%-80% on total value of shares taken	Promoter Share above 80% on total value of shares taken

8. EXEMPTION FROM RISK GRADING ANALYSIS

Borrowers offering following collateral/ security shall always be classified as grade "A1" without any other analysis.

- Gold
- Fixed Deposit Receipts of NCC Bank;
- Bonds, treasury bills or guarantees issued by Government of Nepal, Nepal Rastra Bank; or the government/central bank of the foreign country.
- 100% Cash Margin.

However, the exemptions shall not be granted in case the above collateral/security is obtained as an additional security only.

9. ARRIVING AT THE FINAL SCORE

The points should be awarded for each of the parameters according to the quantification provided on the guideline, wherever applicable, and on the basis of best judgment on the both qualitative and qualitative factors considering the areas defined therein, with full justification. The points so arrived at are multiplied to the weight assigned to each factors by this guideline to arrive at the score. The weighted risk points for each factor should be summed up and divided by 4 and risk grade should be assigned based upon the result obtained on percentage (%). The Credit Appraisal Memorandum prepared for each borrower shall accompany the sheets of computation of their risk grades in the format of “Risk Grade Scorecard” given as annexure of this guideline.

10. REVIEW OF RATINGS

The risk ratings shall be reviewed by the credit approving chain while approving and reviewing the proposal submitted by the branch. Credit approving chain may consider the different rating, in such condition; it should be revised with the justified assessments. Reviewer must assess whether the branch has independently and prudently assigned the score based upon the facts and reasonability of particular customer. There should not be any signs of influences and prejudices as well. Reviewer should be clear that the rating is conducted based upon the available information and documents.

11. APPLICATION OF INTERNAL CREDIT RISK RATING SYSTEM

These are the principal areas for the application of this guideline:

1. *Limits and approval requirements*: Different approval requirements and thresholds shall be set for different internal grades, allowing less scrutiny and greater latitude in decision-making for loans with lesser risk.
2. *Reporting to management on credit risk profile of the portfolio:* As part of reports analyzing the overall credit risk in the Bank's portfolio, information on the profile of actual outstanding, exposure, or both by internal risk grade shall be reported to top level management and risk management committee. Such information shall thus be one consideration - among others, such as concentrations in particular industries or borrower types - in evaluating the Bank’s appetite for originating various types of new loans.
3. *Allowance for loan losses:* The makeup of the loan portfolio and the loss characteristics of each grade shall be considered, along with other factors, in internal analysis of the adequacy of the Bank's allowance for loan losses. The internal risk rating systems and supporting documentations should enable reconciliation of the Bank's internal risk ratings with the categories used by the Nepal Rastra Bank for those loans graded below "pass" (i.e., substandard, doubtful, and loss).
4. *Pricing and profitability:* Risk-rating-specific loss factors shall be incorporated to discipline the Bank’s overall pricing practice across the portfolio in determining the minimum profitability requirements.
5. *Internal allocation of capital:* The internal risk grades shall be used as an important input in identifying appropriate internal capital allocations for evaluating profitability. Such internal

capital allocations may also be considered as one input, if appropriate, into supervisory evaluations of capital adequacy.

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	