



NCC Bank

नेपाल क्रेडिट एंड कमर्स बङ्क लिमिटेड
Nepal Credit & Commerce Bank Ltd.

Your Business Bank

Risk Appetite and Risk Tolerance Policy 2018



**Nepal Credit And Commerce Bank Ltd
Bagbazar, Kathmandu**



Patel

Gopal

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1. Introduction

Risk Management is the integral part of the banking business whereas the proactive and effective risk management is the part of business success in terms of reputations, compliance, internal controls, assets quality and optimum profitability. Improved risk culture and risk mitigations guarantee the endurance of the organization.

Nepal Credit and Commerce (NCC) Bank always tradeoffs the risk and reward for the betterment of the organizations and its stakeholders. Risk shall be taken on the calculative manner ensuring the level of risk that the Bank can observe in the distress situations. Nepal Rastra Bank (NRB) has also directed to all banks and financial institutions (BFIs) to determine their internal risk appetite and risk tolerance level. In the considerations of NRB's regulatory need and the Bank's internal strategies, the policy of Risk Appetite and Risk Tolerance limit has been defined in the Bank.

Risk appetite is the level of risk that the Bank is willing to assume taking into account its overall risk bearing capacity. Risk appetite draws the line between those risks which are acceptable and those considered unacceptable. A risk appetite shall be reflective of Bank's operating environment, strategy, business plans and shareholders expectations. Risk appetite is the basis of establishing limits, controls and mitigation measures and shall be aligned with business strategy.

This document is a part of Risk Management Policy of the Bank. This is also one of the parts of Banks Internal Capital Adequacy Assessment Guidelines. All the risk appetite and tolerance limit incorporated in this document shall be dealt accordingly and other risk strategy and limits not covered under this document shall be dealt in line with Banks Risk Management Policy, ICCAP Guidelines, specific product paper, other relevant policy and procedures, Directives/circulars of NRB and statutes of the country.

2. Objective

This policy document has been framed with the following objectives:

- Promote the risk management framework to be embodied within the culture and business process of the Bank
- Identify the regulatory and internal constraints and recording it and communicate it to guide business drivers and risk takers so that they can take prudent decisions



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- Manage and mitigate the risk associated with banking activities in accordance with best practice
- Provide clear guidelines by setting calculative risk through risk appetite and tolerance limit
- Analyze banking industry and benchmarking with the peer groups
- Determine the risk capacity of the Bank and provide the clear guidance up to which bank is able to accept the risk so that return can be maximized
- Provide the early warning signal before breaching the regulatory provision by self-assessment of risk appetite and tolerance limit

3. Risk Considerations

The Bank has the risk considerations along with the challenges for managing risk in the various activities within the Bank as below.

- Capital is sufficient to support risk taking activities to maximize the development related objectives of the Bank;
- Individuals who take or manage risks within the Bank clearly understand them and are held accountable for the risks assumed;
- Bank's risk exposures are within the limits established by the Board of Directors and / or management
- Risk decisions are aligned to the Bank's business strategy and objectives set by the Board.

The risk tolerance and appetite level have been developed considering the risk considerations as above.

4. Risk Framework and Risk Component

Overall Risk Management Framework of the Bank seeks to protect the Bank's capital base and earnings without hindering growth. Bank has prepared and implemented various policies, procedures and guidelines to manage and mitigate the risk that are associated with various functional activities of the bank.

Board of Directors of the bank shall oversight overall risk management framework of the Bank and ensure that Bank is operating within the appetite and tolerance limit.



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There are mainly four component of risk appetite framework and are interlinked with each other.

Risk Capacity: Risk appetite is always linked to the overall risk bearing capacity which is the maximum amount of risk that the Bank can bear and is normally determined as a function of available capital, liquid assets and borrowing capacity.

Risk Tolerance: The maximum amount or type of risk the Bank is prepared to tolerate above risk appetite in order to achieve its business strategy and objective.

Risk Appetite: How much and what type of risk the Bank is generally prepared to accept to achieve its financial and strategic objectives. It reflects the Bank's risk management philosophy, and in turn influences the Bank's culture and operating style. Risk appetite guides resource allocation, assists in aligning the people, and processes in designing the infrastructure necessary to effectively respond to and monitor risks.

Risk Profile: Current risk profile is the amount or type of risk the Bank is currently exposed to and forward risk profile is forward looking of how the Bank's risk profile may change under both expected and stressed economic conditions.

In normal scenario Bank shall stay within the Bank's risk appetite however in stressed condition bank can go up to tolerance limit. Tolerance limit is the ultimate risk acceptance limit for a Bank and above that Bank will not accept any business deals.



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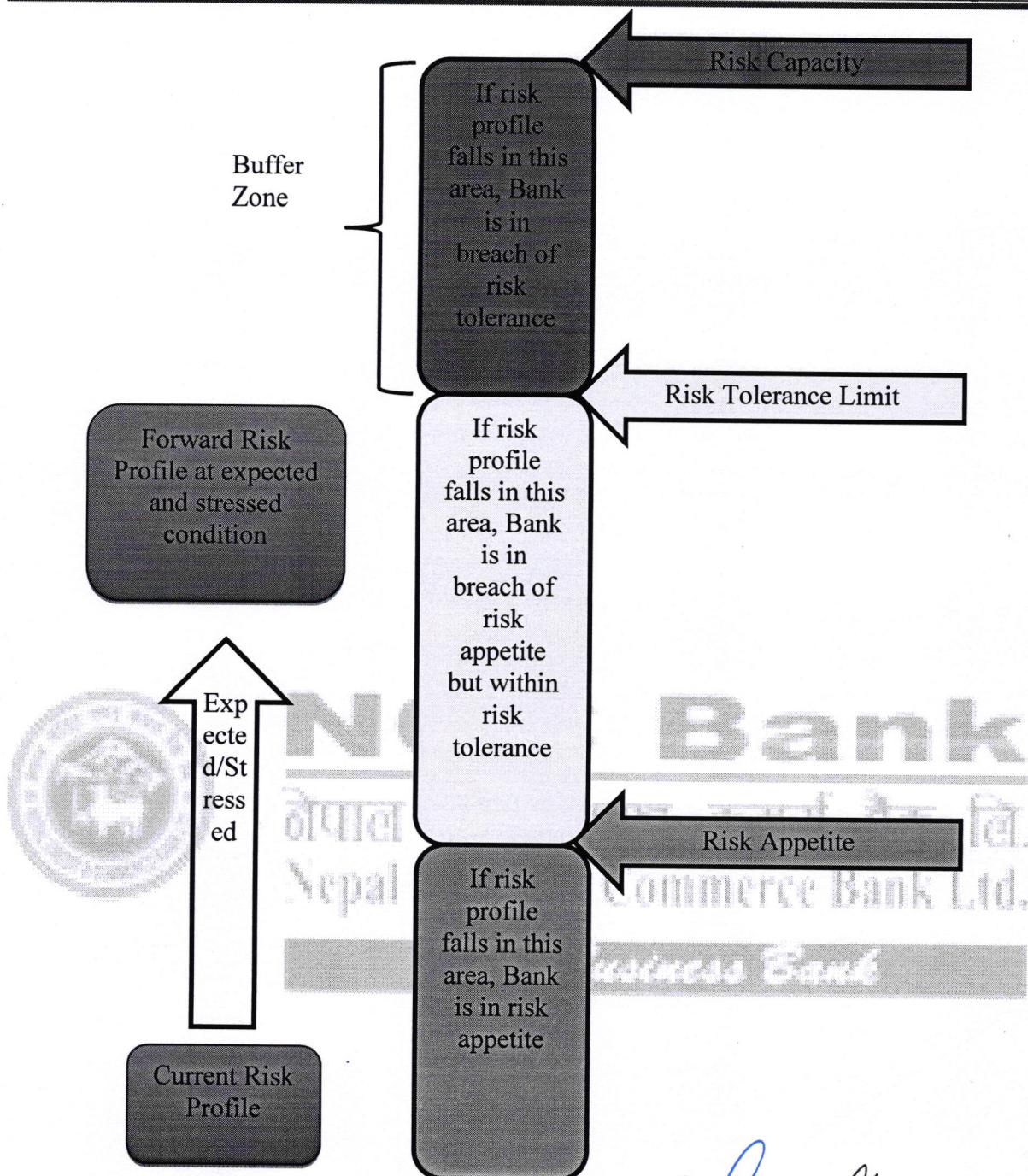


Fig: Relationship of Risk Component



5. Risk Elements

Risk elements are various risks that the Bank may face while executing its business strategy. Among various risks, some risks are acceptable for the bank and some are not acceptable to bank as it has zero tolerance on those risk. Some risks that Bank shall manage and mitigate to its appetite level are as follows:

- 5.1 Credit Risk:** Credit risk is the likelihood that a borrower is unwilling or unable to pay debt obligation according to the terms specified in a credit agreement. According to Basel Committee, Credit risk is the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Most of the risk appetite and tolerance level are mostly defined to manage and mitigate the credit risk.
- 5.2 Operational Risk:** Operational risk is the risk of loss resulting from inadequate internal processes, people, and systems or from external events. Operational risk includes breakdowns in internal controls and corporate governance. Bank shall implement the effective control measures to manage and mitigate the operational risk.
- 5.3 Liquidity Risk:** Liquidity risk is the risk that a bank may be unable to meet short term financial demands. This type of risk is usually occurs due to the inability to convert a security or hard assets to cash without a loss of capital and/or income in the process.
- 5.4 Market Risk:** Market risk refers to the risk to a bank resulting from movements in market prices, in particular, changes in interest rates, foreign exchange rates, equity and commodity prices.
- 5.5 Compliance Risk:** Compliance risk is the risk that a bank does not comply with regulatory requirements or excludes provisions of relevant regulatory requirements from its operational procedures.
- 5.6 Interest Rate Risk:** It's the potential loss due to movements in interest rates. This risk arises because a bank's assets usually have a significantly longer maturity than its liabilities. In banking language, management of interest rate risk is also called asset-liability management (or ALM).



6. Regulatory Constraints

Nepal Rastra Bank through its Directives and Circulars set the various areas for risk management. NRB has determined maximum and/or minimum limit relating to capital, lending in various sector and product, accepting deposit, non-performing assets limit, liquidity ratio etc. The bank shall operate within these limits at minimum. Some of the constraints that are sets by regulatory authority are as follows:

S.N.	Risk Elements	Constraints	Remarks
1.	Capital Adequacy Ratio (CAR)	11%	Minimum
2.	Credit to Capital and Deposit Ratio (CCD)	80%	Maximum
3.	Liquidity Ratio	20%	Minimum
4.	Statutory Liquidity Ratio (SLR)	12%	Minimum
5.	Compulsory Reserve Ratio (CRR)	6%	Minimum
6.	Deprived Sector Lending Ratio	5%	Minimum
7.	Non-performing Loan Ratio	5%	Maximum (required for branch expansion and other benefit)
8.	Leverage Ratio (Basel III)	4%	Minimum
9.	Personal Overdraft Loan	7,500,000	Maximum per customer
10.	Margin Lending Loan	40% of Core Capital	Maximum
11.	Margin Lending Loan in security of share of one company	10% of Core Capital	Maximum
12.	Single Obligor Limit	25% of Core Capital	Maximum
13.	Single Obligor Limit in Productive Sector	30% of Core Capital	Maximum
14.	Single Obligor Limit in national priorities project like electricity, transmission, cable car project etc.	50% of Core Capital	Maximum
15.	Lending in priority sector: a. Agriculture	25% of Total Loan 10%	Minimum (within Ashadh 2075)



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	b. Electricity/Energy c. Tourism d. Other	5% 5% 5%	
16.	Total housing and real estate loan Other Real Estate Loan	25% of Total Loan 10% of Total Loan	Maximum
17.	Investment in Share, Debenture, Mutual Fund of one company	10% of Core Capital	Maximum
18.	Total Investment in Share, Debenture, Mutual Fund of various company	30% of Core Capital	Maximum
19.	Investment in Share and Debenture of one company	10% of Paid Up Capital of that company	Maximum
20.	Investment in share and debenture of company in which bank has financial interest	20% of Core Capital	Maximum
21.	Purchase of land and building or construction of building for own purpose	15% of Core Capital	Maximum in each time
22.	Interest Spread	5%	Maximum
23.	Borrowings	1/4 th of Total Deposit	Maximum
24.	Institutional Deposit Ratio	45% of Total Deposit	Maximum (within Ashad 2075)
25.	Daily net open position in foreign currency	30% of Core Capital	Maximum

7. Banks Current Status

Present status of various indicators of the Bank are as follows:



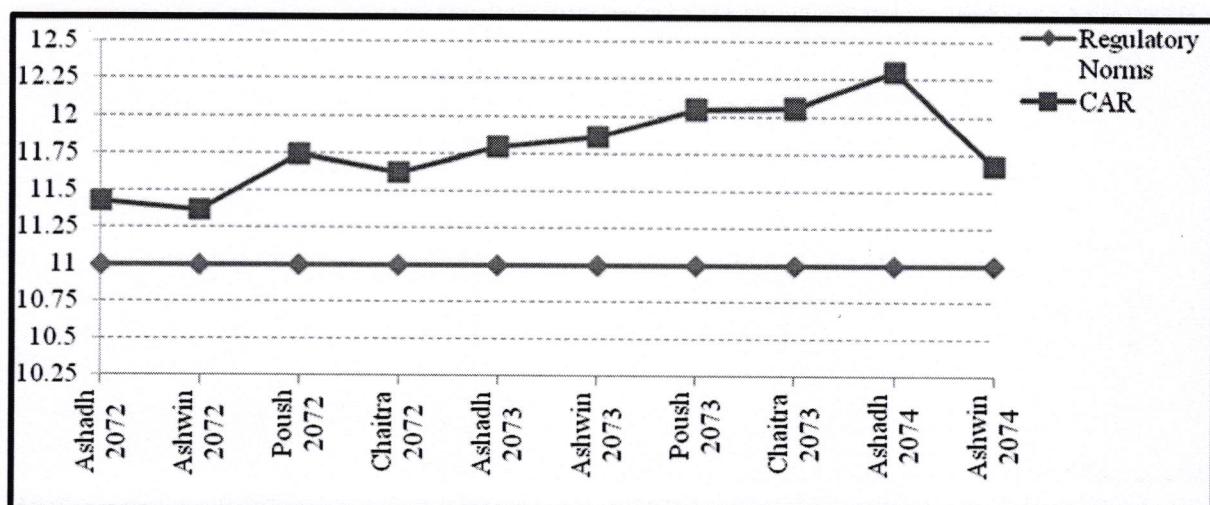
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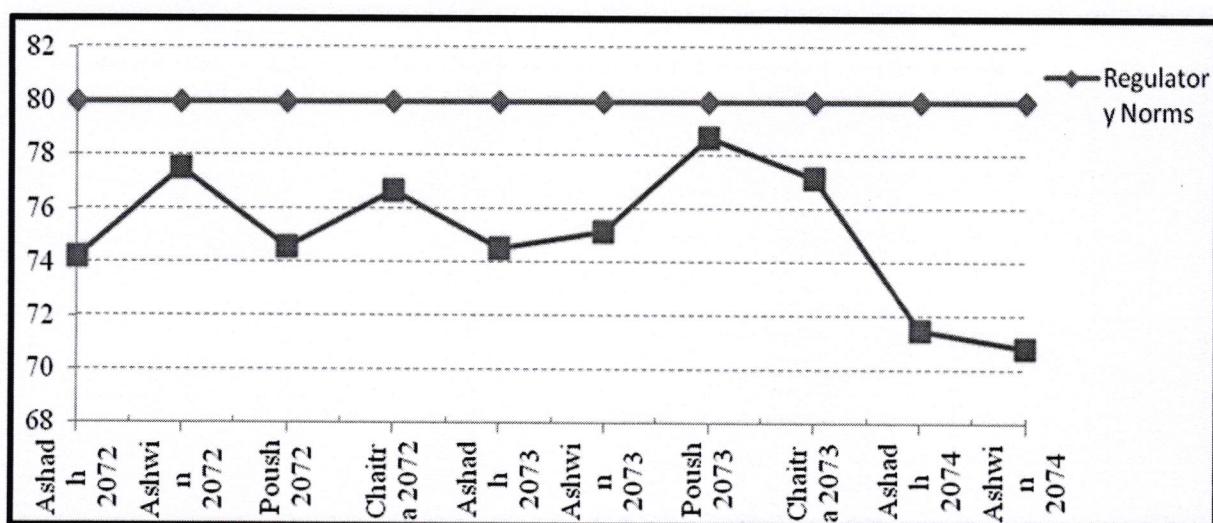
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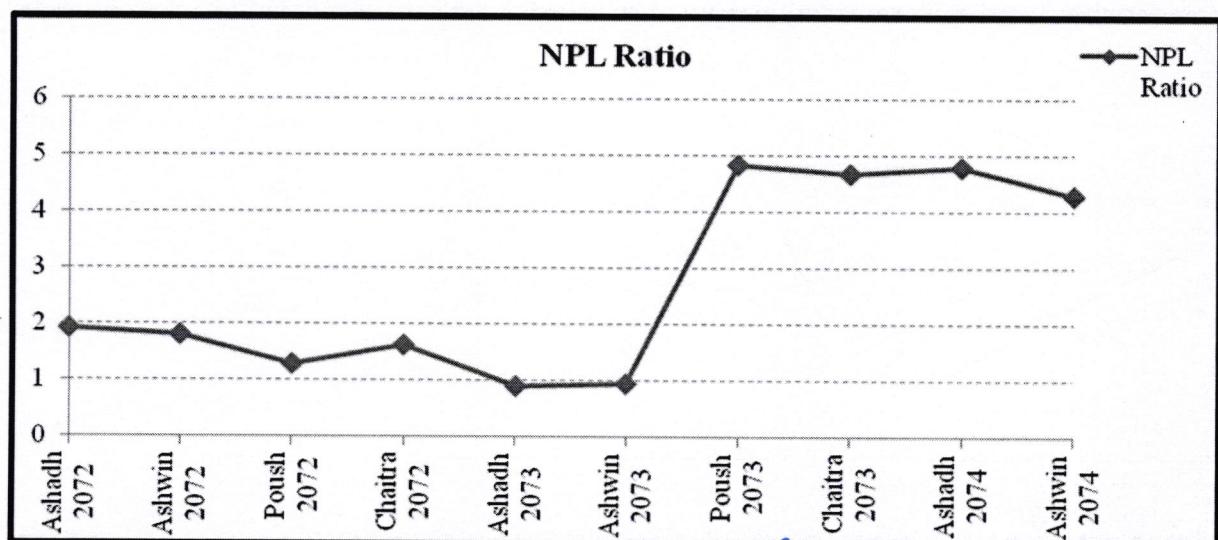
a. Capital Adequacy Ratio (CAR)



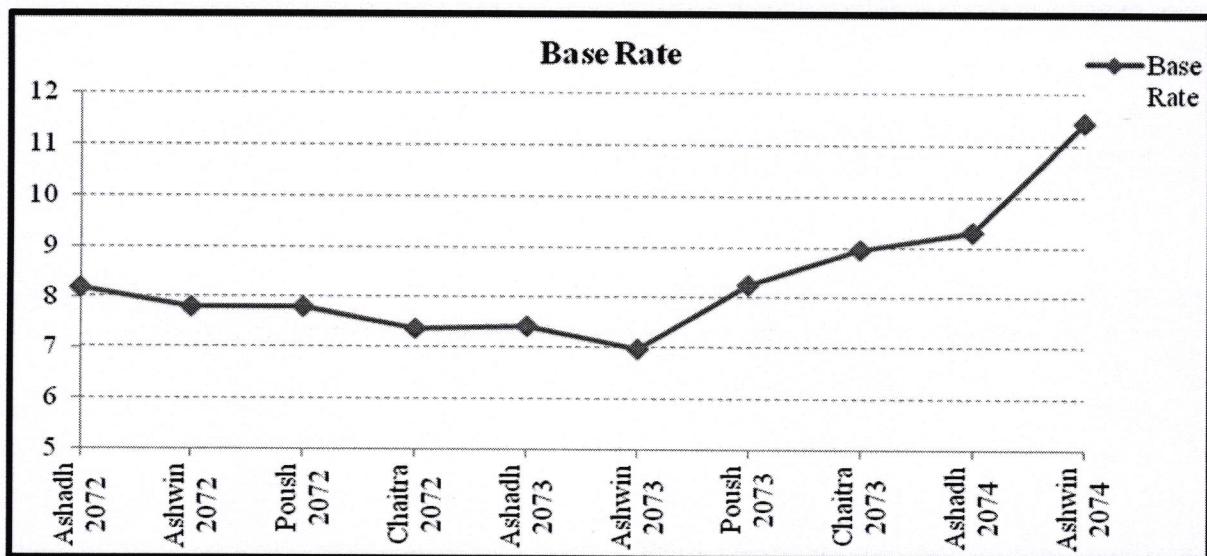
b. Credit to Capital and Deposit Ratio (CCD)



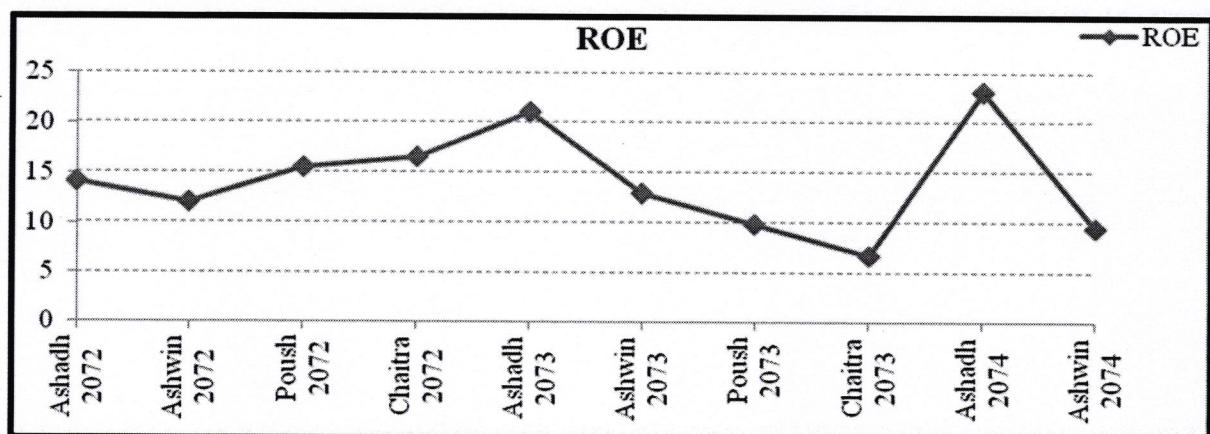
c. Non-Performing Loan Ratio



d. Base Rate



e. Return on Equity



Bank's other indicators, as on Ashadh end 2074, are as follows:

S.N.	Indicator's	Status
1.	Liquidity Ratio	33.43%
2.	Statutory Liquidity Ratio (SLR)	35.72%
3.	Compulsory Reserve Ratio (CRR)	20.43%
4.	Leverage Ratio	8.52%
5.	Deprived Sector Lending to Total Loan	5.45%
6.	Margin Lending Loan on Core Capital	9.22%
7.	Margin Lending Loan on Total Loan	1.32%
8.	Loan against housing and real estate	3.91%
9.	Investment in Share and Debenture to Core Capital	1.64%



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S.N.	Indicator's	Status
10.	Interest Spread	3.75%
11.	Borrowings to Total Deposit ratio	1.33%
12.	Institutional Deposit Ratio	48.88%
13.	Top 10 Depositors Ratio	25.86%
14.	Top 5 Depositors Ratio	16.44%
15.	Top 1 Depositors Ratio	3.66%
16.	Top 10 Institutional Depositors	25.86%
17.	Top 10 Individual Depositors	0.74%
18.	Saving Deposits Ratio	26.92%
19.	Fixed Deposit Ratio	51.88%
20.	Current Deposit Ratio	3.60%
21.	Call Deposit Ratio	16.83%
22.	Top 20 Borrowers Ratio	12.10%
23.	Top 10 Borrowers Ratio	7.55%
24.	Top 5 Borrowers Ratio	4.47%
25.	Top 1 Borrowers Ratio	1.01%
26.	Term Loan to Total Loan Ratio	11.18%
27.	Overdraft Loan to Total Loan Ratio	28.50%
28.	TR Loan / Import Loan to Total Loan Ratio	2.06%
29.	Demand & Other Working Capital Loan to Total Loan Ratio	11.87%
30.	Hire Purchase Loan to Total Loan Ratio	8.25%
31.	Bills Purchased to Total Loan Ratio	0.40%
32.	Other Loans to Total Loan Ratio	17.16%

8. Risk Appetite and Tolerance Limit

Setting risk appetite and tolerance limit is one of the major undertakings of prudent Risk Management System. Risk appetite and tolerance limit assess the banks risk capacity and provide the guidelines how much bank shall take the risk and how much the Bank can tolerate the risk. Bank always stays at conservative position considering the market fluctuation, instability and political uncertainty in the Country. Risk Appetite and Tolerance



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Limit of the Bank after considering industry and current status has been set as follows in broad category:

8.1 Strategy and Governance

A. Capital				
Risk Appetite				
Bank maintains a low level of risk appetite to capital both to support existing operations and potential growth. Bank will stay comfortably above regulatory minimum capital requirements, even under stressful conditions. Bank shall maintain sufficient cushion of capital to take advantage of market opportunities. Bank remains well capitalized which is a high priority of Board and Senior Management of the Bank.				
Risk Tolerance				
S.N.	Risk Category	Regulatory Limit	Bank's Internal Limit	Remarks (Poush end)
1.	Common Equity Tier 1 Capital Ratio	4.50%	4.50%	Current Level: 10.44%
2.	Total Tire 1 Capital Ratio	6.00%	6.00%	Current Level: 10.44%
3.	Total Capital Adequacy Ratio	11.00%	11.5%	Current Level: 11.24% Ind. Average: 14.60%
4.	Leverage Capital Ratio	4.00%	4.00%	Current Level: 8.13%
B. Business Model				
Risk Appetite				
Bank's overall business model is retail and wholesale funded, conservative and characterized by high value of loans on the balance sheet and high reliance on stable funding source of deposits. Bank shall have technology driven product with combination of traditional banking product and services having low cost to the bank.				
Risk Tolerance				
Bank will not offer high concentrated wholesale fund and any products or services that are outdated and associated with high risk.				
C. Corporate Governance				
Risk Appetite				
Bank has low level of risk appetite in Corporate Governance. The Bank shall implement policies, procedures with highest degree of governance at all times. Board and senior management will maintain sound risk management and internal control system with high ethical, moral and responsible working environment.				
Risk Tolerance				
Bank shall review and update its policies, procedures and guidelines at least in annual basis so as to incorporate new development in business environment and maintain high corporate governance.				
D. Growth Level				
Risk Appetite				
Bank has moderate level risk appetite in growth in assets and balance sheet size. Bank has				



no strategic acquisition and merger plan.

Risk Tolerance

S.N.	Risk Category	Regulatory Limit	Bank's Internal Limit	Remarks
1.	Increase in Fixed Assets Size (p. a)	-	20%	Maximum
2.	Increase in Balance Sheet Size (p. a)	-	40%	Maximum
3.	Branch Expansion Rate (p. a)	-	40	Maximum in number

8.2 Credit Risk

8.2.1 Credit Risk Appetite - Regulatory Constraints

Risk Appetite

Bank has a low risk appetite in regulatory constraints on credit risk. Bank will stay comfortably within regulatory minimum credit limit, even under stressful conditions. Bank shall disburse adequate fund in regulatory area and minimize the exposure in high risk area as suggested by regulator.

Risk Tolerance

S.N.	Risk Category	Regulatory Limit	Bank's Internal Limit	Remarks (Poush end)
1.	Non-Performing Loan Ratio	1% of Total Loan	1% of Total Loan	Current: 4.04% Ind. Average: 1.71%
2.	Single Obligor Limit (Single Client)- (Both Funded and Non Funded)	-	15% of Core Capital	
3.	Single Obligor Limit (Group i.e. More than a Client) (Both Funded and Non Funded)	25%	20% of Core Capital	
4.	Single Obligor Limit (Group i.e. More than a Client) (Both Funded and Non Funded) for Productive Sector	30%	25% of Core Capital	
5.	Single Obligor Limit (Group i.e. More than a Client)	50%	30% of Core Capital	



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	(Both Funded and Non Funded) for Hydropower, Transmissions, Cable Car			
6.	Lending in priority sector: a. Agriculture b. Electricity/Energy c. Tourism d. Other	25%	25% on Total Loan	Maintain Regulatory Limit
7.	Total Real Estate Loan	25%	15% on Total Loan and Advances	Maximum
8.	Other Real Estate Loan (Land Purchased and Plotting)	10%	6% on Total Loan	
9.	Deprived Sector Lending	5%	5% of Total Loan	Minimum
10.	Personal Revolving Loan	75 Lakhs	75 Lakhs	Maximum
11.	Margin Lending	40%	35% of Core Capital	State Bank Ltd.

8.2.2 Credit Risk Appetite – Client Concentration

Risk Appetite

Bank has low level risk appetite in client concentration. Bank will diversify its portfolio in diverse individual and group. Over concentration in small dimension of group is avoided.

Risk Tolerance

S.N.	Risk Category	Regulatory Limit	Bank's Internal Limit	Remarks (Poush end)
1.	Individual exposure on Retail Banking	-	100 Million	
2.	Individual Exposure on Margin Lending	-	80 Million	
3.	Top 10 Group Borrowers		20% of Total Loan	Current: 8.82%
4.	Top 20 Group Borrowers		30% of Total Loan	Current: 13.34%
5.	Top 50 Group of Borrowers		40% of Total Loan	Current: 22.09%



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8.2.3 Credit Risk Appetite – Product Concentration

Risk Appetite				
Bank has moderate level risk appetite in product concentration. Bank will diversify its portfolio in profitable product. Bank will offer innovative banking product and services having low cost and high benefit to the Bank.				
Risk Tolerance				
S.N.	Risk Category	Regulatory Limit	Bank's Internal Limit	Remarks
1.	Auto Loan (Both Private and Commercial)	-	12% on Total Loan	
2.	Commercial Vehicle Loan	-	40% of Total Auto Loan	Excluding Earthmovers
3.	Personal Loan	-	3% of Total Loan	
4.	Corporate Banking		40% of Total Loan	Maximum
5.	Retail and SME		60% of Total Loan	Minimum

8.2.4 Credit Risk Appetite – Sector Concentration

Risk Appetite				
Bank has moderate level risk appetite in sector concentration. Bank will diversify its portfolio in productive and profitable sector. Unproductive sector will be downsized.				
Risk Tolerance				
S.N.	Risk Category	Regulatory Limit	Bank's Internal Limit	Existing for reference
1.	Loan Sector	Subject to review by Board	Max 150% of Core Capital	
2.	Fishery Related	-	1% of Total Loan	0.21%
3.	Mining Related	-	1% of Total Loan	0.07%
4.	Medicine Related Industry	-	1% of Total Loan	0.17%
5.	Plastic Industry	-	1% of Total Loan	0.66%
6.	Cement Industry	-	8% of Total Loan	2.55%
7.	Construction Related Company	-	20% of Total Loan (Funded and Non Funded)	12.50%
8.	Electricity Related	-	5% of Total Loan	3.01%
9.	Hydropower Related	-	10% of Total Loan	3.00%
10.	Metal Products, Machinery & Electronic Equipment & Assemblage	-	5% of Total Loan	2.24%



11.	Transport, Communication and Public Utilities	-	8% of Total Loan	7.35%
12.	Financial Institutions	-	5% of Total Loan	3.11%
13.	Saving and Credit Co- operative	-	1% of Total Loan	0.05%
14.	Hotel or Restaurant and Tourism Sector	-	8% of Total Loan	2.59%
15.	Hospital, Clinic etc.	-	5% of Total Loan	1.97%
16.	Educational Services Related	-	3% of Total Loan	1.62%

8.3 Market and Liquidity Risk

Risk Appetite

Bank has low level of risk appetite for market and liquidity risk. Bank will maintain adequate level of liquid assets to cover short term liability. Bank will stay comfortably within regulatory minimum market and liquidity limit, even under stressful conditions. Bank will diversify its customer portfolio in diverse dimension. Bank will utilize its excess fund in profitable and easy cash generating investment portfolio. Bank will strengthen its stress testing, ICAAP and treasury operation.

Risk Tolerance

S.N.	Risk Category	Regulatory Limit	Bank's Internal Limit	Existing for reference
1.	Credit to Capital and Deposit (CCD) Ratio	80%	79.5%	Dhaka Credit & Commerce Bank Ltd.
2.	Liquidity Ratio	20%	25%	
3.	Statutory Liquidity Ratio (SLR)	12%	12%	
4.	Compulsory Reserve Ratio (CRR)	6%	6%	
5.	Institutional Deposit to Total Deposit Ratio	45%	45%	
6.	Top 1 Institutional Depositors	-	5% of Total Deposit	Current: 3.66%
7.	Top 10 Institutional Depositors	-	30% of Total Deposit	Current: 25.86%
8.	Top 20 Institutional Depositors	-	40% of Total Deposit	Current: 32.83%
9.	Top 50 Institutional	-	45% of Total Deposit	



	Depositors			
10.	Top 1 Individual Depositors	-	1% of Total Deposit	Current: 0.10%
11.	Top 10 Individual Depositors	-	5% of Total Deposit	Current: 0.74%
12.	Top 20 Individual Depositors	-	10% of Total Deposit	Current: 1.21%
13.	Top 50 Individual Depositors	-	15% of Total Deposit	
14.	Top 1 Depositors	-	5% of Total Deposit	Current: 3.66%
15.	Top 10 Depositors	-	30% of Total Deposit	Current: 25.86%
16.	Top 20 Depositors	-	40% of Total Deposit	Current: 32.83%
17.	Top 50 Depositors	-	45% of Total Deposit	
18.	Fixed Deposit	-	50% of Total Deposit	Current: 51.88% Maximum
19.	Saving Deposit	-	30% of Total Deposit	Current: 26.92% Minimum
20.	CASA	-	35% of Total Deposit	Current: 30.52% Minimum
21.	Investment in Share, Debenture, Mutual Fund of one company	10% of Core Capital	8% of Core Capital	Current: 0.19%
22.	Total Investment in Share, Debenture, Mutual Fund of various company	30% of Core Capital	20% of Core Capital	Current: 1.64%
23.	Investment in Share and Debenture of one company	10% of paid up capital of	5% of paid up capital of that	



		that company	company	
24.	Investment in Share and Debenture of company in which Bank has financial interest	20% of Core Capital	15% of Core Capital	
25.	Daily Net Open Position in Foreign Currency	30% of Core Capital	10% of Core Capital	Excluding INR

8.4 Operation Risk

Risk Appetite

Bank adopts low level of Operation Risk appetite. Bank will adopt sound internal policies, procedures, system, risk management framework, best key risk indicator so as to manage operation risk.

Information Technology: Bank has very low appetite for risk to availability of systems, threats to Bank assets arising from external malicious attacks. Bank will implement new technologies which creates new opportunities to the Bank.

Fraud and Corruption: Bank has zero level of risk appetite for fraud and corruption perpetrated by staff. The bank will takes all allegations of suspected fraud or corruption very seriously and responds fully and fairly as set in the Employee Service Rule.

Physical Security: Bank has no appetite for lapses in physical security. Bank will provide highly secure environment for staffs / customers and assets by ensuring physical security measures to meet high standards.

Compliance: Bank has zero level of risk appetite in compliance risk. Bank is committed to a high level of compliance with relevant legislation, regulation, industry codes and standards as well as internal policies and sound corporate governance principles.

Information Management: Bank has very low level of appetite for the compromise of process governing the use of information. Bank is committed to ensuring that information is authentic, appropriately classified, properly conserved and managed in accordance with legislative and business requirement.

Risk Tolerance

Bank has implemented quantitative methods for measuring the operation risk of the Bank. The operation risk of individual branch and bank as a whole shall be measured and reviewed in monthly basis and strategic planning will be formulated as per the result. Branch and overall bank shall maintain low level of risk as per the implemented methods. Following risk indicators are considered by bank to measure the operation risk which can be changed on the approval of CEO.

S.N.	Risk Indicators	Risk Weight
A.	Health, Safety & Security of Work Stations and Office Premises	0.1



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A.1	Is the branch office premises and working stations are safe in terms of Health, Air, Lighting, Security and Overall Environment along with unexpired fire extinguisher, alarm system?	
A.2	Was there any accidents/physical hurt to the staffs in work status due to the physical infrastructure of the Bank in this month?	
A.3	Was there any instances in this Month that Security Guard have not checked the visitors by their Metal Detector/or by Other Means?	
A.4	Do the CCTV record and store at least 90 days (All Cameras). Do the CCTV coverage is sufficient to differentiate the cash denomination and cover whole branch premises	
A.5	Are office equipment, furniture, machineries, generators are fully insured and Insurance are up to date?	
B.	Customer Complaints and Customer Servicing	0.1
B.1	Is the branch has suggestion/complain box in visible area of the branch?	
B.2	What are the numbers of Complaints received in the branch related with customer servicing and other branch related activities?	
B.3	Have the complaints resolved on time and responded to complainants on time in line with the Guidelines?	
B.4	Was there any loss of assets of the Branch during this month by the cause of natural disaster or unpredicted/unplanned events?	
B.5	Is there adequate space area in branch premises according to customer flow, customer waiting chair, drinking water, coupon system, A/C, etc.?	
C.	Cash Management (Teller, Vault & ATM)	0.15
C.1	Are the door to Teller Area and Teller Drawers with Lock System?	
C.2	What are the numbers of Incidents of Cash Short or Excess in the Month in excess Rs. 500?	
C.3	Is the Cash recorded on CBS tallied/verified with the Physical Cash Balance at the end of the Month?	
C.4	Has a single person entered and moved cash from Vault in absence of another Key Holder?	
C.5	Does the ATM cash shown by CBS verified/tallied with the cash shown in ATM at the end of the Month?	
C.6	Was there cash EXCESS/SHORT in this month?	
C.7	Did the branch booked cash loss or expenses in this month due to operational lapses?	
D.	Cheque Payments and Cash/Cheque Deposit	0.15
D.1	Was the stale cheque was paid during the month as identified in transaction checking?	
D.2	Have any cheque payments found paid without verifying signature or not confirming other information (date, figures etc) identified on transaction verifications/supervisory reviews?	
D.3	Are there any instances of cheque payments where copy of valid identification (Citizenship, Passport, License, Voter's ID, Employment or school/college IDs) are	



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	not taken on payment of cheque more than Rs 200,000?
D.4	Have there any instances in this month that the cash denomination written in backside of Cheque is different than actually provided/handed over to customer?
D.5	Are there any instances that Income source is not mentioned in deposit in excess of NRs 1,000,000 and USD 2,000 or equivalent not recorded on CBS?
D.6	Are the pre-numbered stationery and all deliverables under single custody during the day and dual control of designated custodians over night?
D.7	Was cheque amounting Rs. 10 lacs and above is encashed instead of account deposit except in the condition as mentioned in NRB Directives?

E.	Customer Account, Documents and Confidentiality Maintenance	0.15
E.1	Is there any transaction exceeded USD 1,000 that the rate not taken from Treasury Department?	
E.2	Are there any operative accounts which have incomplete KYC documents?	
E.3	Are there any accounts where copy documents of Citizenships, Registrations etc. not signed as "True Copy Verified"?	
E.4	Are there any accounts where competent staff (say BM or OI or others) has not approved the account opening form or KYC Form?	
E.5	Are there any operative accounts where signature/image not updated in CBS?	
E.6	Is there any signature of customer where it is not verified by Staff in register of Cheque Issue, Statement Issue, Stop Payments, Card Issue, Balance Certificate Issue or other information/documents issue during this Month?	
E.7	Do the branch have uncollected cheque books for more than 90 days and additional charge is levied incase handed over to customer after 90 days? Do the branch has undestroyed cheque books and ATM card for more than 2 years and six months respectively?	
E.8	How many accounts are on Block or Debit restricted status without mentioning the remarks for reason or basis of block?	

F.	Loan Operations and Credit Documentations	0.1
F.1	Mention the expired Insurance number as on end of the Month as recorded in CBS	
F.2	What are the loan account number of expired Drawing Power in your branch as per the CBS report of Month End?	
F.3	What are the loan account number of Due Revaluations in your branch on Month End?	
F.4	Was there any incident in the month that loan disbursed through CBS more than assigned limit?	
F.5	Is there any incident that Interest applied in CBS different than approved and rectified during this Month?	
F.6	Are the original Credit Security Documents, Original Approved Credit Appraisals and other Prime Documents stored on fire proof cabinet?	
F.7	Was there any incident in the month that customer account (deposit and loan) was overdrawn?	



G.	Key Handling	0.02
G.1	Are there any instances in this month that Key Handover not recorded in register and not signed by respective Key Holder?	
H.	Account Monitoring and House Keeping	0.1
H.1	Has there been balance remained overnight on the account of IDT, Adjustment Account, IBT, Suspense account or other intermediary accounts?	
H.2	Was there any service interruption in any days within this month that service stopped for 20 minutes or more?	
H.3	Are there any differences on AIP and AIR on individual account to the Balances of AIR and AIP of General Ledger?	
H.4	Are there any accounts blank on coding of Risk Grade, AML Code, and Citizenship Number etc.?	
H.5	How many reversal transactions are made in this month? (All transaction reversal).	
H.6	Are there any accounts where VISA or Operating License expiry period have crossed but account are in still operating conditions?	
I.	ATM Management	0.05
I.1	Is the ATM under the surveillance of CCTV all the time and PIN entered by the user cannot be seen through the camera?	
I.2	Is the ATM operating smoothly? If not mentioned number of hour for which ATM is not operated during the month.	
I.3	Is there any un-reconciled/unsuccessful item on ATM related transactions at the end of the Month continuous for 15 days?	
J.	Compliance and Others	0.03
J.1	Have you replied online query (letters/account block/ac info/CIAA etc) within 24 hours in this month?	
J.2	Staff late attendance more than 15 minutes (in %) during the month (Calculation: Total number of Late attendance recorded by software of all staffs/ Total Working days of the Month).	
K.	Internal and External Audit Observations	0.05
K.1	How many operational issues (including the issues of credit files) are still to be corrected/implemented as remarked by previous Internal Audit?	
K.2	How many operational issues (including the issues of credit files) are still remained to correct/implement as remarked by External Audit and NRB Inspection?	
Tolerance Calculation		
Total Risk Exposures Level	Risk Weighted Exposure	
Inherent Risk Level	Risk Appetite	
Low Risk Level	Risk Tolerance	
Medium Risk Level	Warning Zone	



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High Risk Level	Beyond Risk Capacity
Very High Risk Level	Catastrophic Risk Level

8.5 Interest Rate Risk

Risk Appetite
Bank has low level of appetite for interest rate risk. Bank will have interest risk management process in place that effectively identifies, measures, monitors and controls interest rate risk exposures. Bank will comply with the regulatory requirement and have floating interest rate. Bank will have sound system to calculate interest rate in deposit and lending.
Risk Tolerance
Bank remains on gain on change of interest rate by 1% on the GAP period

8.6 Foreign Exchange Risk

Risk Appetite				
Bank has low level appetite for foreign exchange risk. Bank will devise a system to identify and measure foreign exchange risk exposure such as transaction exposure, translation exposure, economic exposure etc.				
Risk Tolerance				
S. N.	Risk Category	Regulatory Limit	Bank's Internal Limit	Remarks
1.	Risk weighted exposure for Market Risk	-	0.2% of Total Risk Weighted Exposure	
2.	Daily Net Open Positions in Foreign Currencies	30% of Core Capital	10% on Core Capital	
3.	Placement in Foreign Currency	-	50% of Total Placements	

8.7 Reputation Risk

Risk Appetite
Bank has low appetite in reputation risk. The Bank will act with integrity and in accordance with strict ethical standards to maintain credibility necessary to achieve its mission. Bank will have sound system to address customer grievances, adverse media and negative public image.
Bank has no appetite for information security deficiencies.
Bank has a low appetite for employee misconduct and weakness, discretion in legal, licensing and policy decision.
Risk Tolerance
Bank does not anticipate more than 2 customer grievances per day and will resolve the grievances within same days.

8.8 AML/CFT Risk

Risk Appetite



Bank has zero level of appetite for AML/CFT Risk. Bank is committed to combating money laundering and financing of criminal activities and not provide product or service for the benefit of sanctioned person or entity. Bank will fully comply with laws and regulations regarding AML/CFT and KYC, Anti-Bribery and Anti-Corruption. Bank will demand accurate and complete information from customer, conduct customer due diligence and monitor & report transaction of the customer.

Relationship Establishment: Bank has no appetite for establishing or maintaining a client or correspondent relationship with an entity or individual as sanctioned by Nepal Government, OFAC, UN, HMT, EU, US etc. or the person/entities whose country of origin is sanctioned by above entities.

Activity of Customer: Bank has zero level of risk appetite for customer who are engaged in gambling, robbery, counterfeiting, tax evasion, misappropriation of public fund, bribery & corruption, weapons dealing, illegal narcotics, pornography, human trafficking, drug dealers, shell bank etc.

Termination of Relationship: Bank has zero level of risk appetite and will terminate the relationship with customer who engage in followings:

- Intentional or willfully negligent or repeated unintentional breaches of law, regulation, policy procedure and guideline applicable for AML/CFT and KYC
- Misusing the account for the purpose of money laundering and terrorism financing or fraud
- Facilitating business activities which could be constructed as tax offence
- Refusing to provide sufficient information or document to demonstrate compliance with the standards outlined in Banks AML/CFT and KYC Policy and Procedures.

Risk Tolerance

Bank will terminate relationship with customer if more than 3 suspicious transactions are found in one month and 6 suspicious transactions are found in a year.

9. Implementation and responsibility

- 9.1 The Risk appetite and tolerance limit of the Bank sets above shall be implemented upon the approval of Board of Director. The risk appetite and tolerance limit of the bank shall be circulated to respective officials for their understanding and implementation.
- 9.2 Business units, branches and head office department including all staff members of the Bank are equally responsible for effective implementation of this statement.
- 9.3 Respective Department, Compliance Department and Risk Management Department are responsible to review and monitor the implementation status of this statement. They shall access the implementation status and submit the report to designated



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authorities. Any variance in this appetite and tolerance limit shall be reviewed and presented to Risk Management Committee at least on quarterly basis.

- 9.4 The Internal Audit Department should assist the senior management and Board by independently reviewing implementation and effectiveness of risk appetite and tolerance limit of the Bank.
- 9.5 Board reviews and approves any deviation of the appetite level.

10. Review and Update

Risk Appetite and Tolerance Limit is basically set for one year and this is basically applicable for current year only. This shall be reviewed on annual basis in the first quarter of every fiscal year and amendments if any shall be done as per bank strategic plan, regulatory requirement, change in internal and external environment.

