

# PRIME COMMERCIAL BANK LIMITED

Disclosures under BASEL III as at 2081.06.30

Amount in NPR

## 1. Tier 1 capital and a breakdown of its components:

<b>Core Capital (Tier 1)</b>	<b>Amount (Rs.)</b>
Paid up Equity Share Capital	19,402,575,716
Statutory General Reserves	5,786,282,289
Proposed Bonus Equity Shares	-
Share Premium	-
Retained Earnings	1,202,677,491
Un-audited current year cumulative profit	1,528,241,678
Capital Redemption Reserve	-
Other Free Reserve	-
Less: Fictitious Assets	-
Less: Intangible Assets	(13,776,105)
Less: Deferred Tax Assets	-
Less: Investment in equity in licensed Financial Institutions	(46,023,000)
Less: Other Deductions	(25,000,000)
<b>Total Core Capital (Tier I)</b>	<b>27,834,978,070</b>

## 2. Tier 2 capital and a breakdown of its components:

<b>Supplementary Capital (Tier 2)</b>	<b>Amount (Rs.)</b>
Subordinated Term Debt	-
General loan loss provision	2,831,829,660
Exchange Equalisation Reserve	5,334,870
Investment Adjustment Reserve	6,500,000
Accrued Interest Receivable on pass loan included in Regulatory Reserve	403,103,211
Interest Capitalized Reserve included in Regulatory Reserve	2,798,656
<b>Total Supplementary Capital (Tier II)</b>	<b>3,249,566,397</b>

## 3. Detailed information about the Subordinated Term Debts with information on the outstanding amount, maturity, amount raised during the year and amount eligible to be reckoned as capital funds: Nil

## 4. Deductions from Capital:

The bank has deducted to the following items in calculation of Tier I Capital:

<b>Deduction from Tier I Capital</b>	<b>Amount</b>
Intangible Assets	13,776,105
Deferred Tax Assets	-
Investment in equity in licensed Financial Institutions	46,023,000
Other deductions	25,000,000
<b>Total Deduction from Tier I Capital</b>	<b>84,799,105</b>

## 5. Total Qualifying Capital:

<b>Total Qualifying Capital</b>	<b>Amount</b>
Core Capital (Tier 1)	27,834,978,070
Supplementary Capital (Tier 2)	3,249,566,397
<b>Total qualifying capital</b>	<b>31,084,544,467</b>

## 6. Capital Adequacy Ratio:

Capital Adequacy Ratio	Percentage
Tier 1 Capital to Total Risk Weighted Exposures	11.17%
Tier 1 & Tier 2 Capital to Total Risk Weighted Exposures	12.47%

## 7. Risk weighted exposures for credit risk, operational risk and market risk

Risk Weighted Exposures	Amount
Risk weighted Exposures for Credit Risk	226,546,372,797
Risk weighted Exposures for Operational Risk	12,420,699,889
Risk weighted exposures for Market Risk	267,542,553
<b>Total Risk Weighted Exposures (Before adjustments of Pillar II)</b>	<b>239,234,615,238</b>
<b><i>Adjustment under Pillar II</i></b>	
Adjustment as per SRP 6.4a (5)	-
Adjustment as per SRP 6.4a (6)	-
Adjustment as per SRP 6.4a (7)	2,832,716,700
Adjustment as per SRP 6.4a (9)	7,177,038,457
Adjustment as per SRP 6.4a (10)	-
<b>Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)</b>	<b>249,244,370,396</b>

## 8. Risk weighted exposure under each of 16 categories

Credit Risk	Claim	RWE
Claims on Govt. and Central Bank	58,625,483,381	-
Claims on Other Financial Entities	-	-
Claims on Banks	21,087,008,214	5,271,021,764
Claims on Corporate and Securities Firm	94,153,589,864	93,916,225,012
Claims on Regulatory Retail Portfolio	36,994,530,966	22,607,291,147
Claims on Secured by Residential Properties	8,710,231,241	5,307,339,627
Claims on Secured by Commercial Real Estate	14,768,996,032	14,768,996,032
Past due Claims	14,548,623,342	12,936,828,812
High Risk Claims	13,088,167,014	17,735,924,763
Real Estate loans for land acquisition and development (Other than mentioned in Capital Adequacy framework 2015-point 3.3(j)(1)(k))	2,461,848,670	3,077,310,838
Lending against Shares(above Rs.5 Million)	4,911,573,408	6,139,466,760
Lending against Shares(upto Rs.2.5 Million)	556,114,853	556,114,853
Trust Receipt Loans for Trading Firms	465,101,658	558,121,990
Real Estate loans for land acquisition and development (For institutions/projects registred/licensed and approved by Government of Nepal for land acquisition and development purposes)	746,735,524	746,735,524
Personal Hirepurchase/Personal Auto Loans (upto Rs. 2.5 Million)	290,347,601	290,347,601
Other Assets	15,430,025,890	5,488,519,487
<b>Off Balance Sheet Items</b>	<b>84,176,740,821</b>	<b>37,146,128,589</b>
<b>Adjustment under Pillar II</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>371,015,118,479</b>	<b>226,546,372,797</b>

**9. Total risk weighted exposure calculation table:**  
**i. Risk Weighted Exposure of Credit Risk**

<b>A. Balance Sheet Exposures</b>	<b>Book Value (a)</b>	<b>Specific provisions (b)</b>	<b>Eligible CRM (c)</b>	<b>Net Value (d=a-b-c)</b>	<b>Risk weight (e)</b>	<b>Risk Weighted Exposures (f=d*e)</b>
Cash Balance	3,771,219,551	-	-	3,771,219,551	0%	-
Balance With Nepal Rastra Bank	8,831,120,578	-	-	8,831,120,578	0%	-
Gold	-	-	-	-	0%	-
Investment in Nepalese Government Securities	45,014,550,000	-	-	45,014,550,000	0%	-
All Claims on Government of Nepal	1,008,593,252	-	-	1,008,593,252	0%	-
Investment in Nepal Rastra Bank securities	-	-	-	-	0%	-
All claims on Nepal Rastra Bank	-	-	-	-	0%	-
Claims on Foreign Government and Central Bank (ECA 0-1)	-	-	-	-	0%	-
Claims on Foreign Government and Central Bank (ECA -2)	-	-	-	-	20%	-
Claims on Foreign Government and Central Bank (ECA -3)	-	-	-	-	50%	-
Claims on Foreign Government and Central Bank (ECA-4-6)	-	-	-	-	100%	-
Claims on Foreign Government and Central Bank (ECA -7)	-	-	-	-	150%	-
Claims On BIS, IMF, ECB, EC and MDB's recognized by the framework	-	-	-	-	0%	-
Claims on Other Multilateral Development Banks	-	-	-	-	100%	-
Claims on Domestic Public Sector Entities	-	-	-	-	100%	-
Claims on Public Sector Entity (ECA 0-1)	-	-	-	-	20%	-
Claims on Public Sector Entity (ECA 2)	-	-	-	-	50%	-
Claims on Public Sector Entity (ECA 3-6)	-	-	-	-	100%	-
Claims on Public Sector Entity (ECA 7)	-	-	-	-	150%	-
Claims on domestic banks that meet capital adequacy requirements	11,699,470,634	-	-	11,699,470,634	20%	2,339,894,127
Claims on domestic banks that do not meet capital adequacy requirements	48,224,484	48,224,484	-	-	100%	-
Claims on foreign bank (ECA Rating 0-1)	3,841,280,364	-	-	3,841,280,364	20%	768,256,073
Claims on foreign bank (ECA Rating 2)	3,544,216,729	-	-	3,544,216,729	50%	1,772,108,364
Claims on foreign bank (ECA Rating 3-6)	-	-	-	-	100%	-
Claims on foreign bank (ECA Rating 7)	-	-	-	-	150%	-
Claims on foreign bank incorporated in SAARC region and China operating with a buffer of 1% above their respective regulatory capital requirement	1,953,816,003	-	-	1,953,816,003	20%	390,763,201
Claims on Domestic Corporates (Credit rating score equivalent to AAA)	-	-	-	-	50%	-
Claims on Domestic Corporates (Credit rating score equivalent to AA+ to AA-)	-	-	-	-	70%	-
Claims on Domestic Corporates (Credit rating score equivalent to A+ to A-)	-	-	-	-	80%	-
Claims on Domestic Corporates (Credit rating score equivalent to BBB+ & below)	21,726,508,172	-	-	21,726,508,172	100%	21,726,508,172
Claims on Domestic Corporates (Unrated)	72,427,081,692	-	237,364,852	72,189,716,840	100%	72,189,716,840
Claims on Foreign Corporates (ECA 0-1)	-	-	-	-	20%	-
Claims on Foreign Corporates (ECA 2)	-	-	-	-	50%	-
Claims on Foreign Corporates (ECA 3-6)	-	-	-	-	100%	-
Claims on Foreign Corporates (ECA 7)	-	-	-	-	150%	-
Regulatory Retail Portfolio (Not Overdue)	36,994,530,966	-	6,851,476,104	30,143,054,862	75%	22,607,291,147
Claims fulfilling all criterion of regularity retail except granularity	-	-	-	-	100%	-
Claims secured by residential properties	8,033,278,361	-	-	8,033,278,361	60%	4,819,967,016
Claims not fully secured by residential properties	-	-	-	-	150%	-

Claims secured by residential properties (Overdue)	676,952,880	189,580,270	-	487,372,610	100%	487,372,610
Claims secured by Commercial real estate	14,768,996,032	-	-	14,768,996,032	100%	14,768,996,032
Past due claims (except for claims secured by residential properties)	14,548,623,342	5,924,070,801	-	8,624,552,541	150%	12,936,828,812
High Risk claims	13,088,167,014	-	1,264,217,172	11,823,949,842	150%	17,735,924,763
Real Estate loans for land acquisition and development (Other than mentioned in Capital Adequacy framework 2015-point 3.3(j)(1)(k))	2,461,848,670	-	-	2,461,848,670	125%	3,077,310,838
Lending against Shares(above Rs.5 Million)	4,911,573,408	-	-	4,911,573,408	100%	6,139,466,760
Lending against securities (bonds)	-	-	-	-	100%	-
Lending against Shares(upto Rs.5 Million)	556,114,853	-	-	556,114,853	100%	556,114,853
Trust Receipt Loans for Trading Firms	465,101,658	-	-	465,101,658	120%	558,121,990
Real Estate loans for land acquisition and development (For institutions/projects registred/licensed and approved by Government of Nepal for land acquisition and development purposes)	746,735,524	-	-	746,735,524	100%	746,735,524
Personal Hirepurchase/Personal Auto Loans	290,347,601	-	-	290,347,601	100%	290,347,601
Investments in equity and other capital instruments of institutions listed in stock exchange	2,009,085,623	-	-	2,009,085,623	100%	2,009,085,623
Investments in equity and other capital instruments of institutions not listed in the stock exchange	99,363,050	-	-	99,363,050	150%	149,044,576
Staff loan secured by residential property	1,157,711,963	-	-	1,157,711,963	50%	578,855,981
Interest Receivable/claim on government securities	590,646,362	590,646,362	-	-	0%	-
Cash in transit and other cash items in the process of collection	104,849	-	-	104,849	20%	20,970
Other Assets (as per attachment)	11,573,114,043	8,821,601,707	-	2,751,512,336	100%	2,751,512,336
<b>TOTAL</b>	<b>286,838,377,658</b>	<b>15,574,123,623</b>	<b>8,353,058,128</b>	<b>262,911,195,907</b>		<b>189,400,244,208</b>

<b>B. Off-Balance Sheet Exposures</b>	<b>Book Value (a)</b>	<b>Specific provisions (b)</b>	<b>Eligible CRM (c)</b>	<b>Net Value (d=a-b-c)</b>	<b>Risk weight (e)</b>	<b>Risk Weighted Exposures (f=d*e)</b>
Revocable Commitments	-	-	-	-	0%	-
Bills Under Collection	-	-	-	-	0%	-
Forward Exchange Contract Liabilities	3,989,353,387	-	-	3,989,353,387	10%	398,935,339
LC Commitments With Original Maturity Upto 6 months domestic counterparty	8,685,506,784	-	313,820,351	8,371,686,432	20%	1,674,337,286
Foreign counterparty (ECA Rating 0-1)	-	-	-	-	20%	-
Foreign counterparty (ECA Rating 2)	-	-	-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	-	-	-	-	100%	-
Foreign counterparty (ECA Rating 7)	-	-	-	-	150%	-
LC Commitments With Original Maturity Over 6 months domestic counterparty	3,531,805,875	-	38,195,266	3,493,610,609	50%	1,746,805,304
Foreign counterparty (ECA Rating 0-1)	-	-	-	-	20%	-
Foreign counterparty (ECA Rating 2)	-	-	-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	-	-	-	-	100%	-
Foreign counterparty (ECA Rating 7)	-	-	-	-	150%	-
Bid Bond, Performance Bond and Counter guarantee domestic counterparty	43,734,622,033	-	1,493,150,971	42,241,471,062	40%	16,896,588,425
Foreign counterparty (ECA Rating 0-1)	-	-	-	-	20%	-
Foreign counterparty (ECA Rating 2)	-	-	-	-	50%	-
Foreign counterparty (ECA Rating 3-6)	-	-	-	-	100%	-
Foreign counterparty (ECA Rating 7)	-	-	-	-	150%	-
Underwriting commitments	-	-	-	-	50%	-
Lending of Bank's Securities or Posting of Securities as collateral	-	-	-	-	100%	-

Repurchase Agreements, Assets sale with recourse	-	-	-	-	100%	-
Advance Payment Guarantee	11,687,670,487	-	99,707,424	11,587,963,063	100%	11,587,963,063
Financial Guarantee	-	-	-	-	100%	-
Acceptances and Endorsements	59,547,333	-	-	59,547,333	100%	59,547,333
Unpaid portion of Partly paid shares and Securities	-	-	-	-	100%	-
Irrevocable Credit commitments (short term)	8,931,628,063	-	-	8,931,628,063	20%	1,786,325,613
Irrevocable Credit commitments (long term)	2,745,058,328	-	-	2,745,058,328	50%	1,372,529,164
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement	-	-	-	-	20%	-
Other Contingent Liabilities	-	-	-	-	100%	-
Unpaid Guarantee Claims	811,548,531	-	-	811,548,531	200%	1,623,097,062
<b>Total</b>	<b>84,176,740,821</b>	<b>-</b>	<b>1,944,874,011</b>	<b>82,231,866,810</b>		<b>37,146,128,589</b>
<b>Total RWE for credit risk Before Adjustment (A)+(B)</b>	<b>371,015,118,479</b>	<b>15,574,123,623</b>	<b>10,297,932,139</b>	<b>345,143,062,716</b>		<b>226,546,372,797</b>
<b><u>Adjustment under Pillar II</u></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>-</b>
Add: 10% of the Loan and facilities in excess of Single Obligor Limits (6.4 a 3)	-	-	-	-		-
Add: 1% of the contract (sale) value in case of the sale of credit with recourse (6.4 a 4)	-	-	-	-		-
<b>Total RWE for credit risk ( After Bank's Adjustment of Pillar II)</b>	<b>371,015,118,479</b>	<b>15,574,123,623</b>	<b>10,297,932,139</b>	<b>345,143,062,716</b>		<b>226,546,372,797</b>

## ii. Risk Weighted Exposure of Operational Risk

Particulars	Year 1	Year 2	Year 3
Net Interest Income	6,186,965,708	7,140,747,994	8,009,145,268
Commission and Discount Income	1,230,738,396	1,354,544,226	1,740,477,921
Other Operating Income	154,983,320	144,579,826	241,992,625
Exchange Fluctuation Income	233,087,786	148,668,167	150,120,496
Additional Interest Suspense during the period	53,057,848	293,319,426	245,843,576
Gross Income (a)	<b>7,858,833,058</b>	<b>9,081,859,639</b>	<b>10,387,579,885</b>
Alfa (b)	15.00%	15%	15%
Fixed Percentage of Gross Income [c=(a*b)]	1,178,824,959	1,362,278,946	1,558,136,983
Capital Requirement for operational risk (d) (average of c)			1,366,413,629
Risk Weight (reciprocal of capital requirement of 11%) in times (e)			9.09
Equivalent Risk Weight Exposure[f=(d*e)]			12,420,699,889
<b><u>PILLAR II ADJUSTMENT</u></b>			
If Gross Income for all the last three years is negative (6.4 a 8)			-
Total Credit and Investment (net of Specific Provisions)			-
Capital Requirement for operational risk (5%)			-
Risk Weight (reciprocal of capital requirement of 11%) in times			-
Equivalent Risk Weight Exposure[g]			-
<b>Equivalent Risk Weight Exposure [h=f+g]</b>			<b>12,420,699,889</b>

## iii. Risk Weighted Exposure of Market Risk

Currency	Open Position (FCY)	Exchange Rate	Open Position (NPR)	Relevant Open Position
INR	291,008,521	1.60	465,613,634	465,613,634
USD	712,663	134.20	95,639,355	95,639,355
GBP	39,924	175.18	6,993,829	6,993,829
EUR	16,546	145.75	2,411,613	2,411,613
THB	54,322	4.02	218,374	218,374
CHF	7,724	154.98	1,197,102	1,197,102
AUD	18,448	89.48	1,650,771	1,650,771
CAD	7,284	96.93	706,078	706,078
SGD	7,879	102.00	803,703	803,703
JPY	1,570,709	0.90	1,410,026	1,410,026
HKD	52,875	17.19	908,920	908,920
DKK	954	19.49	18,601	18,601
SEK	3,185	12.82	40,830	40,830
SAR	106,782	35.56	3,797,170	3,797,170
QAR	52,169	36.62	1,910,431	1,910,431
AED	12,069	36.34	438,605	438,605
MYR	26,608	31.08	826,963	826,963
KRW	1,887,619	0.10	185,175	185,175
CNY	193,491	18.81	3,639,572	3,639,572
KWD	348	435.28	151,531	151,531
BHD	255	354	90,199	90,199
Total Open Position (a)			<b>588,652,481</b>	<b>588,652,481</b>
Fixed Percentage (b)			-	5%
Capital Charge for Market Risk [c=(a*b)]				29,432,624
Risk Weight (reciprocal of capital requirement of 11%) in times (d)				9.09
Equivalent Risk Weight Exposure [e=(c*d)]				<b>267,542,553</b>

**10. Amount of NPAs**

Classification of Loan	Gross NPA	Net NPA
Restructured/Rescheduled Loan	-	-
Sub-Standard Loan	3,729,071,492	2,796,803,619
Doubtful Loan	1,822,151,870	911,075,935
Loss Loan	4,261,307,263	-

**11. NPA ratios**

Gross NPA to Gross Loan & Advance	4.86%
Net NPA to Net Loan & Advances	1.94%

**12. Movement of Non-Performing Assets**

Particulars	Opening Balance	Closing Balance	Difference
Restructure/Reschedule	-	-	-
Sub-standard Loan	2,653,044,969	3,729,071,492	1,076,026,523
Doubtful Loan	1,360,652,652	1,822,151,870	461,499,218
Loss Loan	5,045,880,809	4,261,307,263	(784,573,546)

**13. Write off of loans and interest suspense**

Particulars	Opening Balance	Closing Balance	Difference
Loan write-off	266,712,141	-	-

**14. Movements in loan loss provisions and Interest suspense****i. Movement of Loan Loss Provision**

Particulars	Opening Balance	Closing Balance	% Change
Pass Loan	1,835,033,100	1,669,631,636	-9.01%
Watch list	1,597,421,651	2,009,681,930	25.81%
Restructure/Reschedule	0	-	0.00%
Sub-standard Loan	663,261,242	932,267,873	40.56%
Doubtful Loan	680,326,326	911,075,935	33.92%
Loss Loan	5,045,880,809	4,261,307,263	-15.55%
Additional provision	7,090,000	455,504,469	6324.60%

**ii. Movement of Interest Suspense**

Particulars	Opening Balance	Closing Balance	% Change
Interest Suspense	821,737,206	845,937,812	2.95%

**15. Details of additional loan loss provisions**

Particulars	Opening Balance	Closing Balance	Additional Provision
Pass Loan	1,835,033,100	1,669,631,636	(165,401,464)
Watch List	1,597,421,651	2,009,681,930	412,260,279
Restructure/Reschedule	-	-	-
Sub-standard Loan	663,261,242	932,267,873	269,006,631
Doubtful Loan	680,326,326	911,075,935	230,749,609
Loss Loan	5,045,880,809	4,261,307,263	(784,573,546)
Additional provision	7,090,000	455,504,469	448,414,469

**16. Segregation of investment portfolio into held for trading, held to maturity and available for sale category**

Investment Portfolio	Amount (Rs.)
<b>Held for Trading</b>	-
<b>Held to Maturity</b>	
<b>Investment Securities at Amortized Cost</b>	
<i>Treasury Bills</i>	-
<i>Development Bond</i>	45,014,550,000
<i>Debenture</i>	1,396,578,000
<b>Grand Total</b>	<b>46,411,128,000</b>

**Available for Sale -Investment in Equity measured at FVTOCIO**

Particulars	Amount(Rs.)	Fair Value (Rs.)
Annapurna Developers Ltd.	2,000,000	2,000,000
Banking, Finance & Insurance Institute Of Nepal Ltd.	3,000,000	5,010,390
Chilime Hydro Power Company Ltd.	28,141,461	33,105,117
Citizens Mutual Fund 1	31,304,260	33,037,050
Citizens Mutual Fund 2	12,234,380	11,732,993
Citizens Super 30 Mutual Fund	72,527,753	68,383,799
Global Ime Balanced Fund - 1	30,836,027	28,578,430
Himalayan 80-20 (Hbl8020)	52,558,598	53,246,572
Hydorelectricity Investment And Development Company Ltd.	38,214,259	58,186,794
Karja Suchana Kendra Ltd.	94,500	1,181,300
Kumari Dhanabridhi Yojana	18,286,624	16,832,898
Kumari Equity Fund	20,168,731	18,378,090
Kumari Sabal Yojana	14,607,620	13,549,514
Laxmi Unnati Kosh	19,790,781	20,247,537
Laxmi Value Fund II (Lv2)	60,802,837	54,459,367
Matribhumi Lagubitta Sanstha Limited Promoter Share	18,770,000	45,387,900
Mega Mutual Fund 1	41,006,464	40,507,259
Nabil Balance Fund-3	44,674,897	43,697,321
Nabil Balance Fund-2	65,105,287	62,973,066
Nabil Flexi Cap Fund	30,000,000	34,830,000
National Microfinance Laghubitta Bittiya Sanstha Ltd. Promoter	14,000,000	53,927,100
Nepal Clearing House Ltd.	19,089,300	64,153,005
Nepal Doorsanchar Co.Ltd (Ntc)	83,035,010	98,150,553
Nepal Insurance Co. Ltd.	11,412,487	13,772,098
Nerude Mirmire Lagubitta Bittiya Sanstha Ltd.	10,861,843	247,000,806
Nibl Growth Fund	65,477,088	59,655,565
Nibl Samriddhi Fund -2	12,220,091	11,764,138
Nibl Stable Fund	28,478,885	25,411,441
Nic Asia Balance Fund	43,498,670	41,612,022
Nic Asia Dynamic Debt Fund	6,648,300	6,967,418
Nic Asia Flexi Cap Fund	27,470,594	23,969,064
Nic Asia Growth Fund	11,453,203	12,070,493
Nic Asia Select - 30 (Index Fund)	16,568,115	16,141,942
Nicgf2 - Nic Asia Growth Fund 2	22,267,576	19,614,913

Nlg Insurance Company Ltd.	18,964,898	31,417,100
Nmb 50	10,901,540	10,262,760
Nmb Sulav Investment Fund-2	45,672,261	48,117,261
Prabhu Capital Ltd.	1,500,000	2,018,356
Prabhu Select Fund	51,590,008	51,149,584
Prabhu Smart Fund (Prvusf)	67,401,464	66,179,977
Rasuwagadhi Hydropower Company Limited	23,790,399	25,237,737
Rbb Mutual Fund	51,384,386	46,616,271
Rbb Mutual Fund 1	31,634,185	31,222,543
Reliable Private Equity Fund	25,000,000	25,000,000
RNLI - Reliable Nepal Life Insurance Limited	26,178,095	28,503,418
Sanima Equity Fund	60,769,077	65,270,337
Sanima Growth Fund	18,383,128	17,346,139
Sanima Large Cap Fund	16,513,416	16,101,913
Sanima Mai Hydropower Ltd.	11,386,602	18,444,764
Sanima Reliance Life Insurance Limited	15,363,290	18,293,514
Siddhartha Equity Fund	68,101,184	65,628,050
Siddhartha Investment Growth Scheme-2	36,686,585	36,365,117
Siddhartha Investment Growth Scheme-3	70,585,914	66,861,909
Sun Nepal Life Insurance Company Ltd.	24,426,055	33,442,128
Sunrise Blue Chip Fund	25,188,261	25,204,027
Sunrise First Mutual Fund	5,151,437	5,084,456
Sunrise Focused Equity Fund	29,069,817	26,663,962
Suryajyoti Life Insurance Company Ltd.	2,738,021	5,001,192
Suryajyoti Life Insurance Company Ltd. Promoter	1,854,506	3,480,207
<b>Grand Total</b>	<b>1,716,840,170</b>	<b>2,108,448,674</b>

<b>Investment in Associates</b>	<b>Amount(Rs.)</b>
Mero Microfinance Laghubitta Bittiya Sanstha Ltd	37,023,000.00
Swabhimaan Laghubitta Bittiya Sanstha Ltd.	9,000,000.00
<b>Grand Total</b>	<b>46,023,000.00</b>

### **17. Summary of the bank's internal approach to assess the adequacy of its capital to support current and future activities:**

Prime Commercial Bank has adopted a risk management framework for the management of the risks in the Bank. The Bank's policies and procedures and Standing Operating Procedures (SOPs) endorsed by the Risk Management Committee (RMC) and approved by the Board of Directors guide the risk management practices in the Bank. Policies, guidelines and Standing Operating Procedures (SOPs) help identify, measure, and manage/mitigate risks across various business functions of the Bank.

The Bank uses the Internal Capital Adequacy Assessment Process (ICAAP) and Risk Management Guidelines to ensure a sound capital position and business sustainability. The Bank has always considered ICAAP and has taken steps accordingly to ensure the soundness of capital position and sustainability of the business.

The Bank has established Board of Directors (BOD) level committees, including the Risk Management Committee, the Audit Committee, and the Anti-Money Laundering Committee, to review the Bank's business activities and associated risks in a timely manner. Overall risk of the bank is monitored by risk management committee, audit committee and Anti-Money Laundering committee. To ensure sound capital assessment process, Board of Directors, Risk Management committee, Audit Committee, Risk

Management and Internal Audit Department frequently monitor and review quality and effectiveness of the control and mitigate risk to protect the assets of bank regularly.

Stress tests and scenario analysis are conducted to align risk, return, and capital in a healthy way.

Before taking any business decision in the Bank; the principles of risk, return and capital charge are taken into account. Economic scenario of the country and the world at large are also taken into account. Systemic risk and black swan events like COVID are also considered as far as possible. The risk appetite and risk tolerance limits are set to align the business with the risk, return and capital.

Basel disclosures have been complied with, addressing the risks and adopting measures to minimize their impact. Increasing complexities in risks, vulnerabilities of businesses, and fast- changing world with intense competition pose a threat to the Bank's business. The Bank, to address the varieties of risk that keep coming out of business operations, has identified different risks and adopted different measures to minimize them.

Capital planning is an integral part of the Bank's strategic planning and annual budget formulation process. Total risk weighted exposures for the projected business operations is calculated and the required capital level is projected, and a plan is formulated to retain the required capital.

Prime Commercial Bank has always been a capital rich bank ever since its establishment. Bank has always complied with the requirement of the capital set by the NRB. As the Bank was able to generate profit from its first year of operation, bank's reserve is also ever increasing to address the need of capital to support the growing business of the Bank. Prime Commercial Bank is adequately capitalized and has always been able to maintain the required capital and the Bank is able to generate capital through retention of profit or through the capital market in the future. As the Bank's Core Capital is amongst the strongest in the industry, the Bank can raise tier 2 capital through the issuance of debentures.

### **Risk Management Framework**

Risk Management Structure has been structured in line the Risk Management Guidelines 2018 and NRB Directives.

The components of Risk Management Structure of PCBL are as follows;

**Board of Directors:** Board of Directors of the Bank is supreme of the risk management structure of the bank and is responsible for the risks taken by the Bank. The Board of Directors defines the risk appetite and risk tolerance, and set risk strategies of the Bank. The Board of Directors sets the strategies and the senior management is responsible for implementing those strategies and communicating them throughout the organization. The Board of Directors undertakes necessary measures to ensure that management is taking necessary steps to implement those strategies and manage accompanying risks.

**Risk Management Committee:** Risk Management Committee is the supreme committee headed by the Board of Directors which looks after the overall risk management in the Bank. Risk Management Committee is constituted by two Board of Directors and Head of Operations and Chief Risk Officer (CRO). Chief Risk Officer (CRO) is the member secretary of the committee.

**Senior Management:** While the overall responsibility for risk management is recognized to rest with the Board of Directors, it is the duty of senior management to transform the strategies into operational policies, procedures, and processes for effective risk management. The senior management should be fully aware of the activities undertaken by the institution that could expose it to various risks. It should possess necessary knowledge and skills to be able to align the risk levels with the board's strategies through risk assessment and treatment. Top management should be aware of the financial institution's risk profile on an ongoing basis and should regularly report it to the board or a board level committee for review.

**Asset Liability Committee (ALCO):** ALCO committee is the management level committee headed by the Chief Executive Officer (CEO). Members of the committee include the top executives of the Bank, Head of

Credit, Head of Treasury and Head of Operations. Head of Treasury is the member secretary of the committee. Major role of the ALCO committee is Liquidity Management, FOREX Management, Assets and Liabilities Management and Revise Interest Rates.

**Risk Management Department:** The Bank has an independent Risk Management Department which is responsible for the overall risk management in the Bank. Risk Management Department is headed by Chief Risk Officer (CRO). There are various units under the risk management department that looks after each key risk areas.

The units under Risk Management Department (RMD) are:

- Credit Risk Management Unit (CRMU)
- Operational Risk Management Unit (ORMU)
- Credit Risk Inspection Unit (CRIU)
- Market/Liquidity Risk Management Unit (MRMU)

The main functions of the risk management department are developing risk policies and procedures, coordinating with business users to prepare functional specifications, preparing and forwarding risk report and assisting in the implementation of all aspects of the risk function.

The Risk Management Department is functionally and hierarchically independent from business and other operation functions. The officials who take and own risks are not given any responsibility for monitoring and evaluating the risks. The Chief Risk Officer (CRO) who has sufficient stature, authority and seniority leads the Risk Management Department. He has direct access to the Board of Directors and reports to the Risk Management Committee (RMC) under the Board.

The Risk Management Department has satisfactory number of personnel who possess the needed experience and qualifications, including market and product knowledge and command of risk discipline.

The RMD has developed various policies, procedures, limits and controls for the risk management of the Bank. Our policies are the foundation for effective risk management in the Bank. It helps in timely and continuous identification, assessment, measurement, monitoring, mitigation, and reporting of risks posed by the activities of the business line etc.

The Bank is continuously developing and improving our risk management framework in the Bank to enhance its effectiveness. Bank is working on making the framework comprehensive enough to capture all the material risks that our bank is exposed to.

### **Risk Culture**

A sound and consistent risk culture throughout a bank is a key element of effective risk management. The executive level of the bank sets the tone for the desired risk culture in the Bank. Risk governance refers to the structure, rules, processes, and mechanisms by which decisions about risks are taken and implemented. The Board of Directors sets the strategies and the senior management is responsible for implementing those strategies and communicating them throughout the Bank. Risk governance follows the three lines of defense model.

### **Risk Appetite and Risk Tolerance**

Bank has developed the Risk Appetite Statement of the Bank where Risk Appetite and Risk Tolerance Limits has been set for Credit Risk and it is in the process of revision to accommodate the Risk Appetite and Risk Tolerance Limits for Operational Risk and Market & Liquidity Risk. Risk appetite is set and approved by the Board and is reviewed on an ongoing basis to accommodate new risks and revisit already identified risks. Trigger levels are set in the risk appetite of the Bank and the tolerance levels are also set at the levels at the risks level the Bank is willing to accept.

## **Credit Risk Management**

As the majority of the Bank's assets are in Loans and Advances, credit risk is the major risk for the Bank and addressing it properly is important to maintain the good health of the organization. In order to address the credit risk in the Bank, bank has Credit Policy Guidelines, Credit Manual, Valuation Manual, Credit Risk Management Policy, Credit Risk Rating Policy and Investment Policy in place.

The Bank has a separate Credit Risk Management Unit (CRMU) under the Risk Management Department for processing of corporate credit, consumer credit and branch credit files. Credit files above NPR 10.00 million and renewal files above NPR 100.00 million are reviewed by the Credit Risk Officers in the Credit Risk Management Unit and an independent report is prepared for each credit file. For credit files below NPR 10.00 million, Credit Risk Management Unit (CRMU) performs risk assessment and prepares a risk report on sampling basis.

Apart from analysis of individual credit files, the CRMU also conducts sectoral analysis and industry analysis from time to time keeping in mind the portfolio concentration of the Bank and developments in the external environment that may have impact on our portfolio. The results of such analysis are presented to the Risk Management Committee (RMC) and are further forwarded to the Board.

The Bank is in the process of Loan Management System (LMS) implementation, which will automate the loan approval and disbursement process in the Bank. With the implementation of the LMS, Bank's Credit Risk Management process will become robust and room for operational lapses in the approval and disbursement process shall be significantly minimized.

## **Credit Risk Inspection**

The Bank has a separate unit under the Risk Management Department named Credit Risk Inspection Unit (CRIU) for post disbursal credit monitoring. As a part of credit monitoring, the staffs visit different branches and monitor the credit portfolio on reasonable standards. The unit does general screening of credit file where approved Credit Appraisal/Credit Memorandum are studied. Screening of Valuation report of Fixed Assets Collateral accepted as per Credit Appraisal/Credit Memorandum is carried out as per bank's valuation policy and any deviation if found is noted/reported. Screening of Security/Legal documents - mortgage deed, personal guarantee, legal consent is done and any lapses in these documents if found are noted/reported.

The unit does Fixed Assets Collateral inspection on sample basis. Various required documents of the collateral are also checked. During inspection condition of the collateral is assessed and current market value is also compared to the value considered while providing credit facilities. The unit does business site inspection of sampled credit files to assess the current asset status of the business as per working capital loan taken from the bank. Other documents like required insurance documents of stock/fixed asset collateral as per credit approval terms are also checked.

## **Operational Risk Management**

Operational Risk arises out of inefficient processes, system and people inside and outside the Bank and other external factors. Prime Commercial Bank has Operational Risk Management Unit (ORMU) at Risk Management Department (RMD), which is mainly responsible for independent review of processes set up to control operational risk, and for measurement and reporting of the operational risk. Bank has implemented risk management architecture as well as policies and processes approved by the Board of Directors. The Bank in line with Basel Provisions calculates risk exposures and allocates sufficient capital/cushion for perceived operational risks.

Bank has Operational Risk Management policy in place, which describes the approach to Operational Risk Management within banks as part of enterprise-wide risk management and also to comply with the regulatory guidelines.

With the significant growth of the business volume, emerging digital challenges and regulatory requirement, the horizon of operational risk has been expanded. The increasing rate of financial fraud, cyber-attacks, process failures, system errors, human mistakes can have gruesome impact on the reputation, profitability and creditability of the Bank. Inappropriate management of operational risks can result in significant losses. Hence, it has been inevitable to manage the different risks existed in the Bank along with operational risk. For the proper management of the operational risk, there is a need of advance technology where risk events and its impact can be recorded and that can promptly generate required data for the risk assessment and reporting purpose. Hence, Prime Commercial Bank has acquired Operation Risk Management System(ORMS).

The ORMS has three modules and they are:

- Internal Loss Data Reporting (ILDR)
- Key Risk Indicators (KRI)
- Risk and Control Self-Assessment (RCSA)

Branch level risk officers are appointed in each branch and they are responsible for recording operational risk events in Internal Loss Data Reporting (ILDR) module of ORMS, providing data, information and report to prepare risk report as required by Risk Management Department; recording data for Key Risk Indicators on monthly basis and improving work culture and practices of the branches to mitigate the operational risk.

The Bank has an Executive Level Operational Risk Management Committee which was formed to mitigate the existed operational risks in the Bank. The meetings of the committee are conducted on regular interval, where the results of the branches obtained from KRI report, operational risk event taken place in the risk centers and ways to mitigate those risks are discussed.

Bank has introduced Robotic Process Automation (RPA) for monitoring issues of Operational Risk Management. RPA itself checks the errors and notifies concerned staff about the errors for the rectification.

Information and Technology risk in the Bank is being managed and controlled through various policies and guidelines. Besides, the Bank has an Information Security Officer (ISO) who looks after the IT related risk in the Bank. Bank also conducts an IS Audit of the Bank's system and suggestions are incorporated in the policies and practices of the Bank.

Bank has a dedicated department to look after the digital transaction and its operations of the Bank that includes transactions through card (debit/credit/ travel card/Prepaid Dollar Card/USD Credit Cards), M-banking, QR code, POS machine, Remittance, Settlement & Reconciliation etc. With the increase in the number of customers subscribing digital banking facility, the risk associated with digital banking services have also increased. The Bank must have robust and advanced system to monitor and tackle the emerging risks associated with digital channels before it reaches the risky zone. Hence, the department has been adopting various techniques and procedures to mitigate the risks evolved within the digital ecosystem.

Bank has a separate Compliance Department to oversee operational risk associated with AML/CFT. Bank has developed standard operating procedures (SOPs) and policies related Anti Money Laundering and Combating Financing of Terrorism (CFT) as per the regulatory requirement. Compliance Department is managing Transaction Screening Service(TSS), which screens incoming and outgoing wire transfer messages against latest sanctions and instantly delivers the alert.

Compliance Department is using Online Accuity Software and Accuity database which is purchased on annual basis. Online Accuity Software is used for screening of all international beneficiaries for Trade financing and outward wire transfers which comprises of list of Global Politically Exposed Persons, Sanction list (UN, HMT, OFAC, EU), and Adverse Media News.

The Trust AML system has also integrated the list of blacklisted personnel from Credit Information Bureau, Nepal through API. All this information integrated together in Trust AML system is used to conduct screening during customer onboarding, customer ongoing due diligence, customer's transaction

monitoring, quarterly batch screening and as per the necessity. The screening mechanism keeps information trail of existing customer and helps to detect and control the duplication of KYC.

Further, AML Implementation Committee is another committee composed of Compliance Head, IT Head and Central Operations Head as well as respective staffs from the corresponding department which is formed in order to ensure coordination for the assignment related to update of KYC, data cleansing, CBS updates and so on.

### **Market Risk Management**

The Bank has a separate 'Market/Liquidity Risk Management Unit (MRMU)' headed by a Market Risk Officer within the Risk Management Department. This unit oversees market, interest rate, and liquidity risks in the Bank. The Market Risk Officer reports to the Chief Risk Officer (CRO).

The Treasury Middle Office (TMO) operates independently from the Treasury Department. The Risk Officer at the Treasury Middle Office is responsible for monitoring, measuring, and analyzing risks related to treasury management and functions. This position reports to the MRMU and is reviewed by the CRO.

The Bank has Standard Operating Procedure on Market and Liquidity Risk Management Unit to ensure consistency of operations and smooth performance of the MRMU, as well as to establish effective internal controls for monitoring market and liquidity risks at regular intervals.

Market Risks are also discussed at the Asset Liability Management Committee (ALCO) of the Bank. The Assets and Liabilities Committee (ALCO) is responsible for the management of capital and liquidity, and establishment of, and compliance with, policies relating to balance sheet management, including management of liquidity, capital adequacy and structural foreign exchange and interest rate exposure.