Disclosures under Basel III

For 3rd Quarter of Fiscal year 2081-82 as of Chaitra end, 2081

Information presented hereunder is as per disclosure requirements of the Capital Adequacy Framework, 2015 as issued by Nepal Rastra Bank. Disclosures are in respect of the stand-alone capital adequacy of Mahalaxmi Bikas Bank limited.

1. Capital Structure and Capital Adequacy:

❖ Core Capital (Tier 1)

Rs.'000

Particulars		**Amount (Rs.)**
1.	Paid up Equity Share Capital	4,296,458.16
2.	Share Premium	-
3.	Proposed Bonus Equity Shares	-
4.	Statutory General Reserves	1,581,738.27
5.	Retained Earnings	1,63,485.05
6.	Un-audited current year cumulative profit/(loss)	-
7.	Debenture Redemption Reserve	107,142.86
8.	Capital Adjustment Reserve	-
9.	Other Free Reserve	-
10.	Less: Purchase of land & building in excess of limit and unutilized	55,625.00
Total core capital (Tier I)		**6,093,199.34**

❖ Supplementary capital (Tier 2)

Rs.'000

	Particulars	**Amount (Rs.)**
1.	Cumulative and/or Redeemable Preference Share	-
2.	Subordinated Term Debt	995,083.75
3.	Hybrid Capital Instruments	-
4.	General loan loss provision	563,041.29
5.	Exchange Equalization Reserve	3,329.83
6.	Investment Adjustment Reserve	2,500.00
7.	Asset Revaluation Reserve	-
8.	Accrued Interest Receivable on pass loan included in Regulatory Reserve	130,224.33
9.	Other Reserve	-
Total Capital Fund (Tier II)		**1,694,179.19**

❖ **Total Qualifying Capital** **Rs.'000**

Total capital fund (Tier1 + Tier 2)		**Amount (Rs.)**
1	Core Capital (Tier 1 Capital)	6,093,199.34
2	Supplementary Capital (Tier 2)	1,694,179.19
Total Capital Fund (Tier I and Tier II)		**7,787,378.53**

❖ **Capital Adequacy Ratio**

Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	12.11%
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	15.47%

❖ **Summary of the terms, conditions and main features of all capital instruments, especially in case of subordinated term debts including hybrid capital instruments**

a. Following is the details of subordinate term debts raised by the Bank

Rs. In '000

S No.	**Name**	**Maturity Period**	**O/s Amount**	**Amount reckoned as capital fund**
1.	11% Mahalaxmi Debenture 2089	10 Years	1000,000	995,083.75

b. The Bank has not raised any funds through hybrid Capital instruments

2. Risk Exposures

❖ **Risk Weighted Exposures for Credit, Market and Operational Risk (Rs. in '000)**

Particulars		**Amount (Rs.)**
1	Risk Weighted Exposure for Credit Risk	45,043,303.34
2	Risk Weighted Exposure for Operational Risk	3,311,805.96
3	Risk Weighted Exposure for Market Risk	45,910.23
Total Risk Weighted Exposures (Before adjustments of Pillar II)		**48,401,019.54**

❖ **Risk weighted exposures under each category of Credit Risk:**

(Rs. in '000)

S.N	**Categories**	**Risk Weighted Exposure**
1.	Cash Balance	-
2.	Claims on government & central bank	-
3.	Claims on other official entities	-
4.	Claim on Banks	393,695.86
5.	Claims on Corporate	8,559,455.27
6.	Claims on Regulatory Retail Portfolio	14,861,379.00
7.	Claims secured by Residential Properties	4,168,658.12
8.	Claims secured by Commercial Real Estate	
9.	Past Due Claims	3,498,420.41

10.	High Risk Claims	6,410,022.18
11.	Lending against Shares	
12.	Personal Hire purchase/Personal Auto Loan	
13.	Investments in equity and other capital instruments of institutions	
14.	Staff loan secured by residential property	
15.	Other Assets	6,576,575.12
16.	Off balance sheet items	575,097.38
	Total	**45,043,303.34**

❖ **Total Risk Weighted Exposure calculation table:**

	❖ **Particulars**	**Amount (Rs.)**
1	Risk Weighted Exposure for Credit Risk	45,043,303.34
2	Risk Weighted Exposure for Operational Risk	3,311,805.96
3	Risk Weighted Exposure for Market Risk	45,910.23
Total Risk Weighted Exposures (Before adjustments of Pillar II)		**48,401,019.54**

Adjustments under Pillar II

SRP 6.4a (5)	ALM policies & practices are not satisfactory, add 1% of net interest income to RWE	19,316.99
SRP 6.4a (7)	Add RWE equivalent to reciprocal of capital charge of 2 % of gross income.	455,359.10
SRP 6.4a (9)	Overall risk management policies and procedures are not satisfactory. Add 1% of RWE	1,452,030.59
Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)		**50,327,726.22**

❖ **Amount of Non-Performing Assets (NPAs) [both Gross and Net]**

Particulars	**Balance**	**Provision Amount**	**Net**
Restructure loan/Reschedule loan	-	-	-
Substandard	390,292,128.28	97,244,206.28	293,047,922.00
Doubtful loan	784,081,400.52	389,958,942.75	394,122,457.77
Loss loan	1,176,721,395.62	1,165,732,411.49	10,988,984.13
Grand Total	**2,351,094,924.42**	**1,652,935,560.52**	**698,159,363.91**

❖ **NPA Ratios**

Particulars	**NPA Ratios**
Gross NPA To Gross Advances	4.99%
Net NPA to Net advances	1.56%

❖ **Movement of Non-Performing Assets**

(Rs. in '000)

Particulars	**This Qtr**	**Previous Quarter**	**Change**
Non-Performing Assets In (Amt)	2,351,094.92	2,304,149.76	46,945.16
Non-Performing Assets In %	4.99%	4.93%	0.06%

❖ Write off of Loans and Interest Suspense

(Rs. in '000)

Particulars	Amount
Loan written off during reporting period	4,854.86
Interest written off during the reporting period	-

❖ Movements in Loan Loss Provisions and Interest Suspense

(Rs. in '000)

Particulars	This Qtr.	Previous Qtr.	Change
Loan Loss Provision	2,395,882.38	2,330,798.62	65,083.76
Interest Suspense	1,167,382.64	590,508.61	576,874.03

❖ Details of Additional Loan Loss Provisions

(Rs. in '000)

S.No.	Particulars	Amount
1.	Provisioning for Pass Loans	27,043.91
2.	Provisioning for Watch-list Loans	61,750.00
3.	Provisioning for Restructured/Rescheduled Loans	-
4.	Provisioning for Sub-standard Loans	-
5.	Provisioning for Doubtful Loans	-
6.	Provisioning for Bad Loans	-

❖ Segregation of Investment Portfolio

(Rs. in '000)

S.No.	Amount
Held For Trading	-
Held To Maturity	8,978,118.24
Available for Sale	1,116,126.10

❖ Summary of Bank's interest approach to assessing the adequacy of its capital to support current and future activities

The Bank adheres to the Internal Capital Adequacy Assessment Process (ICAAP) and Risk Management Guidelines as an integral part of its business decision-making framework. Through these guidelines, the Bank conducts both qualitative and quantitative assessments of risk and capital adequacy, ensuring alignment with its long-term growth objectives. These assessments include a comprehensive capital plan designed to support anticipated business expansion while addressing the Pillar I and Pillar II risks the Bank faces.

Several key committees, including the Audit Committee and the Risk Management Committee, conduct regular reviews of business activities and associated risks. These reviews incorporate stress testing and scenario analysis to maintain a balanced and sustainable approach to risk, return, and capital. Additionally, the Assets Liability Management Committee (ALCO), chaired by the CEO, manages interest rate, liquidity, exchange rate, and market risks. Regular gap analysis of assets and liabilities further strengthens the Bank's liquidity management strategies.

The Bank's capital adequacy ratios, as of Chaitra 2081, stand at 12.11% for Tier I capital and 15.47% for total capital, meeting the Nepal Rastra Bank's standards. These capital adequacy requirements play a pivotal role in the Bank's annual strategy discussions, daily financial reviews, ALCO, and Risk Management Committee meetings. Total risk-weighted exposures are projected, capital requirements are calculated, and strategic plans are developed to ensure adequate capitalization. Well-capitalized through internal generation, the Bank is also positioned to access capital markets as needed, underscoring

3. Risk Management Framework

In compliance with Nepal Rastra Bank Directives 6 on "Corporate Governance", the Board of Bank has established a Risk Management Committee with clear terms of reference. As at the date of this report, the Bank's Risk Management Committee comprised of the following:

S. No.	Members of Risk Management Committee	Designation
1	Non-Executive Director from Promoter	Chairperson
2	Coordinator, Audit Committee	Member
3	Head of Operation Department	Member
4	Chief Risk Officer	Member secretary

The Committee meets at least four times annually to oversee and review the fundamental prudential risks including operational, credit, market, reputational, capital and liquidity risk etc.

The responsibilities of Risk Management Committee are as follows:

a. Formulate policies and guidelines for identification, measurement, monitoring and control all major risk categories.

b. Ensuring the Bank has clear, comprehensive and well documented policies and procedure.

c. Defining the Bank's overall risk tolerance in relation to credit risk.

d. Ensuring that Bank's significant risks exposure is maintained at prudent levels and consistent with the available capital.

Apart from Board Level Risk Management Committee the other committees and groups as mentioned below supports for Overall Risk Management.

Credit Risk

Credit risk is the probability of loss of principal and reward associated with it due to failure of counterparty to meet its contractual obligations to pay the Bank in accordance with agreed terms. The Credit Risk Monitoring and Reporting Framework have been prepared to mitigate/minimize the credit risk of the Bank through appropriate monitoring and reporting framework established within the Bank.

Bank has implemented various System/ Policies/ Procedures/ Guidelines for the effective management of Credit Risk. For each type of loan, credit policies and procedures define criteria for granting loans in a safe and sound manner including but not limited purpose of credit and source of repayment, collection of relevant information based on the different client risk profiles, use of adequate tools, adequacy, enforceability and liquidity status of collaterals, as well as the practical aspects of their mobilization.

A standardized loan application forms has been in use for facilitating collection and analysis of all the relevant data for evaluating credit worthiness and proper evaluation of the credit risk of the prospective borrower. The factors considered in evaluating loan applications normally included prospects of the business, management of the firm/company, financial analysis- income statement, balance sheet, cash flow statement, key financial indicators, key risk and mitigates. Further, inspection and supervision are also conducted before approval of the loan for pre-analysis and after the disbursement of loan as well for monitoring the utilization of loan.

Market Risk

Risks arising out of adverse movements in interest rates and equity prices are covered under Market Risk Management. Market Risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. Institution exposure to market risk arises principally from customer driven transactions.

In line with Risk Management Guidelines prescribed by NRB, the Bank focuses on risk management in addition to that interest rate risk is assessed at a regular interval to strengthen market risk management. The market risk is managed within the risk tolerances and market risk limits set by ALCO. ALCO regularly meets, analyses and takes decision over the Market Risk by analyzing the internal as well as external factor.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due because of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for fixed nature asset positions is not available to the Bank on acceptable terms. The Liquidity Risk is managed by ALCO. The ALCO has developed the Treasury circular for overall liquidity management of bank.

Operational Risk

Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies, employee errors, system failures, fraud or other criminal activity, any event that disrupts business processes.

Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring. For the control of operational risk of institution, it has Financial Administration Policy, Employee Bylaws, Operational Manual, AML/CFT Policy, Suspicious Transaction Identification Procedure, and Politically Exposed Person Policy, which guides the day-to-day operations.

Each risk control owner is responsible for identifying risks that are material and for maintaining an effective control environment across the organization. Risk control owners have responsibility for the control of operational risk arising from the management of the following activities: External Rules & Regulations, Liability, Legal Enforceability, Damage or Loss of Physical Assets, Safety & Security, Internal Fraud or Dishonesty, External Fraud, Information Security, Processing Failure, and Model. Operational risks can arise from all business lines and from all activities carried out by the Bank. Operational risk management approach seeks to ensure management of operational risk by maintaining a complete process universe defined for all business segments, products and functions processes.

Qualitative disclosures

The Bank has maintained the capital adequacy as per Capital adequacy framework, 2015 as required by Nepal Rastra Bank. Tier 1 Capital Ratio of the bank as on Chaitra end 2081 is 12.11% and Capital Adequacy Ratio as on Chaitra end,2081 is 15.47%.

The Board shall be primarily responsible for ensuring the current and future capital needs of the Bank in relation to strategic objectives. The management shall review and understand the nature and level of various risks that the Bank is confronting during 9999different business activities and how this risk relates to capital levels and accordingly implement sound risk management framework specifying control measures to tackle each risk factor.