Gurkhas Finance Ltd.

गोर्खाज फाइनान्स लि.

(नेपाल राष्ट्र बैंकबाट "ग" वर्गको इजाजतपत्र प्राप्त संस्था)

BASEL DISCLOSURE

As on Poush End 2081

DISCLOSURE UNDER CAPITAL ADEQUACY FRAMEWORK OF NRB (BASEL II)
As on 29th Poush 2081

1. CAPITAL STRUCTURE & CAPITAL ADEQUACY

i. Core Capital (Tier I)

(NPR '000')

Particulars		Amount
A	Paid-up Equity Share Capital	867,993.80
B	Share Premium	22,399.27
C	Statutory General Reserve	431,876.95
D	Proposed Bonus Equity Share	-
E	Retained Earnings	(471,598.92)
F	Un-audited current year cumulative profit/(loss)	-
G	Capital Adjustment Reserve	-
H	Debenture Redemption Reserve	-
I	Other Free Reserve	-
I	Less: Investment in equity of institutions in excess of limits	-
J	Less: Purchase of land & building in excess of limit and unutilized	-
K	Less: Other Deductions	143,653.80
Total Core Capital (Tier I)		**707,017.30**

ii. Supplementary Capital (Tier II)

(NPR '000')

Particulars		Amount
A	Subordinate Term Debt	-
B	General Loan Loss Provision	88,133.55
C	Investment Adjustment Reserve	172.63
D	Exchange Equalization Reserve	1,502.49
E	Interest Capitalized Reserve included in Regulatory Reserve	13,581.15
Total Supplementary Capital (Tier II)		**103,389.82**

iii. Information about Subordinate Term Debt

The finance does not have any subordinated Term Debts.

iv. Deduction Form Capital

(NPR '000')

Particulars	Amount
Investment in equity of institutions in excess of limits	-
Purchase of land & building in excess of limit and unutilized	-
Other Deductions	143,653.80
Total	**143,653.80**

The excess lending on margin lending loan as prescribed by NRB and investment made in shares above prescribed limit by NRB has been deducted from Core capital.

v. Total Qualifying Capital

(NPR '000')

Particulars	Amount
Total Core Capital (Tier I)	707,017.30
Total Supplementary Capital (Tier II)	103,389.82
Total Capital Fund (Tier I + Tier II)	**810,407.12**

vi. Capital Adequacy Ratio

Tier 1 Capital to Total Risk Weighted Exposures	10.03%
Capital Adequacy Ratio (Percentage)	11.49%

vii. Summary of the finance's internal approach to assess the adequacy of capital to support current and future activities.

The finance considers the capital adequacy requirement pursuant to the provision set by NRB. The tier 1 capital ratio of the Finance as on Poush 2081 is 10.03% and the total capital ratio is 11.49%. The Finance has successfully achieved the paid up capital requirement of NRB, which is NPR 800 Million. The capital adequacy is major factor that is considered in the finance's annual meeting, daily financial analysis and during ALCO meeting and Risk Management Committee meetings. The Finance in its strategic planning cautiously considers the capital adequacy and projects capital adequacy required for the organization's growth.

2. Risk Exposure

i. Risk Weighted Exposure for Credit Risk, Market Risk and Operational Risk

(NPR '000')

Particulars		Amount
A	Risk Weighted Exposure for Credit Risk	6,107,874.74
B	Risk Weighted Exposure for Operational Risk	552,837.32
C	Risk Weighted Exposure for Market Risk	-
Total Risk Weighted Exposure (Before adjustment of Pillar II)		**6,660,712.06**
Adjustments		
SRP 6.4a (5)	ALM policies & practices are not satisfactory, add 1% of net interest income to RWE	-
SRP 6.4a (6)	Add….. % of the total deposit due to insufficient Liquid Assets	-
SRP 6.4a(7)	*Add RWE equivalent to reciprocal of capital charge of 3 % of gross income.*	123,543.10
SRP 6.4a (9)	*Overall risk management policies and procedures are not satisfactory. Add 4% of RWE*	266,428.48
SRP 6.4a (10)	*Desired level of disclosure requirement has not been achieved. Add …… of RWE*	-
Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)		**7,050,683.65**

ii. Types Risk Weighted Exposure having 0% Risk Weight

(NPR '000')

	Particulars	Amount
A	Cash Balance	204,615.95
B	Deposits with Nepal Rastra Banks	1,159,015.57
C	Investment in Nepalese Government Securities	650,000.00
D	Investment in Nepal Rastra Bank securities	-
E	Other Claims on Nepal Rastra Bank	10,904.96
	Total	**2,024,536.48**

iii. Risk Weighted Exposure

(NPR '000')

	Particulars	Amount
A	**Balance Sheet Exposures**	**6,089,871.18**
1	Claims on Government and Central Bank	-
2	Claims on Other Official Entities	-
3	Claims on domestic banks that meet capital adequacy requirements	400,974.36
4	Claims on Domestic Corporates (Unrated)	560,658.54
5	Regulatory Retail Portfolio (Not Overdue)	2,285,492.39
6	Claims fulfilling all criterion of regularity retail except granularity	37,729.83
7	Claims Secured by Residential Properties	364,852.17
8	Claims Secured by Residential Properties (Overdue)	11,911.24
9	Past due claims (except for claims secured by residential properties)	120,205.77
10	High Risk claims	1,197,242.68
11	Lending against Shares(above Rs.5 Million)	360,743.04
12	Lending Against Securities (Bonds)	-
13	Lending Against Shares (upto Rs. 5 Million)	148,629.65
14	Personal Hirepurchase/Personal Auto Loans	73,013.96
15	Investments in equity and other capital instruments of institutions listed in stock exchange	157,711.22
16	Investments in equity and other capital instruments of institutions not listed in the stock exchange	591.75
17	Staff loan secured by residential property	25,947.98
18	Other Assets	344,166.61
B	**Off- Balance Sheet Exposures**	**18,003.56**
1	Bid Bond, Performance Bond and Counter guarantee domestic counterparty	
2	Irrevocable Credit commitments (short term)	18,003.56
3	Irrevocable Credit commitments (Long term)	
	Total (A+B)	**6,107,874.74**

iv. Amount of Non-Performing Assets (Gross and Net Amount)

(NRs. '000')

Particulars		Gross Amount	Provision	Net Amount
A	Restructured	-	-	-
B	Sub-standard	113,129.78	28,282.44	84,847.33
C	Doubtful	235,739.23	117,869.62	117,869.62
D	Loss	749,855.54	749,855.54	0.00
Total		**1,098,724.55**	**896,007.60**	**202,716.95**

v. Non-Performing Assets (NPA) Ratios

NPA Ratios	Percentage (%)
Gross NPA to Gross Advances	14.42%
Net NPA to Net Advances	3.06%

vi. Movement of Non-Performing Assets

(NRs. '000')

Particulars		Opening Balance (Ashoj End 2081)	Closing Balance (Poush End 2081)	Movement
A	Restructured	-	-	-
B	Sub-standard	206,052.52	113,129.78	-92,922.74
C	Doubtful	125,385.60	235,739.23	110,353.63
D	Loss	698,696.38	749,855.54	51,159.16
Total		**1,030,134.50**	**1,098,724.55**	**68,590.05**

vii. Write Off of Loans and Interest Suspense

The Finance has write off loan amounting Rs 1.12 Million within end of Poush 2081.

viii. Movement of Loan Loss Provision

(NRs. '000')

Particulars		Opening Balance (Ashoj End 2081)	Closing Balance (Poush End 2081)	Movement
A	Pass	68,561.32	62,497.68	-6,063.64
B	Watch-list	19,881.22	41,886.64	22,005.42
C	Restructured			0.00
D	Sub-standard	51,513.13	28,282.44	-23,230.69
E	Doubtful	62,692.80	117,869.62	55,176.82
F	Loss	698,696.38	749,855.54	51,159.16
Total		**901,344.86**	**1,000,391.92**	**99,047.07**

ix. Segregation of the Finance's Investment portfolio

Investments are segregated as per NRB Directive.

(NRs. '000')

Investment held for Trading:	-
Investment held to Maturity:	710,000.00
Investment Available for Sale (Cost) :	157,608.21

3. Risk Management Function

i. Risk Management Committee

Risk Management Committee is a board level committee, which also includes member from risk department and operation department of the finance. This is where overall risk management including performance of the company is discussed in detail so as to assess the solvency of the finance and necessary instructions are issued to concerned division and recommendation are madeto the Board for necessary deliberation and implementation.

ii. Internal Audit

Independent external firm has been appointed for internal audit of the Finance which is independent from the Management and directly reports to the Audit Committee.

iii. Oversight Control of Branch

Branch has been regular visit by Head of Department and have its oversight control by Head of Department and Management.

iv. Credit Risk Management

The company has its own Credit Policy in place which guides in generating business. The company has clear demarcation on business generation and risk management where any credit proposal for approval is passed through fit and proper test, long term soundness test with knowledge on business, against which credit is to be sanctioned.

The company has set up a separate Credit Risk Division, headed by the Credit Risk Head, one of the most senior level positions in the company. This division is independent to business and does not have any targets, nor have any incentive for business generation. This division oversees global, macro, micro and unit level risk that arises out of daily business operations and equally due to changes in the market conditions affecting particular business.

There is a separate Credit Administration Department (CAD), which prepares security documents for execution and takes custody of the document executed in presence of Relationship Officers. CAD is also independent to business and also ensures safety and going concern of borrowing unit, through post relationship assessment. Quarterly inspection of the business and suggestion for timely corrective actions help to protect borrower as well.

v. Operational Risk Management

Board and senior management of the finance places high priority on effective operational risk management and adherence to sound operating controls.

- Dual control Mechanism
- Proper monitoring and internal reporting
- Business Continuity Plan
- Good Corporate Governance
- Centrally monitoring of transactions from Head Office
- Separate Operation risk department has been formed for identification and minimization of operation risk.
- Segregation of duties and clear lines of management responsibility, accountability andreporting
- Policies/Guidelines explicitly supports the identification, assessment, control andreporting of key risks

vi. Market Risk Management

Market Risks are discussed at Asset Liability Management Committee (ALCO) of the company and even discussed at respective division level on open position on daily basis. The limits foropen position are controlled, level wise which ensures in-depth knowledge of the market and movement before taking decision (by choice). The monthly reports on such aspects are well discussed and dealt in ALCO.

ALCO ensures functioning of the jobs in line with the policies and procedures and suggests/recommends for necessary steps collectively to address the risk on interest rate movement and equity price changes.

Most of the market operations (investments) and exposure accounting includes booking of income/expense done by Treasury Department report.

Adequate care is taken to ensure the maturity of deposits to match with assets maturity. Adequate liquidity is ensured even in stressed scenarios. Various ratios as per liquidity risk management policy are assessed. Treasury department plays the vital role for monitoring same and reports to ALCO.

vii. Liquidity Risk Management

Liquidity ratios are accessed and communicated to ALCO members on daily basis. As such, actions with regards to asset liability management, if any warranted from liquidity perspective, is promptly initiated. Compliance to mandatory liquidity ratios is maintained at all times.

Quarterly Stress Test results also include scenario analysis on liquidity ratios. Managementoversight on liquidity risk management is ensured through discussion on the Stress Test results at management level (ALCO), Risk Management Committee, and the meeting of Board of Directors.

Towards liquidity risk management, if additional liquidity may be required, the company has access to different sources of funding such as existing institutional deposit relationships, interbankmarket, and central bank funding mechanisms.

viii. Compliance Risk Management

The company has separate division to oversee operation risk including Compliance of KYC and AML. The division is headed by senior level official with adequate access to the daily report, operational processes and right to recommend the changes in the system and procedures.

ix. Strategies and Policies

Risk management strategies and policies are paramount to mitigating risks that are faced by Finance. In addition to maintaining adequate capital, the responsibility of the finance also lies in maintaining a balance between risk and return. Therefore, effective risk management is a must forsustainability of bank and financial institutions. Apart from the business credit department, a separate credit risk department has been formulated, and middle level staffs have been handling the responsibility of ensuring that the risk management guidelines are properly placed and executed. Regarding operation risk, operation risk management policy has been formulated and effective channels are being formed to ensure that the policies are thoroughly followed. The AssetLiability Committee looks after the market risk and meetings are held periodically to ensure that the finance takes proper decisions based on the market situations.

x. The Structure and Organization of the Relevant Risk Management Function

A senior level staff has been appointed who is responsible to ensure that the credit risk are identified and mitigated. In operation, AML/CFT unit has been created and an experienced senior level manager has been appointed as compliance officer who also looks after the operation risk. The ALCO looks after the market risk. The Asset Liability committee has members from differentdepartment and therefore identification of risk and mitigating actions are decided right promptly. Apart from this, risk management committee, consisting of board members duly considers the situations and issues of risks faced by finance and further provides directions to reduce and mitigate risks.

xi. The Scope and Nature of Risk Reporting and / or Measurement Systems

The risk identified from credit, operation and market risk department are further discussed in management meetings, ALCO meetings and are placed before the risk management committee. The internal audit department also reviews the risk at every level and reports to the auditcommittee.