Nepal Finance Limited		
Disclosure Under Basel II		
As at 1st Quarter End of FY 2083/84		
		(NRs in thousand unless specified)
1	**Tier 1 capital and a breakdown of its components**	
S. N	**Particular**	**Amount**
a	Paid up Equity Share Capital	778,146.75
b	Irredeemable Non-cumulative preference shares	
c	Share Premium	51,100.37
d	Proposed Bonus Equity Shares	
e	Statutory General Reserves	246,077.49
f	Retained Earnings	(377,159.02)
g	Un-audited current year cumulative profit/(loss)	(29,165.02)
h	Capital Redemption Reserve	
i	Capital Adjustment Reserve	48,364.10
j	Debenture Redemption Reserve	
k	Dividend Equalization Reserves	
l	Other Free Reserve	
m	Less: Goodwill	
n	Less: Fictitious Assets	
o	Less: Investment in equity in licensed Financial Institutions	
p	Less: Investment in equity of institutions with financial interests	
q	Less: Investment in equity of institutions in excess of limits	
r	Less: Investments arising out of underwriting commitments	
s	Less: Reciprocal crossholdings	
t	Less: Purchase of land & building in excess of limit and unutilized	
u	Less: Other Deductions	
Total Tier 1 Core Capital		**717,364.67**
2	**Tier 2 capital and a breakdown of its components**	
Sn	**Particular**	**Amount**
a	Cumulative and/or Redeemable Preference Share	-
b	Subordinated Term Debt	-
c	Hybrid Capital Instruments	-
d	General loan loss provision	38,591.95
e	Exchange Equalization Reserve	
f	Investment Adjustment Reserve	
g	Accrued Interest Receivable on pass loan included in Regulatory Reserve	4,545.30
h	Interest Capitalized Reserve included in Regulatory Reserve	
i	Regulatory reserve for nonbanking assets recorded within the last 24 months.	69,932.06
j	Other Reserves	
Total Tier 2 Capital		**113,069.32**
3	**Total qualifying capital**	
S. N	**Particular**	**Amount**
a.	Core Capital (Tire 1)	717,364.67
b.	Supplementary Capital (Tire 2)	113,069.32
c.	**Total Capital Fund**	**830,433.98**

4 Risk Weighted exposures under each category of Credit Risk

Balance Sheet Exposures	Risk Weighted Exposures
1. Claims on government & Central Bank	-
2. Claims on other Official entities	-
3. Claims on Banks	139,621.62
4. Claims on Corporate & Securities firm	-
Claims on Domestic Corporates (Unrated)	170,079.41
5. Claims on regulatory retail Portfolio	-
a. Claims on Regulatory Retail Portfolio (Not Overdue)	455,030.17
b. Claims fulfilling all criterion of regulatory retail except granularity	447,092.90
6. Claims secured by residential properties	
a. Claims secured by residential properties	164,696.61
b. Claims not fully secured by residential properties	-
c. Claims secured by residential properties (Overdue)	72,375.12
7. Claims secured by Commercial real estate	13,479.77
8. Past due claims (except for claim secured by residential properties)	169,272.64
9. High Risk claims	-
a. High Risk claims	251,128.74
b. Lending Against Securities (Bonds & Shares)	281,312.08
c. Real Estate loans for land acquisition and development (Other than mentioned in Capital Adequacy framework 2007-point 3.3(j)(1)(j))	-
10. Other Assets	-
a. Personal Hire-purchase /Personal Auto Loans	173,753.56
b. Investments in equity and other capital instruments of institutions listed in stock exchange	127,367.07
c. Investments in equity and other capital instruments of institutions not listed in the stock exchange	2,761.50
d. Staff loan secured by residential property	353.80
e. Interest Receivable/claim on government securities	-
f. Loans not exceeding Rs. 30 million to SME's that fulfill the criteria	-
g. Other Assets (as per attachment)	274,359.76
11. Total Off Balance Sheet Items	11,277.63
Total RWE for credit Risk	**2,753,962.40**

5 Risk Weighted exposures for Credit Risk, Market Risk and Operational Risk

Risk Weighted Exposures	Amount
Risk Weighted Exposure for Credit Risk	2,753,962.40
Risk Weighted Exposure for Operational Risk	178,047.04
Risk Weighted Exposure for Market Risk	-
Total	**2,932,009.44**

	Adjustments under Pillar II	Amount
SRP 6.4a (5)	ALM policies & practices are not satisfactory, add 1% of net interest income to RWE	807.42
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 4 % of gross income.	37,258.90
SRP 6.4a (9)	Overall risk management policies and procedures are not satisfactory. Add 4% of RWE	117,280.38
SRP 6.4a (10)	If desired level of disclosure requirement has not been achieved, Add .....% of RWE	-
	Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	**3,087,356.14**

6 Eligible Credit Risk Mitigation

Eligible Credit Risk Mitigations	Amount
Deposits with bank	55,012.67
Gold	-
Total Eligible CRM	**55,012.67**

7 Total Risk Weight Exposures Calculation Table

Risk Weighted Exposures	Amount
Risk Weighted Exposure for Credit Risk	2,753,962.40
Risk Weighted Exposure for Operational Risk	178,047.04
Risk Weighted Exposure for Market Risk	-
Total Core Capital to Risk Weighted Exposure	23.34%
Total Capital To Total Risk Weighted Exposures	26.90%

8 Amount of Non-Performing Assets (Both Gross Net)

Particulars	Gross	Impairment Allowance	Net NPL
Restructured	-	-	-
Sub-Standard	70,275.82	17,568.95	52,706.86
Doubtful	90,059.23	45,029.62	45,029.62
Loan Loss	216,623.86	216,623.86	-
Total	376,958.91	279,222.43	97,736.48

9 Non-Performing Assets (NPA Ratios)

NPA Ratios	Percentage
Gross NPA to Gross Advances	13.74
Net NPA to Net Advance	4.03

10 Movement in Non-Performing Assets

Particular	This Quarter	Previous Quarter	Change %
Non-Performing Assets (Volume)	376,958.91	374,613.26	0.63
Non-Performing Assets (%)	13.74	13.83	-0.09

11 Write off of Loans and Interest in the Quarter

Particulars	Amount
Write off Loans during the Quarter	4,470.89
Write off Interest Suspense during the Quarter	10,417.23
Total	14,888.12

12 Movement in Loan Loss Provision and Interest Suspense

Particulars	This Quarter	Previous Quarter	Change%
Loan Loss Provision	319,259.44	295,511.33	8.04
Interest Suspense	455,190.02	451,576.54	0.80

13. Details of Additional Loan Provision and Interest Suspense

None

14 Segregation of investment Portfolio

Particular	October 17, 2026
Held for Trading	-
Held to Maturity	289,800.00
Available for Sale	129,240.07

15. Summary of the finance's internal approach to assess the adequacy of its capital to support current and future activities, if applicable:

Nepal Finance Limited adopts healthy risk management framework. The company follows Internal Capital Adequacy Assessment Process (ICAAP) and Risk Management Guideline while taking decision on any business. It has always taken note of ICAAP and has taken steps accordingly in ensuring soundness of capital position and sustainability of the business. The company policies and procedures are approved by the Board of Directors and these documents provide guidance on independent identification, measurement and management of risks across various businesses.

Finance's different committees like Audit Committee, Risk Management Committee review the business and risks periodically and take account of stress test results, scenario analysis so as to align risk, return and capital in sustainable manner.

Basel II 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 sustainability. In order to address the varieties of risk that keeps coming out of business operations, company has identified different risks and adopted different measures to minimize them.
Capital planning is an integral part of the finance's medium term strategic planning and annual budget formulation process. Total risk weighted exposures for the projected level of business operations is calculated, the required capital level is projected and a plan is formulated to retain the required capital.

Ever since its establishment, the company has been able to generate and retain substantial earnings in order to ensure adequate capital formation, as required for its business growth. The company is well capitalized and able to maintain the required capital through internal generation, and equally through capital markets if needed.

16. Risk Management

The robust risk management capabilities are imperative in order to achieve an effective risk management framework and contain the risks associated with the business, a fully functional Risk Management Committee is responsible for identifying reporting, controlling and managing credit risk, operational risk, market risk & liquidity risk. The Risk Management Committee oversees global, macro, micro and departmental level risk that arise out of daily business operation as well as on periodic basis and are put to the oversight of Senior Management, Risk Management Committee and the Board committee to discuss the reports thereon and issue instructions as appropriate.

16.1 Risk Management Committee:

The Risk Management Committee is an independent committee of the Board of Directors that has, as its sole and exclusive function, responsibility for the risk management policies of the company and oversight of implementation of risk management framework of the company. The committee assists the Board of Directors in fulfilling its oversight responsibilities with regard to risk appetite that the company is able and willing to assume in its exposures and business activities, risk management, compliance framework, and governance structure that supports it. It periodically reviews the risk management process to ensure its integrity, accuracy, and reasonableness. It also reviews whether the internal control and risk management system is adequate or not to ensure well-ordered and prudent conduct of business. The committee is to reviews the overall risk management structure and monitor the effectiveness of the risk management system.

16.2 Risk Governance

Finance Company implemented policies and procedures to mitigate the risk at enterprises level arising to the company and has trained risk culture among the employees by establishing ownership mentality, capacity building programs, well defined job responsibilities and inhabiting good ethical culture. The Risk Management Committee is responsible for the establishment of, and compliance with, policies relating to Operation risk & Credit risk.

The company's risk governance structure is such that the responsibility for maintaining risk within the finance company's risk blanket is dropped down from the Board to the appropriate functional, client business, senior management and committees. The Board has set policies and procedures of risk identification, risk evaluation, risk mitigation, and control/ monitoring in line with NRB directives, and has effectively implemented the same at the company. The effectiveness of the company's internal control system is reviewed regularly by the Board, its committees, senior management, and internal audit committee.

16.3 Credit Risk

Credit risk management strategies include effectively managing the risk of financial losses arising out of booking an exposure on counterparty and also ensuring independence of the credit risk function from the origination, trading and sales function. Credit risk is managed through a defined framework which sets out policies, procedures and standards covering the measurement and management of credit risk. Clear segregation of duties has been established between transaction originator in the business and the approvers in the risk function.

Credit Risk Mitigation (CRM)
The Finance company follows the following well defined procedures to manage and mitigate the credit related risk at the various level:

- The credit applications are initially reviewed at the branch by the branch manager where the branch assess the credit worthiness of the proposed borrower and the quality of the security offered.
- As a second level of defense the central credit department has been set up which independently oversee whether the proceeding of the loan approval, creditworthiness and collateral offered complies with the company's and central bank's norms.
- As a second level of defense the central credit department has been set up which independently oversee whether the proceeding of the loan approval, creditworthiness and collateral offered complies with the company's and central bank's norms.
- After due review and identification of the underlying risk by the Risk Management Department, the proposal passed through different approving authorities depend ending upon the type of the proposal (funded or unfunded), level of underlying risk and amount of the proposal.
- Once the proposal is approved by the prescribed approving authority, the security and post approval proceeding and initiated and completed at the branch level. The Credit Administration Department reviews the security documents and ensure compliance with the company's and Central Bank's norms before disbursement of the credit facilities.
- As a measure to mitigate the risk after mitigation, the bank monitors, review on the quarterly to annual basis depending upon the type of the facilities. The level of risk and early warning signals (EWS) are identified on every review and necessary actions are taken if required.
- The internal audit function of the company on the periodic basis independently observes the compliance and the status of the borrowers and recommends the management with the best practices that has to be adopted. The internal audit department directly reports the Audit Committee which is a board level committee.
- On the portfolio level, the company's risk management strategies include diversifying the borrowing pool, risk-based pricing, establishing the suitable exposure limits for borrowers and group of borrowers to ensure the risk taken is under the risk appetite by the Risk Management Policy of the company.

16.4 Operational Risk

Operational risk can be caused by both internal and external sources, such as fraud, business interruptions, system failures, damage to physical infrastructure, failure in execution and service delivery, inherent risks in products. The risk can occur in any business function or the business supporting functions. The effect of failure in any of the resources can have concurrent impacts across the company. Effective operational risk management system aims to minimizing losses and customer dissatisfaction due to failure in process, focusing on flows in product and their design that can expose the company to losses due to fraud analyzing the impact continuity in the company's operations. The Finance company has introduced an "Operational Risk Monitoring and Reporting Framework" all branches covering all transaction on daily basis to minimize the operational risk. The Risk Management Department is assigned with the responsibility to undertake actions related to operational risk management of the company.

16.5 Market Risk

The Company recognizes market risk as the possibility for loss of earnings or economic value to the Company caused due to adverse changes in the market level of interest rates or prices of securities (equity), foreign exchange rates and volatilities of those prices. The company has an Asset Liability Management Committee (ALCO) which meets periodically to discuss product pricing for deposits and advances and maturity profiles of assets and liabilities, articulating interest rate, view of company, funding policy, transfer pricing policy and balance sheet management. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk), and market prices (price risk).

16.6 Liquidity Risk

Liquidity risk is the *risk* that a company may be unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process. Liquidity risk arises because of the possibility that the company might be unable to meet its payment obligations when they fall due, as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for liquid asset positions is not available to the company on acceptable terms.

The Company works continuously towards risk diversification of its assets base so as to achieve better portfolio mix and to protect/enhance the overall risk on its loan book. The strategic focus of mapping business is gradually reducing high-risk assets and increasing low risk exposures.

Quarterly Stress Test

Results also include scenario analysis on liquidity ratios. Management oversight 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, interbank market, and central bank funding mechanisms.

16.7 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.