

Citizens Bank International Ltd.
Disclosure as per Basel III
For FY 2079/80 ending Chaitra end, 2079

Information presented hereunder is as per disclosure requirements of the Capital Adequacy Framework issued by NRB. Disclosures are in respect of the stand-alone capital adequacy of Citizens Bank International Ltd.

Capital Structure and Capital Adequacy:

a. Tier 1 Capital and a breakdown of its components

NPR In Full Figures

| Tier 1 Capital (Core Capital) (CET1 +AT1) | Amount in NPR |
|---|-----------------------|
| Common Equity Tier 1 (CET 1) | 17,968,521,262 |
| Paid up Equity Share Capital | 14,200,974,006 |
| Statutory General Reserves | 3,277,142,596 |
| Retained Earnings | 143,480,349 |
| Capital Redemption Reserve | 763,888,889 |
| Less: Goodwill | - |
| Less: Intangible assets | (57,564,204) |
| Less: Investment in equity in institutions with financial interests | (317,204,200) |
| Less: Purchase of land & building in excess of limit and unutilized | (37,259,744) |
| Less: Negative Balance of Reserve Account | (4,936,429) |
| Additional Tier 1 (AT1) | - |
| Tier 1 Capital (Core Capital) (CET1 +AT1) | 17,968,521,262 |

b. Tier 2 Capital and a breakdown of its components

| Tier 2 Capital (Supplementary Capital) | Amount in NPR |
|--|----------------------|
| Cumulative and/or Redeemable Preference Share | - |
| Subordinated Term Debt | 2,500,000,000 |
| General Loan Loss Provision | 1,506,444,104 |
| Exchange Equalization Reserve | 74,958,036 |
| Supplementary Capital (Tier 2) | 4,081,402,140 |

c. Detailed Information about the Subordinated Term Debt with information on the outstanding amount, maturity, amount raised during the year and amount eligible to be reckoned as capital funds.

| 10.25% Citizens Bank Debenture, 2086 | Amount in NPR |
|---|----------------------|
| Outstanding Amount | 2,500,000,000 |
| Maturity Date | Falgun 2086 |
| Amount raised during the year | |
| Amount eligible for Tier 2 Capital Fund (net of redemption reserve) | 2,500,000,000 |

The Bank has been appropriating NPR 277.77 Million in debenture redemption reserve each year, i.e. proportionately over the duration of the bond, starting from Shrawan 2077. The current balance of Redemption Reserve stands at NPR 763.88 Million.

d. Deductions from Capital

The Bank has deducted the following items in calculation of Tier 1 Capital:

NPR 57.564 Million for Intangible Assets.

NPR 4.936 Million in Negative balance of Reserve Account

NPR 317.204 Million invested in equity capital of subsidiary company. Out of NPR 317.20 Million, NPR 117.20 million is invested in CBIL Capital Limited and NPR 200 million is invested in CBIL Securities Limited

NPR 37.259 Million for unutilized portion of land & building for more than 2 years from the date of acquisition/purchase.

e. Total Qualifying Capital

| Description | Amount in NPR |
|---|------------------------|
| Common Equity Tier 1 Capital (CET 1) | 17,968,521,262 |
| Tier 1 Capital | 17,968,521,262 |
| Tier 2 Capital | 4,081,402,140 |
| Total Capital Fund (Tier 1 and Tier 2) | 22,049,923,402 |
| Risk Weighted Exposures | 185,779,614,588 |

f. Capital Adequacy Ratio

| Description | Amount in NPR |
|---|----------------------|
| Leverage Ratio | 7.58% |
| Common Equity Tier 1 Capital to Total Risk Weighted Exposures ratio | 9.67% |
| Tier 1 Capital to Total Risk Weighted Exposures Ratio | 9.67% |
| Total Capital to Total Risk Weighted Exposures Ratio | 11.87% |

Risk Weighted Exposures

g. Risk weighted exposures for Credit Risk, Market Risk and Operational Risk

| Risk Weighted Exposures | Amount in NPR |
|--|------------------------|
| Risk Weighted Exposure for Credit Risk | 171,721,941,040 |
| Risk Weighted Exposure for Operational Risk | 6,743,827,776 |
| Risk Weighted Exposure for Market Risk | 1,431,991,232 |
| Regulatory Adjustment: | |
| Add: 2% of RWE as Supervisory Haircut | 3,597,955,201 |
| Add: 4% of Operational Risk as Supervisory Haircut | 2,283,899,340 |
| Total Risk Weighted Exposures (after bank's adjustments of Pillar II) | 185,779,614,588 |

h. Risk weighted exposures under different categories of Credit Risk

| Risk Weighted Exposure | Amount in NPR |
|---|------------------------|
| Categories of Credit Risk | |
| Claims On Government and Central Bank | - |
| Claims On Other Official Entities | - |
| Claims on Public Sector Entities | - |
| Claims On Banks | 1,697,772,701 |
| Claims on Corporate And Securities Firms | 75,656,683,115 |
| Claims On Regulatory Retail Portfolio | 22,857,822,982 |
| Claims Secured By Residential Properties | 6,737,744,217 |
| Claims Secured By Commercial Real Estate | 1,310,844,119 |
| Past Due Claims | 9,122,935,818 |
| High Risk Claims | 22,882,365,776 |
| Lending against securities upto 2.5 million | 195,989,220 |
| Claims on trading Loans | 1,108,477,498 |
| Other Assets | 9,952,334,797 |
| Off Balance Sheet Items | 20,198,970,795 |
| Total Credit Risk Weighted Exposures | 171,721,941,040 |

i. Total Risk Weighted Exposure calculation table:

| Risk Weighted Exposures | Amount in NPR |
|--|------------------------|
| Credit Risk exposure | 171,721,941,040 |
| Operational Risk Exposure | 6,743,827,776 |
| Market Risk Exposure | 1,431,991,232 |
| Adjustments under Pillar II | |
| Add: 2% of RWE as Supervisory Haircut | 3,597,955,201 |
| Add: 4% of Operational Risk as Supervisory Haircut | 2,283,899,340 |
| Total Risk Weightage Exposures | 185,779,614,588 |
| Total Core Capital (CET1 +AT1) | 17,968,521,262 |
| Total Capital Fund (Tier 1 and Tier 2) | 22,049,923,402 |
| Common Equity Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II) | 9.67% |
| Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II) | 9.67% |
| Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures(AfterBank's adjustments of Pillar II) | 11.87% |

Details of Non-Performing Assets

j. Amount of Non-Performing Assets (both Gross and Net) as per regulatory classification

| Particulars | Gross Amount | Provision | Amount in NPR |
|----------------------------|----------------------|----------------------|----------------------|
| | | | Net Amount |
| Rescheduled / Restructured | - | - | - |
| Sub Standard | 3,044,747,927 | 653,759,486 | 2,390,988,441 |
| Doubtful | 1,277,819,712 | 559,830,772 | 717,988,940 |
| Loss | 1,371,166,789 | 1,306,366,387 | 64,800,402 |
| Total | 5,693,734,428 | 2,519,956,645 | 3,173,777,784 |

k. Ratio of Non Performing Assets as per regulatory classification

| Particulars | Percentage |
|-------------------------------------|------------|
| Total NPL to Total Loans & Advances | 3.98% |
| Net NPL to Net Loans & Advances | 2.29% |

l. Movement of Non Performing Assets as per regulatory classification

| Particulars | Previous Quarter | Current Quarter | Amount in NPR |
|----------------------------|----------------------|----------------------|---------------|
| | | | Change |
| Rescheduled / Restructured | 210,103 | - | -100.00% |
| Sub Standard | 2,034,624,163 | 3,044,747,927 | 49.65% |
| Doubtful | 885,271,442 | 1,277,819,712 | 44.34% |
| Loss | 1,347,890,947 | 1,371,166,789 | 1.73% |
| Total | 4,267,996,654 | 5,693,734,428 | 33.41% |

m. Write off of Loans and Interest Suspense

| Particulars | Previous Quarter | Current Quarter | Amount in NPR |
|-------------------------------|------------------|-----------------|---------------|
| | | | Change |
| Loan written off | | | |
| Interest Suspense written off | 3,481,948 | 11,531,145 | 231.17% |

n. Movements in Loan Loss Provision and Interest Suspense

| Particulars | Previous Quarter | Current Quarter | Amount in NPR | |
|---------------------|------------------|-----------------|---------------|------------|
| | | | Changes | |
| | | | Amount | Percentage |
| Loan Loss Provision | 4,176,097,953 | 4,683,561,833 | 507,463,880 | 12.15% |
| Interest Suspense | 1,889,227,653 | 2,245,436,871 | 356,209,218 | 18.85% |

o. Details of Additional Loan Loss Provision as per regulatory classification

| Particulars | Previous Quarter | Current Quarter | Additional Provision in Current Quarter | Amount in NPR |
|----------------------------|----------------------|----------------------|---|---------------|
| | | | | Change |
| Pass Loan | 1,569,597,506 | 1,529,574,508 | (40,022,997) | -2.55% |
| Watchlist | 334,139,598 | 502,139,795 | 168,000,197 | 50.28% |
| Rescheduled / Restructured | 26,263 | - | (26,263) | -100.00% |
| Sub Standard | 446,359,036 | 653,759,486 | 207,400,450 | 46.46% |
| Doubtful | 393,804,431 | 559,830,772 | 166,026,341 | 42.16% |
| Loss | 1,285,571,120 | 1,306,366,387 | 20,795,267 | 1.62% |
| Additional | 146,600,000 | 131,890,886 | (14,709,114) | -10.03% |
| Total | 4,176,097,953 | 4,683,561,833 | 507,463,880 | 12.15% |

p. Segregation of Investments portfolio

| Particulars | Amount in NPR |
|---|-----------------------|
| Investment securities measured at amortized | 23,362,648,918 |
| Investment in equity measured at FVTOCI | 349,320,567 |
| Trading Assets | 294,456,834 |
| Total | 24,006,426,319 |

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

The current paid up capital of the Bank stands at NPR 14,200,974,005

Risk Management Framework

Bank recognizes the importance of Risk Management and has accordingly invested in processes, people and a management structure. Overall risk management function of the Bank is supervised by Risk Management Committee and Internal Audit Committee represented by BOD members and Senior Executives. Risk Management Committee reviews the asset quality at frequent intervals and Internal Audit Committee provides assurance that the internal control systems of the Bank are in place. The human capital is also managed by Human Resource Management and Compensation Committee represented by BOD members and Senior Executives. There is Assets and Liabilities Management Committee (ALCO) represented by Senior Executives of the Bank to monitor the interest rate risk, liquidity risk, exchange risk, market risk, etc. Authority, responsibility and accountability have been fixed to the executives of the Bank. Product policies and programs are duly approved before any new product launches and are reviewed regularly.

1. Credit risk

Credit Risk is the risk of negative effects on the financial results and the capital of the institution due to the borrower's default on its obligations to the Bank. Bank has Credit Policy and Investment Policy in place. There is separate Credit Risk Management Department independent from Credit Business Unit. CRD consists of skilled manpower to analyse risks in different credit functions separately. Loans are originated at the lower level and evaluated based on credit policy of the Bank and respective loan policy. Credit appraisal is done by risk owner acting within risk management policies and framework. Branches recommend credit facilities to higher approval level with the BOD being highest authority to approve credit facilities that are of highest value of exposure. Delegated authority, additional documentation and IT system driven controls and laid down procedures are in place to mitigate risk further. Inherent credit risks are addressed through better safety margin, additional collateral backup, lower exposure and deposit of borrower in bank.

Operations department measures and tracks status of credit portfolio in order to detect any signs of deterioration in financial health of borrower. Comprehensive management information reports are prepared regularly and submitted to senior management. Review of credit portfolio in order to realise possible correlations between them and the environmental factors. Continuous review process at branch level in order to identify any post disbursement problem credits and immediate action is taken by recovery officers, if any identified. As last resort, legal recovery action is taken in order to reduce negative impact.

2. Market Risk

Market Risk is discussed at ALCO and within respective division level on open position on daily basis. In depth knowledge of the market and movement in variables are obtained in order to control limits for open position and monthly reports prepared. The open position is assessed on daily basis and risk exposure calculated for allocation of required capital in line with Basel provisions. ALCO ensures jobs are in line with policies and procedures and suggests necessary steps to address risk on interest rate, exchange rate movement and equity price changes. Possible financial impact due to change in market conditions are assessed periodically and actions taken accordingly. The departments are well equipped with advance dealing platform and advanced information technology.

Overview of current interest rate environment and monitoring of the movement of key interest rate indices. Periodic evaluation of net interest position and maturity gap analysis is prepared considering interest rate sensitive assets and liabilities. Interest rate risk indicators are periodically reviewed. The institution's rate indices are compared in line with market average of industry expert's rate indices of similar instruments with similar characteristics.

Interest rates are altered in line with key policy rates of the Central Bank and interest rate spread is maintained according to the Central Bank's direction. Lending policy rates are adjusted according to changes in market rates in order to mitigate risk of falling interest rate margins.

3. Operational risk:

Operational risk occurs due to external as well as the internal environment. First step is to clearly identify the risk events, after which appropriate combination of qualitative or quantitative techniques are used to evaluate the magnitude of the consequences due to the occurrence of such events. Key risk indicators and audit findings are mostly used to assess operational risk of the Bank. The Internal Audit Department conducts audit reviews of the operational processes and reports to the Board level Audit Committee. The Bank then regularly monitors faults or operational failures and responds to them with resolutions and enhancements to internal procedures.

The Bank implements sound internal control systems through instigating the Bank's internal control framework in order to manage operational risk. The IT security aspects of the Bank are examined by the separate unit of Risk Department in line with the IT Policy of the Bank. Moreover, the Bank's system is audited regularly and safety and security standards are improved through suggestions received from the audit. The operational risk committee oversees any operation risk with help of adequate access to daily reports, operational processes and recommendations to correct any faults in systems and procedures. Further, a separate reporting line is maintained in order to preserve independency of check and balance reporting of daily functions of the Bank. Adequate focus is placed on staffs of the Bank in order to avoid mistakes due to insufficient knowledge or practise. The staffs are required to attain the necessary skills through various programs such as orientation of the bank's systems and processes on the job and putting them under direct supervision of experienced staffs before being allowed to work independently.

Their development is pushed further with conduction of skill development and skill enhancement programs, seminars and workshops on a periodic basis. Each transaction goes through a check and balance concept where one individual conducts the transaction and the other checks the transaction in order to capture any abnormalities. The deviations are promptly addressed in the lower level as well as centrally through the use of the integrated system.

For the effective management of operational risk, the bank has constituted an Operation Risk Management Committee (ORMC) headed by Deputy Chief Executive Officer. The ORMC which supports RMC is responsible for implementing the Operational Risk Management Policy and adopting the best practices. The key functions of ORMC:

- Establish clear lines of management responsibility, accountability and reporting in such a manner that they are distinct to avoid conflict of interest
- Review all operational risk events and suggest process improvements and mitigants
- Review recent risk events in other banks and elsewhere as available in public domain and suggest key control required from operational risk perspectives

4. Liquidity Risk:

Liquidity risk indicators such as liquid asset ratio, maturity gap analysis, capital adequacy ratios and funding concentration are used to assess liquidity position and are periodically monitored by ALCO in order to ensure the optimum gearing level of assets and liabilities. However, treasury department monitors daily liquidity requirement and manages and controls the overall liquidity position of the company. Treasury front office manages overall liquidity of the Bank. It also ensures that the Cash Reserve Ratio (CRR) is maintained within NRB Directives.

It also deals in treasury bills and bonds and manages the lending/borrowing of currency (local/foreign) at local and international bank and financial institutions within the approved limit. These functions help in the analysis of maturity gap to determine the liquidity position of the bank. As per the results of gap analysis, the bank prepares future plan to manage the deficit or surplus liquidity as per the requirement of funds. While raising short term funds, the treasury negotiates for favourable rates to reduce interest costs, at the same time encouraging longer tenor deposits rather than short term deposits. Also, in order to reduce liquidity risk to an acceptable level, the institution also maintains adequate unutilised facilities as a safety cushion to honour future cash outflow commitments. Moreover, the bank regularly projects future cash flows in certain stress scenarios and thus determines the level of liquid assets required. There is appropriate stress test done regularly for the management of liquidity risk.

Capital Management

Information presented hereunder is as per disclosure requirements of the Capital Adequacy Framework issued by NRB. Disclosures are in respect of the stand-alone capital adequacy of the Bank.

Qualitative Disclosures

The Bank has developed its own internal policy, procedures and structures to manage credit, market and liquidity risk in adverse situation and to make contingency plan accordingly. For the purpose, the Bank has developed Internal Capital Adequacy Assessment Process (ICAAP) which acts as a guiding document for reporting the ongoing assessment of the Bank's risks, how the Bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

r. Summary of the terms, conditions and main features of all capital instruments specially in case of subordinated term debts including hybrid capital instruments.

All the capital of the Banks are unconditional. The Bank has Subordinated Debt of 2,500,000 10.25% Citizens Bank Debenture, 2086, the main features of which are as under:

| | |
|-------------------------------|---|
| Name | 10.25% Citizens Bank Debenture, 2086 |
| Amount | NPR 2,500,000,000.00 |
| Interest Rate | 10.25% per annum (before tax) payable quarterly |
| Type | Unsecured and Redeemable at Maturity No call / convertible feature |
| Numbers of Debentures | 2,500,000 (Twenty Million Five Hundred Thousand Only) |
| Face Value | NPR 1,000.00 |
| Maturity Period | 10 Years |
| Priority to Debenture Holders | At the time of liquidation, priority of payment to the debenture holders will be after the depositors and secured creditors |
| Listing | Listed with Nepal Stock Exchange |

The Bank has been appropriating NPR 277.77 Million in debenture redemption reserve each year, i.e. proportionately over the duration of the bond, starting from Shrawan 2077. The current balance of Redemption Reserve stands at NPR 763.88 Million.