Citizens Bank International Ltd.
Disclosure as per Basel III
For FY 2019-20 ending January 14, 2020

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)	**11,018,326,580**
Paid up Equity Share Capital	8,622,196,716
Equity Share Premium	-
Proposed Bonus Equity Shares	-
Statutory General Reserves	1,622,484,631
Retained Earnings	663,483,168
Un-audited current year cumulative profit/ (loss)	
Capital Redemption Reserve	428,571,429
Capital Adjustment Reserve	
Dividend Equalization Reserves	-
Bargain Purchase Gain	-
Other Free Reserve	-
Less: Goodwill	-
Less: Intangible assets	(83,827,410.02)
Less: Deffered tax Asset	(24,060,996.42)
Less: Ficticious Assets	-
Less: Investment in equity in licensed Financial Institutions	-
Less: Investment in equity in institutions with financial interests	(167,204,200.00)
Less: Investment in equity of institutions in excess of limits	-
Less Investments arising out of underwriting commitments	-
Less:Reciprocal crossholdings	-
Less: Purchase of land & building in excess of limit and unutilized	(43,316,757.32)
Less: Cash Flow Hedge	-
Less: Defined Benefit Pension Assets	-
Less: Un recognized Defined Benefit Pension Liabilities	-
Less: Negative Balance of Reserve Account	-
Less: Other deductions	-
ADJUSTMENT UNDER PILLAR II	**-**
Less: Shortfall in Provision(6.4 a 1)	**-**
Less: Loans and Facilities extended to Related Parties and Restricted Lending (6.4 a 2)	**-**
Additional Tier 1 (AT1)	**-**
Perpetual Non Cumulative Preference Share Capital	**-**
Perpetual Debt Instruments	**-**
Stock Premium	**-**
Tier 1 Capital (Core Capital) (CET1 +AT1)	**11,018,326,580**

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	100,000,000
Hybrid Capital Instruments	
Stock Premium	
General Loan Loss Provision	746,376,181
Exchange Equalization Reserve	46,792,436
Investment Adjustment Reserve	
Assets Revaluation Reserve	
Other Reserves	-
Supplementary Capital (Tier 2)	**893,168,617**

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.

8.5% Citizens Bank Bond, 2077	**Amount in NPR**
Outstanding Amount	500,000,000
Maturity Date	Poush 2077
Amount raised during the year	
Amount eligible for Tier 2 Capital Fund (net of redemption reserve)	100,000,000

The Bank has created debenture redemption reserve, and appropriated NPR 71.43 Million each year, i.e. proportionately in the duration of the bond, starting from Poush 2070. The current balance of Redemption Reserve stands at NPR 428 Million.

d. Deductions from Capital

The Bank has deducted the following items in calculation of Tier 1 Capital:
NPR 83.83 Million Intangible Assets.
NPR 24.06 Million Deffered tax Asset.
NPR 167.20 Million invested in equity capital of subsidary company. Out of NPR 167.20 Million, NPR 117.20 million is invested in CBIL Capital Limited and NPR 50 million is invested in CBIL Securities Limited
NPR 43.31 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)	11,018,326,580
Tier 1 Capital	11,018,326,580
Tier 2 Capital	893,168,617
Total Capital Fund (Tier 1 and Tier 2)	**11,911,495,197**
Risk Weighted Exposures	**93,194,324,669**

f. Capital Adequacy Ratio

Description	**Amount in NPR**
Leverage Ratio	**8.98%**
Common Equity Tier 1 Capital to Total Risk Weighted Exposures ratio	**11.82%**
Tier 1 Capital to Total Risk Weighted Exposures Ratio	**11.82%**
Total Capital to Total Risk Weighted Exposures Ratio	**12.78%**

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	84,799,493,489
Risk Weighted Exposure for Operational Risk	4,149,537,918
Risk Weighted Exposure for Market Risk	1,229,448,537
Add: 2% of RWE as Supervisory Haircut	1,803,569,599
Add: 4% of Operational Risk as Supervisory Haircut	1,212,275,126
Total Risk Weighted Exposures (after bank's adjustments of Pillar II)	**93,194,324,669**

h. Risk weighted exposures under each 11 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 Banks	1,714,652,944.09
Claims on Corporate And Securities Firms	41,171,245,818.72
Claims On Regulatory Retail Portfolio	9,522,672,107.24
Claims Secured By Residential Properties	3,057,994,941.45
Claims Secured By Commercial Real Estate	2,557,488,454.54
Past Due Claims	518,714,108.16
High Risk Claims	10,498,677,098.79
Other Assets	6,268,735,975.81
Off Balance Sheet Items	9,489,312,040.28
Total Credit Risk Weighted Exposures	**84,799,493,489**

i. Total Risk Weighted Exposure calculation table:

Risk Weighted Exposures	Amount in NPR
Credit Risk exposure	84,799,493,489
Operational Risk Exposure	4,149,537,918
Market Risk Exposure	1,229,448,537
Adjustements under Pillar II	
Add: 2% of RWE as Supervisory Haircut	1,803,569,599
Add: 4% of Operational Risk as Supervisory Haircut	1,212,275,126
Total Risk Weightage Exposures	**93,194,324,669**
Total Core Capital (CET1 +AT1)	11,018,326,580
Total Capital Fund (Tier 1 and Tier 2)	11,911,495,197
Common Equity Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	**11.82%**
Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	**11.82%**
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures(AfterBank's adjustments of Pillar II)	**12.78%**

Details of Non-Performing Assets

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

			Amount in NPR
Particulars	**Gross Amount**	**Provision**	**Net Amount**
Rescheduled / Resctructured		-	-
Sub Standard	86,555,930	21,216,803	65,339,127
Doubtful	43,020,531	21,334,705	21,685,826
Loss	577,821,990	577,446,990	375,000
Total	**707,398,451**	**619,998,498**	**87,399,953**

k. Ratio of Non Performing Assets as per regulatory classification

Particulars	Percentage
Total NPL to Total Loans & Advances	0.99%
Net NPL to Net Loans & Advances	0.12%

l. Movement of Non Performing Assets as per regulatory classification

			Amount in NPR
Particulars	**Previous Quarter**	**Current Quarter**	**Change**
Rescheduled / Resctructured	-	-	-
Sub Standard	79,837,102	86,555,930	8.42%
Doubtful	16,825,635	43,020,531	155.68%
Loss	586,400,758	577,821,990	-1.46%
Total	**683,063,494**	**707,398,451**	3.56%

m. Write off of Loans and Interest Suspense

			Amount in NPR
Particulars	**Previous Quarter**	**Current Quarter**	**Change**
Loan written off			0.00%
Interest Suspense written off	98,800,517	120,995,917	22.46%

n. Movements in Loan Loss Provision and Interest Suspense

				Amount in NPR
			Changes	
Particulars	**Previous Quarter**	**Current Quarter**	**Amount**	**Percentage**
Loan Loss Provision	1,339,858,300	1,372,056,705	32,198,405	2.40%
Interest Suspense	867,985,575	313,048,232	(554,937,343)	-63.93%

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

Amount in NPR

Particulars	Previous Quarter	Current Quarter	Additional Provision in Current Year	Change
Pass Loan	661,415,762	677,787,256	16,371,494	2.48%
Watchlist	64,735,471	74,270,950	9,535,479	14.73%
Rescheduled / Resctructured	-	-	-	
Sub Standard	19,620,989	21,216,803	1,595,814	8.13%
Doubtful	8,060,319	21,334,705	13,274,386	164.69%
Loss	586,025,758	577,446,990	(8,578,768)	-1.46%
Additional			-	
Total	**1,339,858,300**	**1,372,056,705**	32,198,405	2.40%

p. Segregation of Investments portfolio

Particulars	Amount in NPR
Investment securities measured at amortized cost	9,137,751,449
Investment in equity measured at FVTOCI	336,494,961
Trading Assets	178,519,349
Total	**9,652,765,759**

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 8,622,196,716

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 500,000 8.5% Citizens Bank Bond, 2077, the main features of which are as under:

Name	8.5% Citizens Bank Bond, 2077
Amount	NPR 500,000,000.00
Interest Rate	8.5% per annum (before tax) payable quarterly
Type	Unsecured and Redeemable at Maturity No call / convertible feature
Numbers of Debentures	500,000 (Five Hundred Thousand Only)
Face Value	NPR 1,000.00
Maturity Period	7 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 created debenture redemption reserve, and appropriated NPR 71.43 Million each year, i.e. proportionately in the duration of the bond, starting from Poush 2070. The current balance of Redemption Reserve stands at NPR 428 Million.