

**Nepal Community Development Bank Limited**  
**Head Office, Butwal-8, Rupandehi**

**"Capital Increment/Business Plan-2072"**

**1. Executive Summary:**

Nepal Community Development Bank Limited (NCDBL) has been established as a regional level development bank limiting its service within three districts (Rupandehi, Nawalparasi and Chitwan) and commenced its banking operation since Kartik 17, 2067. The bank has been promoted by leading professionals from diversified public sectors as Banking, Trading, Manufacturing, Industries, Education, Health, law, Consultancies, agriculture, travel, tourism and government officials etc. of the country. The Head Office of the Bank is located at Butwal-08, Rupandehi, Nepal.

The Bank has adopted a very familiar Nepalese Banking Software named Pumori Plus IV, Web based version from Mercantile Office System (MOS). The bank has introduced various modern banking tools like ATM, Debit Card, Locker Facility, SMS Banking, Evening Counter facility, 365 days banking in addition to various deposits & lending products. The deposit & loan products have been developed in such a way that different groups of people like Agriculture, Energy Sector, Tourism, SME, Households, Entrepreneurs, Personal, Trading, Manufacture, Education, Health sectors can be benefited.

From the beginning, we have developed various operational manuals such as Cash Operation Manual, Business Desk Operation Manual, and Locker Operation Manual and all most major policies required for the regular conduct of the operational functions and minimize various risks of the bank. We have been running our bank at low spread rate providing very competitive interest rate on Deposit & Lending products. Bank has also introduced deposit product at zero balance and loan products of minimum Limit of 50 thousand.

Having great attention to the circular recently issued by Nepal Rastra Bank (NRB) regarding Capital Increment for BFIs and realizing capital resources must be managed to provide for safe and sound banking practices as required by the central bank, regulatory body for BFIs of Nepal to adequately fund the expansion and growth of the Bank, and to provide a considerable return to our shareholders. The Board of Directors and Management of Nepal Community Development Bank Limited (NCDBL) have decided to formulate an effective action plan for fulfillment of capital requirement within deadline set-forth. The purpose of this plan is to provide guidance for the process of managing the capital base in the most effective operating means. The plan comprises short term schedule, procedure and capital injection level with time frame. The Board of Directors and Management of the bank are committed to commence immediate necessary action for successful implementation to achieve the plan.

## 2. Objectives of the Plan:

The major objectives of the plan are as follows:

- To meet regulatory requirements for capital management as prescribed on "Monetary Policy for f/y 2072/073" and "Unified Directives-2072" issued by NRB for BFIs.
- To fulfill risk based requirements related to credit & other assets
- To maintain statutory requirements as Capital Adequacy, CRR and SLR etc. as per business growth.
- To support business growth and maximize profitability in order to satisfy investors
- Ultimately to build up self-capability to be a sustainable development bank.

## 3. Current Capital Structure:

The capital structure/pattern of the bank comprises as follow:

Capital Type	Promoter Shares	Public Shares	Total Shares
Authorized Capital	-	-	<b>300,000,000</b>
Issued Capital	-	-	<b>200,000,000</b>
Paid-up Capital:	70,000,000	30,000,000	<b>100,000,000</b>
<b>Paid up %</b>	<b>70%</b>	<b>30%</b>	<b>100%</b>

## 4. Regulatory Requirements:

The Bank is required to maintain its capital levels at or above minimum level to be considered as well capitalized. The minimum capital levels required to be classified as well-capitalized are as follows:

Commercial bank:	8 billion
Development bank (national level):	2.50 billion
Development bank (regional level-10 districts):	120 billion
<b>Development bank (regional level-1-3 districts):</b>	<b>500 million</b>
Finance Company (10 districts /national Level):	800 million
Finance Company (1to 3 districts regional level):	400 million

Whereas Nepal Community Development Bank Limited (NCBL) is categorized as three district regional level development bank, the minimum paid –up capital level of 500 million shall be capitalized before or at end of the f/y 2073/074.

**NCDBL, Capital Increment/Business Plan-2072**

## 5. Immediate Capital Needs and Increment Plan under Process:

However the Bank is in a well-capitalized position as at Ashad end 2072, and according to the Order, it must maintain its capital in a well-capitalized position throughout the life of the Order. In order to achieve projected plan/budgets as of f/y 2072/073, the Bank has to raise its capital position immediately. In this connection, right share in the ratio of 1:1 is under process of issuance as per decision of 5<sup>th</sup> Annual General Meeting (AGM) of the bank held on 26<sup>th</sup> Poush, 2071. The bank has announced for right shares as call in advance from promoters to meet immediate requirement of capital. Similarly, the bank has planned to distribute net bonus share @ 9.5% to the shareholders from the profit earned in f/y 2071/072.

The Bank expects profitability throughout 2072 and beyond. However, should the Bank experience reduced leverage ratios below minimum standards to be considered adequately capitalized as defined by the NRB, the Bank may have an immediate need to raise capital. Reduction in leverage ratios could be caused by substantial asset growth, high credit concentration levels or an increased volume of adversely classified assets. The Bank's primary source of contingent capital would be its current directors and shareholders.

After capitalization of right and bonus shares under process, the level of capital base of the bank will be as tabulated follow:

<b>Paid up Capital</b>	<b>Promoter Shares</b>	<b>Public shares</b>	<b>Total Shares</b>	<b>Expected time to be capitalized</b>
Existing Capital	70,000,000	30,000,000	100,000,000	Already capitalized
Rights Issue	70,000,000	30,000,000	100,000,000	Up to Ashadh end 2073
Bonus Share	6,650,000	2,850,000	9,500,000	
<b>Total:</b>	<b>146,650,000</b>	<b>62,850,000</b>	<b>209,500,000</b>	

## 6. Investors' Prospect:

Nepal Community Development Bank Limited (NCDBL) is a community based development bank promoted by remarkable number of promoters owning small volume of shares, therefore, they are comfortable to multiply their share they have owned. Our interaction during 5<sup>th</sup> Annual General Meeting (AGM) and the recent interaction with them regarding the increment of paid-up capital, it is found that they are quite interested and comfortable to inject capital up to the required level.

## 7. The Required Capital Increment Plan:

The Bank is committed to maintain capital levels that produce a reasonable return to its shareholders and to meet regulator's requirement as recently circulated. Safe and sound banking practices are the framework on which the Bank's operations are based and that ultimately produce the long-term success for the shareholders. Along with this concept, too much capital, however, can hinder the Bank's ability to meet the expectations of its shareholders. Therefore, management has adopted a policy that maintains capital levels necessary to fund expected growth and current operations primarily through retained earnings, without promoting excessive levels of capital. Capital levels should therefore be managed to produce expected shareholder returns while supporting the safe and sound operation of the bank.

In order to maintain capital position of the bank as required by the regulatory, the Capital Increment Plan will be as follows:

### a. Capital Structure Plan up to Ashad end 2074:

Capital Type	Promoter Shares	Public shares	Total Shares
Authorized Capital	-	-	<b>700,000,000</b>
Issued Capital	-	-	<b>506,990,000</b>
Paid-up Capital:	354,893,000	152,097,000	<b>506,990,000</b>
<b>Percent</b>	<b>70%</b>	<b>30%</b>	<b>-</b>

### b. Paid up Capital Funding Plan:

Instrument	Capital Amount	Expected Funding Year	Remarks
Exiting Capital	100,000,000	-	
Bonus Share @ 9.50%	9,500,000	End of Ashadh 2073	From profit of Ashad end 2072
Right Issue @ 1:1	100,000,000	End of Ashadh 2073	Under Process of capitalization as decided by 5 <sup>th</sup> AGM held on 26 <sup>th</sup> Poush, 2071
Bonus Share @ 10.00%	20,950,000	End of Ashadh 2073	From profit of Ashad end 2073
<b>Sub-total-1:</b>	<b>230,450,000</b>	End of Ashadh 2073	
Further Rights Issue @ 1:1	230,450,000	End of Ashad 2074	Expected to be approved by 7 <sup>th</sup> AGM being held in 2073
<b>Sub-total-2:</b>	<b>460,900,000</b>	End of Ashad 2074	
Bonus Share @ 10.00%	46,090,000	End of Ashad 2074	From profit of Ashad end 2073
<b>Total:</b>	<b>506,990,000</b>	End of Ashad 2074	

## 8. Alternative Capital Increment Opportunities:

Even though the Capital Planned set in section -7 will be capitalized within time frame without any reservation, the bank will continue to explore possibilities for and use other suitable measures for the purpose of boosting up its capital level.

## 9. Annual Budgets/Business Plan:

Management of the bank will produce annually a budget of the financial growth and performance of the bank. This budget will be used to determine the capital needs for the upcoming year and the capital funding adjustments. These budgets and the actual performance will be monitored on a monthly basis to determine if changes to the budget or the capital-funding plan are needed. The Chief Financial Officer will inform management if the capital ratios drop below the required levels during any monthly reporting period. If such a situation occurs, management of the Bank will develop the appropriate capital funding technique and determine the level of funding needed and will present the plan to the Board of Directors at the next board meeting.

The bank has prepared 2 years projected Business Plan based on Paid up Capital Funding Plan mentioned above as follow:

### Major Projected Financial Indicators

S.N.	Particulars	Indicators	Actual		Projected	
			F/Y 2070-071	F/Y 2071-072	F/Y 2072-073	F/Y 2073-074
1	Paid-Up Capital	Rs.	100,000,000.00	109,500,000.00	230,450,000.00	506,990,000.00
2	Deposits	Rs.	675,329,055.20	918,089,898.60	1,379,929,000.00	1,655,319,000.00
3	Loan & Advances	Rs.	577,993,462.65	729,210,742.48	1,239,522,000.00	1,611,318,000.00
4	Capital Fund maintained					
	Core Capital	%	14.37	12.44	20.15	35.21
	Supplementary Capital	%	0.83	0.81	0.96	0.96
	Total Capital Fund	%	15.20	13.25	21.11	36.17
5	Non Performing Loan/Total Loan & Advances	%	0.02	0.10	0.06	0.05

Major financial statements including balance sheet, profit & loss account and cash flow have been attached as annexure.

## 10. Conclusion:

The Bank's management and Board of Directors intend for this plan to serve as guidance for the management of its capital resources. As stated above, the Bank's objectives are to provide for safe and sound banking practices as required by Nepal Rastra Bank (NRB), regulatory body, to adequately fund the expansion and growth of the Bank, and to provide a considerable return to our shareholders. The directors will make every reasonable attempt to raise additional equity capital should the need arise in the future, within the time frame detailed in this plan.