Disclosures under Basel II
For 1st Quarter of FY 2083-84 ending 31st Ashwin, 2083

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

1 Capital Structure and Capital Adequacy:

All amounts in Nrs. "000"

1.1 Capital Adequacy Ratio

Capital Adequacy Ratios	Percentage
Core Capital Ratio - Tier I	11.34
Total Capital Ratio - (Tier I + Tier II)	15.05

1.2 Total qualifying capital:

Capital	Amount
Tier I Core Capital Fund	5,996,977.57
Tier II Supplementary Capital Fund	1,958,923.50

1.3 Tier 1 Capital and a breakdown of its components:

S.No.	Particulars	Amount
a	Paid up Equity Share Capital	3,623,678
b	Equity Share Premium	
c	Proposed Bonus Equity Shares	
d	Statutory General Reserves	1,317,290
e	Retained Earnings	438,901
f	Unaudited current year cumulative profit/(loss)	327,154
g	Capital Redemption Reserve	375,000
h	Capital Adjustment Reserve	
i	Debenture Redemption Reserve	
j	Dividend Equalization Reserves	
k	Bargain Purchase Gain	
l	Other Free Reserve	
m	Less: Goodwill	
n	Less: Intangible Assets	
o	Less: Fictitious Assets	
p	Less: Investment in equity in licensed Financial Institutions	

q	Less: Investment in equity of institutions with financial interests	80,000.00
r	Less: Investment in equity of institutions in excess of limits	
s	Less: Investments arising out of underwriting commitments	
t	Less: Reciprocal crossholdings	
u	Less: Purchase of land & building in excess of limit and unutilized	5,046.00
v	Less: Other Deductions	
Total Tier 1 Capital		**5,996,977.57**

Tier 2 Capital and Breakdown of its Components

S.No.	Particulars	Amount
a	Cumulative and/or Redeemable Preference Share	
b	Subordinated Term Debt	1,000,000.00
c	Hybrid Capital Instruments	
d	Stock Premium	
e	General loan loss provision	599,409
f	Exchange Equalization Reserve	1,591
g	Investment Adjustment Reserve	80,000
h	Accrued Interest Receivable on pass loan included in Regulatory Reserve	258,495
i	Interest Capitalized Reserve included in Regulatory Reserve	19,429
h	Other Reserves	
Total Tier 2 Capital		**1,958,923.50**
Total Capital Fund (Tier I and Tier II)		**7,955,901.07**

1.4 Detailed information about the Subordinated Term Debts with information on the outstanding amount, maturity, amount raised during the year and amount eligible to be reckoned as capital funds:

Bank has not issued such type of instrument.

1.5 Deductions from Capital

The bank has deducted the following items in calculation of Tier I Capital Fund:

- Nrs. 80,000.00 thousand invested in equity capital of unlisted company.
- Nrs. 5,046.00 thousand purchase of land & building in excess of limit and unutilized.

1.6 Summary of the bank's internal approach to assess the adequacy of capital to support current and future activities:

Lumbini Bikas Bank adopts strong risk management framework. The bank 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. Bank's different Board level 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.

Capital planning is an integral part of the bank'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 at any point of time.

The bank is well capitalized and able to maintain the required capital through internal generation, and equally through capital markets if needed.

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

The bank has issued 11% LBBL Debenture 2089 of Rs. 1,000,000 thousand. The bank has not raised any capital through hybrid capital instruments.

2. Risk Exposures:

2.1 Risk weighted exposures for Credit Risk, Market Risk and Operation Risk:

Amount Nrs. "000"

S.No.	RISK WEIGHTED EXPOSURE	Amount
a	Risk Weighted Exposure for Credit Risk	47,952,680.90
b	Risk Weighted Exposure for Operational Risk	2,971,646.55
c	Risk Weighted Exposure for Market Risk	3,815.23
	Total Risk Weighted Exposures (Before adjustments of Pillar II)	**50,928,142.68**
	Add: 2% Capital Charge for Operational Risk	423,054.60
	Add: 3% Capital charge for overall risk management policies and procedures	1,527,844.28
	Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	**52,879,041.56**

2.2 Risk Weighted exposures of under each 11 categories of Credit Risk

Amount Nrs. "000"

S.No.	Particulars	Amount
1	Claims on Government and Central Bank	13,864,908
2	Claims on Other Official Entities	-
3	Claims on Banks	1,489,805
4	Claims on Domestic Corporates and Securities Firms	13,398,628
5	Claims on Regulatory Retail Portfolio	13,607,285

6	Claims Secured by Residential Properties	7,070,051
7	Claims Secured by Commercial Real Estate	688,904
8	Past Due Claims	2,865,427
9	High Risk Claims	4,355,914
10	Other Assets	8,213,308.73
11	Off Balance Sheet Items	3,777,773
	Total Credit Risk	**69,332,005**

3. Details of Non-Performing Loan

3.1 Amount of Non-Performing Assets (Both Gross and Net)

Amount Nrs. "000"

Non-Performing Loans		Gross Amount	Loss Provision	Net Amount
a	Restructured and rescheduled	34,014.10	4,251.76	29,762.33
b	Sub-Standard	1,282,481.95	320,620.49	961,861.46
c	Doubtful	579,008.22	289,504.11	289,504.11
d	Loss	1,638,060.89	1,638,060.89	-
e	Additional		11,950.29	(11,950.29)
	Total	**3,533,565.16**	**2,264,387.53**	**1,269,177.63**

3.2 NPA Ratios

NPA Ratio	Ratio (%)
Gross NPA to Gross Advances	6.99%
Net NPA to Net Advances	2.67%

3.3 Movement of Non-Performing Assets

Amount Nrs. "000"

Particulars	This Quarter	Previous Quarter	Changes	
			Amount	Percentage
Gross NPA	3,533,565.16	3,278,440.58	255,124.58	7.78%
Net NPA	1,269,177.63	927,951.55	341,226.08	36.77%
NPA (%)	**6.99%**	**6.52%**	-	**0.47%**

3.4 Write off of Loans and Interest Suspense

Amount Nrs. "000"

Particulars	Amount`
Loan written off this year	10,913.77
Interest Suspense written off this year	-

Total write off this year	**10,913.77**

3.5 Movements in Loan Loss Provision and Interest Suspense:

Amount Nrs. "000"

Particulars	This Quarter	Previous Quarter	Changes	
			Amount	Percentage
Loan Loss Provision	2,916,680.95	3,004,703.64	-88,022.69	-2.93%
Interest Suspense	1,088,179	1,048,092	40,087.00	3.82%

3.6 Details of Additional Loan Loss Provision:

Amount Nrs. "000"

Particulars	Amount
Provisioning for Pass Loans	777.84
Provisioning for Watch List Loans	(2,699.03)
Provisioning for Restructured/Rescheduled Loans	3,764.57
Provisioning for Sub-Standard Loans	114,893.14
Provisioning for Doubtful Loans	(30,551.05)
Provisioning for Loss Loans	(173,462.49)
Additional Loan Loss Provision	(745.67)
Total additional provisioning this quarter	**(88,022.69)**

4. Risk Management Function

4.1 Risk Management Framework

Within its organization structure, the bank has adopted the following risk management structure:

Internal audit of the Bank is independent from the management and directly reports to **Audit Committee**, a board level committee. Internal audit has been conducted throughout sourced profession audit firm.

Risk Management Committee is a board level committee, which also includes member from risk divisions of the bank. This is where overall risk management including performance of the bank is discussed in detail so as to assess the overall risk of the bank and necessary recommendation are made to the Board for necessary deliberation and implementation.

4.2 Risk Management

The bank has **Investment Policy** and **Credit Policy** which guides in generating business. The bank has clear demarcation on business generation and risk management.

The Bank has set up a separate **Risk Division**, headed by the senior officer of the Bank. The division is independent to business and does not have any targets, nor have any incentive for business generation.

There is separate **Credit Administration Division** (CAD Division), which check security documents for execution, for exposure accounting, disbursement and settlement. CAD is also independent to business.

Periodic Audit Review of credit exposure and other by the Internal Audit and / or Statutory Audit also assists in identifying the status of exposure/relationship in line with polices of the Bank, NRB Directives and prevailing Acts. Any weaknesses on the part of the borrower's business and the relationship strength are independently assessed through audit review and the outcome is taken positively for necessary changes.

Work Procedures are well defined where checking, control and independence of the credit extension, risk assessment, review, monitoring and exposure accounting is fully complied with. All such actions and processes are properly recorded, reported and discussed. These reports, on need basis and on a defined frequency, are submitted for **oversight of Senior Management, Risk Management Committee and the Board**. Internal Audit Department of the bank also takes up the matter of all audit observations for discussion at **Audit Committee**.

a. Operational Risk Management

Operations Risk is that risk arises from inadequate internal process, people and system or from external events**. Core Banking System** (CBS) is an area to be put under highest level of safety for security of customer information and information of the bank too. Information and Technology Division in the bank reviews and checks the security aspects in line with ITIS Policy of the Bank. Bank has conducted an IS Audit of the bank's system and suggestions given by the audit with respect to safety and security standards are being implemented.

The Bank has an on-line real time replication **Disaster Recovery Site (DRS)** which captures the record of each transaction that takes place at the Production Server. Both the sites (Production Server and Disaster Recovery – Back up site) are housed in well- conditioned and high shock resistant buildings and are at different seismic zone.

Bank has put in place a **maker and checker concept** in which a transaction has to compulsorily go through two individuals from a control standpoint with proper transaction right to capture deviations, if any.

b. Market Risk Management

Market Risks are discussed at **Asset Liability Management Committee (ALCO)** of the bank and even discussed at respective division level.

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.**

c. 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. Liquidity is a regular agenda of the quarterly ALCO meetings.

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

d. Legal and Compliance Risk Management

The Bank has a separate **Legal division.** All legal agreements, deeds and documents including claims and charges are thoroughly studied prior to making any decision involving such documents. In case where the Bank needs expert's opinion on particular issue, experts are consulted.

Bank has separate division to oversee **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 procedure.

Assets Laundering Prevention Committee is board level committee, which also includes member from compliance division of the bank. This is the overall KYC, AML/CFT compliance is discussed in details so as to assess the overall risk of the bank and necessary recommendations are made to the Board for the necessary deliberation and implementation.