

**Disclosures under Basel II**  
**For 3<sup>rd</sup> Quarter of FY 2078-79 ending Chaitra 30, 2078**

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:**

Amount Nrs. “000”

1.1 Capital Adequacy Ratio

| Capital Adequacy Ratios                  | Percentage |
|------------------------------------------|------------|
| Core Capital Ratio - Tier I              | 10.87%     |
| Total Capital Ratio - (Tier I + Tier II) | 12.48%     |

1.2 Total qualifying capital:

| Capital                            | Amount       |
|------------------------------------|--------------|
| Tier I Core Capital Fund           | 4,484,665.91 |
| Tier II Supplementary Capital Fund | 663,242.40   |

1.3 Tier 1 Capital and a breakdown of its components:

|   | Particulars                                                         | Amount       |
|---|---------------------------------------------------------------------|--------------|
| a | Paid up Equity Share Capital                                        | 3,284,292.51 |
| b | Irredeemable Non-cumulative preference shares                       | -            |
| c | Share Premium                                                       | -            |
| d | Proposed Bonus Equity Shares                                        | -            |
| e | Statutory General Reserves                                          | 807,085      |
| f | Retained Earnings                                                   | 37,287       |
| g | Un-audited current year cumulative profit/(loss)                    | 401,046.88   |
| h | Capital Redemption Reserve                                          | -            |
| i | Capital Adjustment Reserve                                          | -            |
| j | Dividend Equalization Reserves                                      | -            |
| K | Other Free Reserve                                                  | -            |
| L | Less: Goodwill                                                      | -            |
| M | Less: Deferred Tax Assets                                           | -            |
| N | Less: Fictitious Assets                                             | -            |
| O | Less: Investment in equity in licensed Financial Institutions       | -            |
| P | Less: Investment in equity of institutions with financial interests | 40,000.00    |

|                             |                                                                     |                     |
|-----------------------------|---------------------------------------------------------------------|---------------------|
| 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 | 5,046.00            |
| U                           | Less: Other Deductions                                              | -                   |
| <b>Total Tier 1 Capital</b> |                                                                     | <b>4,484,665.91</b> |

#### Tier 2 Capital and Breakdown of its Components

|                             | Particulars                                   | Amount            |
|-----------------------------|-----------------------------------------------|-------------------|
| a                           | Cumulative and/or Redeemable Preference Share |                   |
| b                           | Subordinated Term Debt                        |                   |
| c                           | Hybrid Capital Instruments                    |                   |
| d                           | General loan loss provision                   | 622,394.29        |
| e                           | Exchange Equalization Reserve                 | 848.11            |
| f                           | Investment Adjustment Reserve                 | 40,000.00         |
| g                           | Asset Revaluation Reserve                     |                   |
| h                           | Other Reserves                                |                   |
| <b>Total Tier 2 Capital</b> |                                               | <b>663,242.40</b> |

#### 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. 40,000.00 thousand invested in equity capital of unlisted company.
- Nrs. 5046.00 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 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”    |
|---|------------------------------------------------------------------------|----------------------|
|   | RISK WEIGHTED EXPOSURE                                                 | Amount               |
| a | Risk Weighted Exposure for Credit Risk                                 | 38,714,865.96        |
| b | Risk Weighted Exposure for Operational Risk                            | 2,111,706.30         |
| c | Risk Weighted Exposure for Market Risk                                 | 7,084.82             |
|   | Add: 3% of the total RWE add by Supervisory Review                     | -                    |
|   | Add: 3% Capital Charge for Operational Risk                            | -                    |
|   | <b>Total Risk Weighted Exposures (Before adjustments of Pillar II)</b> | <b>40,833,657.08</b> |

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

|    |                                            | Amount Nrs. “000”    |
|----|--------------------------------------------|----------------------|
|    | Particulars                                | Amount               |
| 1  | Claims on government & central bank        | -                    |
| 2  | Claims on other official entities          | -                    |
| 3  | Claims on banks                            | 1,273,277.85         |
| 4  | Claims on corporate & securities firms     | 13,002,735.42        |
| 5  | Claims on regulatory retail portfolio      | 10,234,704.88        |
| 6  | Claims secured by residential properties   | 2,793,333.36         |
| 7  | Claims secured by commercial real state    | 616,650.53           |
| 8  | Past due claims                            | 902,703.94           |
| 9  | High risk claims                           | 5,593,260.95         |
| 10 | Other assets                               | 3,244,645.86         |
| 11 | Off balance sheet items                    | 1,053,553.17         |
|    | <b>Total Credit Risk Weighted Exposure</b> | <b>38,714,865.96</b> |

### 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 | 2,703          | 338            | 2,365          |
| b                    | Sub-Standard                 | 236,816        | 59,204         | 177,612        |
| c                    | Doubtful                     | 107,136        | 53,568         | 53,568         |
| d                    | Loss                         | 339,781        | 334,684        | 5,097          |
|                      | <b>Total</b>                 | <b>686,437</b> | <b>447,794</b> | <b>238,642</b> |

#### 3.2 NPA Ratios

| NPA Ratio                   | Ratio (%) |
|-----------------------------|-----------|
| Gross NPA to Gross Advances | 1.69%     |
| Net NPA to Net Advances     | 0.59%     |

#### 3.3 Movement of Non-Performing Assets

Amount Nrs. "000"

| Particulars | This Quarter | Previous Quarter | Changes |            |
|-------------|--------------|------------------|---------|------------|
|             |              |                  | Amount  | Percentage |
| Gross NPA   | 686,437      | 646,434          | 40,003  | 6.19%      |
| Net NPA     | 238,642      | 219,325          | 19,317  | 8.81%      |
| NPA (%)     | 1.69%        | 1.67%            | -       | -          |

#### 3.4 Write off of Loans and Interest Suspense

Amount Nrs. "000"

| Particulars                             | Amount |
|-----------------------------------------|--------|
| Loan written off this year              | 698.94 |
| Interest Suspense written off this year | -      |
| Total write off this year               | 698.94 |

#### 3.5 Movements in Loan Loss Provision and Interest Suspense:

Amount Nrs. "000"

| Particulars         | This Quarter | Previous Quarter | Changes  |            |
|---------------------|--------------|------------------|----------|------------|
|                     |              |                  | Amount   | Percentage |
| Loan Loss Provision | 1,078,455    | 1,032,218        | 46,237   | 4%         |
| Interest Suspense   | 573,828.84   | 979,685.07       | -405,856 | -41%       |

### 3.6 Details of Additional Loan Loss Provision:

| Particulars                                       | Amount Nrs. “000” |
|---------------------------------------------------|-------------------|
|                                                   | Amount            |
| Provisioning for Pass Loans                       | 25,328            |
| Provisioning for Watch List Loans                 | 8,807             |
| Provisioning for Restructured/Rescheduled Loans   | (8,091)           |
| Provisioning for Sub-Standard Loans               | (4,935)           |
| Provisioning for Doubtful Loans                   | 33,435            |
| Provisioning for Loss Loans                       | (7,927)           |
| Additional Loan Loss Provision                    | (381)             |
| <b>Total additional provisioning this quarter</b> | <b>46,236</b>     |

## 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 Manager 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 policies 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.

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