

ADDITIONAL DISCLOSURE UNDER BASEL II
As per Capital Adequacy Framework 2007 (Updated 2008)

The extract presented hereunder is as per disclosure requirement of Capital Adequacy Framework 2007 (Updated 2008) as issued by Nepal Rastra Bank for the period ended 31st Ashadh 2078 (15th July 2021).

1. Capital Structure and Capital Adequacy:

▪ **Core Capital (Tier 1)** **(Rs. in '000)**

| Particulars | | Amount (Rs.) |
|------------------------------------|----------------------------------|---------------------|
| a. | Paid up Equity Share Capital | 2,606,640.40 |
| b. | Share Premium | - |
| c. | Proposed Bonus Share | - |
| d. | Statutory General Reserves | 423,107.16 |
| e. | Retained Earnings | 570,423.84 |
| f. | Capital Adjustment Reserve | - |
| g. | Other Free Reserve | - |
| | Less: Deferred Tax Assets | 28,432.73 |
| Total Core Capital (Tier I) | | 3,571,738.67 |

▪ **Supplementary Capital (Tier 2)** **(Rs. in '000)**

| Particulars | | Amount (Rs.) |
|---|--|-------------------|
| a. | Cumulative and/or Redeemable Preference Shares | - |
| b. | Subordinated Term Debt | - |
| c. | Hybrid Capital Instruments | - |
| d. | General Loan Loss Provision | 421,269.93 |
| e. | Exchange Equalization Reserve | 260.00 |
| f. | Investment Adjustment Reserve | 5,000.00 |
| g. | Other Reserve | - |
| Total Supplementary Capital (Tier 2) | | 426,529.93 |

▪ **Total Qualifying Capital** **(Rs. in '000)**

| | | |
|--|---|---------------------|
| Total Capital Fund (Tier I + Tier II) | | 3,998,268.60 |
| a. | Core Capital (Tier 1 Capital) Less Deductions | 3,571,738.67 |
| b. | Supplementary Capital (Tier 2 Capital) | 426,529.93 |

▪ **Capital Adequacy Ratio**

| | | |
|----|---|--------|
| a. | Tier 1 Capital to Total Risk Weighted Exposures | 10.60% |
| b. | Total Capital Fund to Total Risk Weighted Exposures (CAR) | 11.86% |

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

Assessment of capital adequacy of bank on regular basis taking into considerations the exposure of bank. Also the analysis of possible impact on capital adequacy is being done on regular basis taking into consideration the future impacts on assumptive basis. Capital adequacy of bank and impact in capital due to future change in nature and size of business is discussed in Risk Management Committee and is summarized in board. Regular monitoring of nature of business is being done so that unexpected negative impact could not take place in capital adequacy of bank. Reporting to regulatory body is being done as prescribed by compliance department.

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- **Summary of the terms, conditions and main features of all capital instruments, especially in case of subordinated term debts including hybrid capital instruments.**
Not Applicable.

2. Risk Exposures

- **Risk Weighted Exposures for Credit, Market and Operational Risk (Rs. in '000)**

| Particulars | | Amount (Rs.) |
|--|---|----------------------|
| a. | Risk Weighted Exposure for Credit Risk | 31,117,793.31 |
| b. | Risk Weighted Exposure for Operational Risk | 1,677,092.19 |
| c. | Risk Weighted Exposure for Market Risk | 5,772.28 |
| Total Risk Weighted Exposures | | 32,800,657.78 |
| Adjustments under Pillar II | | |
| SRP 6.4a (5) | ALM policies & practices are not satisfactory, add 1% of net interest income to RWE | - |
| SRP 6.4a (6) | Add% of the total deposit due to insufficient Liquid Assets | - |
| SRP 6.4a (7) | Add RWE equivalent to reciprocal of capital charge of 2 % of gross income. | 244,923.10 |
| SRP 6.4a (9) | Overall risk management policies and precedures are not satisfactory. Add 2% of RWE | 656,013.16 |
| SRP 6.4a (10) | If desired level of disclosure requirement has not been achieved, Add% of RWE | - |
| Total Risk Weighted Exposures (After Bank's adjustments of Pillar II) | | 33,701,594.03 |

- **Risk Weighted Exposures under each Categories of Credit Risk (Rs. in '000)**

| Particulars | | Amount (Rs.) |
|--|--|----------------------|
| a. | Claims on government and central Bank | - |
| b. | Claims on other official entities | - |
| c. | Claims on Banks | 1,263,253.19 |
| d. | Claims on corporate and securities firms | 6,491,996.00 |
| e. | Claims on regulatory retail portfolio | 12,249,561.35 |
| f. | Claims secured by residential properties | 3,148,971.84 |
| g. | Claims secured by commercial real estate | 222,950.78 |
| h. | Past due claims (except for claim secured by residential properties) | 1,275,274.63 |
| i. | High risk claims | 3,048,352.04 |
| j. | Lending Against Securities (Bonds & Shares) | 1,288,694.30 |
| k. | Investment in Equity and other capital instruments of institutions | 584,570.61 |
| l. | Staff Loan secured by residential properties | 177,789.51 |
| m. | Other Assets | 900,717.93 |
| n. | Off Balance sheet items | 465,661.14 |
| Total Risk Weighted Exposures for Credit Risk | | 31,117,793.31 |

- **Total Risk Weighted Exposure Calculation table**

(Rs. in '000)

| A. Balance Sheet Exposures | Book Value | Specific Provision | Eligible CRM | Net Value | Risk Weight | Risk Weighted Exposures |
|----------------------------|------------|--------------------|--------------|-----------|-------------|-------------------------|
|----------------------------|------------|--------------------|--------------|-----------|-------------|-------------------------|

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| | a | b | c | d=a-b-c | e | f=d*e |
|---|--------------|---|---|--------------|------|--------------|
| Cash Balance | 710,651.45 | | | 710,651.45 | 0% | - |
| Balance With Nepal Rastra Bank | 1,471,279.40 | | | 1,471,279.40 | 0% | - |
| Gold | 144.91 | | | 144.91 | 0% | - |
| Investment in Nepalese Government Securities | 5,129,633.86 | | | 5,129,633.86 | 0% | - |
| All Claims on Government of Nepal | 188,190.97 | | | 188,190.97 | 0% | - |
| Investment in Nepal Rastra Bank securities | | | | - | 0% | - |
| All claims on Nepal Rastra Bank | | | | - | 0% | - |
| Claims on Foreign Government and Central Bank (ECA 0-1) | | | | - | 0% | - |
| Claims on Foreign Government and Central Bank (ECA -2) | | | - | - | 20% | - |
| Claims on Foreign Government and Central Bank (ECA -3) | | | - | - | 50% | - |
| Claims on Foreign Government and Central Bank (ECA-4-6) | | | - | - | 100% | - |
| Claims on Foreign Government and Central Bank (ECA -7) | | | - | - | 150% | - |
| Claims On BIS, IMF, ECB, EC and MDB's recognized by the framework | | | | - | 0% | - |
| Claims on Other Multilateral Development Banks | | | - | - | 100% | - |
| Claims on Domestic Public Sector Entities | | | - | - | 100% | - |
| Claims on Public Sector Entity (ECA 0-1) | | | - | - | 20% | - |
| Claims on Public Sector Entity (ECA 2) | | | - | - | 50% | - |
| Claims on Public Sector Entity (ECA 3-6) | | | - | - | 100% | - |
| Claims on Public Sector Entity (ECA 7) | | | - | - | 150% | - |
| Claims on domestic banks that meet capital adequacy requirements | 6,311,505.43 | | - | 6,311,505.43 | 20% | 1,262,301.09 |
| Claims on domestic banks that do not meet capital adequacy requirements | - | | - | - | 100% | - |
| Claims on foreign bank (ECA Rating 0-1) | | | - | - | 20% | - |
| Claims on foreign bank (ECA Rating 2) | | | - | - | 50% | - |
| Claims on foreign bank (ECA Rating 3-6) | | | - | - | 100% | - |
| Claims on foreign bank (ECA Rating 7) | | | - | - | 150% | - |
| Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement | 4,760.51 | | - | 4,760.51 | 20% | 952.10 |
| Claims on Domestic Corporates (Credit rating score equivalent to AAA) | | | - | - | 80% | - |

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| | | | | | | |
|--|----------------------|-------------------|-------------------|----------------------|-------------|----------------------|
| Claims on Domestic Corporates (Credit rating score equivalent to AA+ to AA-) | | | - | - | 85 % | - |
| Claims on Domestic Corporates (Credit rating score equivalent to A+ to A-) | | | - | - | 90 % | - |
| Claims on Domestic Corporates (Credit rating score equivalent to BBB+ & below) | | | - | - | 100 % | - |
| Claims on Domestic Corporates (Unrated) | 6,529,496.00 | - | 37,500.00 | 6,491,996.00 | 100 % | 6,491,996.00 |
| Claims on Foreign Corporates (ECA 0-1) | | | - | - | 20% | - |
| Claims on Foreign Corporates (ECA 2) | | | - | - | 50% | - |
| Claims on Foreign Corporates (ECA 3-6) | | | - | - | 100% | - |
| Claims on Foreign Corporates (ECA 7) | | | - | - | 150% | - |
| Regulatory Retail Portfolio (Not Overdue) | 16,668,147.85 | - | 335,399.39 | 16,332,748.47 | 75% | 12,249,561.35 |
| Claims fulfilling all criterion of regularity retail except granularity | - | | - | - | 100% | - |
| Claims secured by residential properties | 5,141,373.89 | - | - | 5,141,373.89 | 60% | 3,084,824.33 |
| Claims not fully secured by residential properties | - | - | - | - | 150% | - |
| Claims secured by residential properties (Overdue) | 69,957.87 | 5,810.37 | - | 64,147.51 | 100% | 64,147.51 |
| Claims secured by Commercial real estate | 222,950.78 | - | - | 222,950.78 | 100% | 222,950.78 |
| Past due claims (except for claims secured by residential properties) | 1,083,258.17 | 233,075.08 | - | 850,183.09 | 150% | 1,275,274.63 |
| High Risk claims | 2,101,964.69 | - | 69,730.00 | 2,032,234.69 | 150% | 3,048,352.04 |
| Lending Against Securities (Bonds & Shares) | 1,288,694.30 | - | - | 1,288,694.30 | 100 % | 1,288,694.30 |
| Investments in equity and other capital instruments of institutions listed in stock exchange | 531,381.49 | | - | 531,381.49 | 100% | 531,381.49 |
| Investments in equity and other capital instruments of institutions not listed in the stock exchange | 35,459.41 | | - | 35,459.41 | 150% | 53,189.12 |
| Staff loan secured by residential property | 355,579.01 | | | 355,579.01 | 50 % | 177,789.51 |
| Interest Receivable/claim on government securities | 50,753.53 | | | 50,753.53 | 0% | - |
| Cash in transit and other cash items in the process of collection | | | | - | 20 % | - |
| Other Assets (as per attachment) | 1,094,202.85 | 193,484.92 | - | 900,717.93 | 100% | 900,717.93 |
| TOTAL (A) | 48,989,386.38 | 432,370.37 | 442,629.39 | 48,114,386.63 | | 30,652,132.18 |

| B. Off Balance Sheet Exposures | Book Value | Specific Provision | Eligible CRM | Net Value | Risk Weight | Risk Weighted Exposures |
|---------------------------------------|-------------------|---------------------------|---------------------|------------------|--------------------|--------------------------------|
| Revocable Commitments | | | | - | 0% | - |

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| | | | | | | |
|---|--------------|--|--|---|--------------|-------------------|
| Bills Under Collection | | | | - | 0% | - |
| Forward Exchange Contract Liabilities | | | | - | 10% | - |
| LC Commitments With Original Maturity Upto 6 months domestic counterparty | | | | - | 20% | - |
| Foreign counterparty (ECA Rating 0-1) | | | | - | 20% | - |
| Foreign counterparty (ECA Rating 2) | | | | - | 50% | - |
| Foreign counterparty (ECA Rating 3-6) | | | | - | 100% | - |
| Foreign counterparty (ECA Rating 7) | | | | - | 150% | - |
| LC Commitments With Original Maturity Over 6 months domestic counterparty | | | | - | 50% | - |
| Foreign counterparty (ECA Rating 0-1) | | | | - | 20% | - |
| Foreign counterparty (ECA Rating 2) | | | | - | 50% | - |
| Foreign counterparty (ECA Rating 3-6) | | | | - | 100% | - |
| Foreign counterparty (ECA Rating 7) | | | | - | 150% | - |
| Bid Bond, Performance Bond and Counter guarantee domestic counterparty | 94,088.05 | | | - | 94,088.05 | 47,044.03 |
| Foreign counterparty (ECA Rating 0-1) | | | | - | 20% | - |
| Foreign counterparty (ECA Rating 2) | | | | - | 50% | - |
| Foreign counterparty (ECA Rating 3-6) | | | | - | 100% | - |
| Foreign counterparty (ECA Rating 7) | | | | - | 150% | - |
| Underwriting commitments | | | | - | 50% | - |
| Lending of Bank's Securities or Posting of Securities as collateral | | | | - | 100% | - |
| Repurchase Agreements, Assets sale with recourse | | | | - | 100% | - |
| Advance Payment Guarantee | | | | - | 100% | - |
| Financial Guarantee | | | | - | 100% | - |
| Acceptances and Endorsements | | | | - | 100% | - |
| Unpaid portion of Partly paid shares and Securities | | | | - | 100% | - |
| Irrevocable Credit commitments (short term) | 1,839,450.55 | | | - | 1,839,450.55 | 367,890.11 |
| Irrevocable Credit commitments (long term) | | | | - | 50% | - |
| Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement | | | | | - | 20% |
| Other Contingent Liabilities | | | | - | 100% | - |
| Unpaid Guarantee Claims | 25,363.50 | | | - | 25,363.50 | 200% 50,727.00 |

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| | | | | | |
|--|----------------------|-------------------|-------------------|----------------------|----------------------|
| TOTAL (B) | 1,958,902.10 | - | - | 1,958,902.10 | 465,661.14 |
| Total RWE for credit Risk Before Adjustment (A)+(B) | 50,948,288.49 | 432,370.37 | 442,629.39 | 50,073,288.73 | 31,117,793.31 |
| <u>Adjustments under Pillar II</u> | | | | | |
| SRP 6.4a(3) - Add 10% of the loans & facilities in excess of Single Obligor Limits to RWE | | | | | - |
| SRP 6.4a(4) - Add 1% of the contract (sale) value in case of the sale of credit with recourse to RWE | | | | | - |
| Total RWE for Credit Risk after Bank's adjustments under Pillar II | 50,948,288.49 | 432,370.37 | 442,629.39 | 50,073,288.73 | 31,117,793.31 |

▪ **Amount of NPA's (Both Gross and Net)** (Rs. in '000)

| S.N | Particulars | Gross Amount | Loan Loss Provision | Net Amount |
|--------------|------------------------------|-------------------|---------------------|-------------------|
| a. | Restructured/Reschedule Loan | - | - | - |
| b. | Substandard Loan | 217,739.99 | 53,884.71 | 163,855.28 |
| c. | Doubtful Loan | 209,054.49 | 103,881.61 | 105,172.88 |
| d. | Loss Loan | 82,404.09 | 81,119.13 | 1,284.96 |
| Total | | 509,198.57 | 238,885.45 | 270,313.12 |

▪ **NPA Ratios** (Rs. in '000)

| S.N | Ratios | Gross/Net NPA | Gross/Net Advances | % |
|-----|--------------------------------------|---------------|--------------------|-------|
| a. | Gross NPA to Gross loan and Advances | 509,198.57 | 36,293,876.87 | 1.40% |
| b. | Net NPA to Net loan and Advances | 270,313.12 | 35,526,311.92 | 0.76% |

▪ **Movement of Non - Performing Assets** (Rs. In '000)

| S.No. | Particulars | Current Year | Previous Year | Movement |
|---------------|------------------------------|-------------------|-------------------|-------------------|
| a. | Restructured/Reschedule Loan | - | - | - |
| b. | Substandard Loans | 217,739.99 | 118,875.41 | 98,864.57 |
| c. | Doubtful Loans | 209,054.49 | 109,980.91 | 99,073.59 |
| d. | Bad Loans | 82,404.09 | 41,363.06 | 41,041.03 |
| Total: | | 509,198.57 | 270,219.38 | 238,979.19 |

▪ **Movement in Loan Loss Provisions (Rs. in '000)**

| S.N | Particulars | Current Year | Previous Year | Movement |
|-----|---------------------|--------------|---------------|------------|
| a. | Loan Loss Provision | 767,564.94 | 532,969.41 | 234,595.53 |

▪ **Write off of Loans and Interest Suspense during the year:** Not Written off

▪ **Interest Suspense** (Rs. in '000)

| S.N | Particulars | Current Year | Previous Year | Movement |
|-----|-------------------|--------------|---------------|-------------|
| a. | Interest Suspense | 193,484.92 | 245,058.04 | (51,573.12) |

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▪ **Investment Portfolio**

(Rs. in '000)

| S.N | Particulars | Held to Maturity | Held for Trading | Available for sale |
|-----|---|---------------------|------------------|--------------------|
| a. | Investment in Treasury Bill | 2,717,908.86 | | |
| b. | Investment on Other Government Securities | 2,411,725.00 | | |
| c. | Investment on NRB Bond and Deposit | | | |
| d. | Investment on interbank lending | | | |
| e. | Investment on Shares | | | |
| | Micro Finance Institution | | | 151,782.27 |
| | Insurance companies | | | 279,962.95 |
| | Investment on Mutual Fund | | | 131,600.69 |
| | Hydropower Companies | | | 69.10 |
| | Others | | | 3,425.90 |
| | Total | 5,129,633.86 | | 566,840.91 |

3. Risk Management Function

The bank is committed to the identification, monitoring and management of risks associated with its business activities. Management is ultimately responsible to the Board for the Bank's system of internal controls and risk management. In order to enhance efficiency and effective internal control Bank has established the Internal Audit Department. The internal audit of the Bank's branches and departments are carried out on regular basis.

▪ **Credit Risk**

Bank has put in place a standard procedure regarding documentation procedure, loan appraisal and approval procedure, delegation of authority to different level, disbursement mechanism, monitoring of loans and advances and recovery. Bank has separate Credit Control Unit (CCU) through which the loans are being disbursed irrespective the loan sanctioning authority level. CCU has played vital role in internal check system.

▪ **Market Risk**

Market risk related to interest rate, stock price are being monitored closely by management and discussions are being held in risk management committee in frequent basis.

▪ **Operational Risk**

In order to minimize operational risk, bank has been following its operational manual strictly along with NRB Directives and circulars. In addition to strengthen internal control of the bank, internal audit of branches and departments are being conducted in quarterly basis. Further bank has put in place the practice of monthly system review system and daily MIS system for timely information of position bank and detection of errors. Bank has been using various risk mitigating tools like insurance, data back – up, training of staffs etc. Bank has framed AML/ CFT policy to comply with the provisions of NRB and Nepal Government related to AML.

▪ **Credit Risk Mitigants (CRM):**

Eligible CRM Benefits availed:

(Rs. in '000)

| Particulars | Amount |
|--------------------|-------------------|
| Deposits with Bank | 299,718.21 |
| Gold | 142,911.18 |
| Total: | 442,629.39 |