

**SHANGRI-LA DEVELOPMENT BANK LTD.
DISCLOSURE UNDER BASEL III**

The extract presented hereunder is as per disclosure requirement of Capital Adequacy Framework 2015 as issued by Nepal Rastra Bank for the period ended 30th Ashwin 2080 (17th October 2023).

I. CAPITAL STRUCTURE & CAPITAL ADEQUACY

i Tier 1 Capital and a breakdown of its components.

Particulars		Amount (in '000)
a	Paid Up Equity Share Capital	3,267,591.72
b	Equity Share Premium	-
c	Proposed Bonus Equity Shares	-
d	Statutory General Reserves	674,046.32
e	Retained Earnings	202,296.59
f	Unaudited Current Year Cumulative Profit/(Loss)	(257,370.02)
g	Capital Redemption Reserve	26,785.71
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	-
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	-
v	Less: Cash Flow Hedge	-
w	Less: Defined Benefits Pension Assets	-
x	Less: Unrecognized Defined Benefit Pension Liabilities	-
y	Less: Negative Balances of Reserve Accounts	-
z	Less: Other Deductions	-
Total Core Capital (Tier I)		3,913,350.32

ii Tier 2 Capital and a breakdown of its components.

Particulars		Amount (in '000)
a	Cumulative and/or Redeemable Preference Share	-
b	Subordinated Term Debt	746,567.41
c	Hybrid Capital Instruments	-
d	Stock Premium	-
e	General Loan Loss provision	500,374.76
f	Exchange Equalization Reserve	907.82
g	Investment Adjustment Reserve	-
h	Other Reserves	-
Total Supplementary Capital (Tier II)		1,247,849.99

iii 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.

Shangri-La Development bank has issued "9% Shangrila Development Bank Debenture 2087" of NPR 75,00,00,000 on 2078 Ashar 06 with the tenure of 10 years. The maturity date of the debenture is 2087 Ashar 31.

Particulars		Amount (in '000)
a	Outstanding Amount of 9% of Shangrila Development Bank Debenture 2078	746,567.41

iv Deductions from capital

Not Applicable

v Total qualifying capital

Particulars		Amount (in '000)
a	Total Core Capital (Tier I)	3,913,350.32
b	Total Supplementary Capital (Tier II)	1,247,849.99
Total Capital Fund (Tier I + Tier II)		5,161,200.31

vi Capital adequacy ratio

a	Common Equity Tier 1 Capital to Total Risk Weighted Exposures	8.82%
b	Tier 1 Capital to Total Risk Weighted Exposures	8.82%
c	Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures	11.63%

vii 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.

viii 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

i Risk Weighted Exposures for Credit, Market and Operational Risk

Particulars		Amount (in '000)
a	Risk Weighted Exposure for Credit Risk	40,029,980.89
b	Risk Weighted Exposure for Operational Risk	2,535,268.80
c	Risk Weighted Exposure for Market Risk	13,014.28
Total Risk Weighted Exposures for Credit, Market and Operational Risk		42,578,263.96

ii Risk Weighted Exposure Calculation Table

Particulars		Amount (in '000)
a	Risk Weighted Exposure for Credit Risk	40,029,980.89
b	Risk Weighted Exposure for Operational Risk	2,535,268.80
c	Risk Weighted Exposure for Market Risk	13,014.28
Total Risk Weighted Exposures for Credit, Market and Operational Risk		42,578,263.96
Adjustments Under Pillar II		
a	Adjustment as per SRP 6.4a (5)	-
b	Adjustment as per SRP 6.4a (6)	-
c	Adjustment as per SRP 6.4a (7)	538,380.16
d	Adjustment as per SRP 6.4a (9)	1,277,347.92
e	Adjustment as per SRP 6.4a (10)	-
Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)		44,393,992.04

iii Risk Weighted Exposures under each Categories of Credit Risk

Particulars		Amount (in '000)
a	Claims on government and central Bank	-
b	Claims on other official entities	-
c	Claims on Banks	879,802.37
d	Claims on corporate and securities firms	9,285,102.42
e	Claims on regulatory retail portfolio	11,281,770.46
f	Claims secured by residential properties	4,243,304.54
g	Claims secured by commercial real estate	-
h	Past due claims (except for claim secured by residential properties)	2,146,636.71
i	High risk claims	7,577,861.46
j	Lending Against Securities (Bonds)	-
k	Lending Against Shares (Upto Rs. 5 Million)	476,443.27
l	Personal Hirepurchase/Personal Auto Loans (Upto Rs. 2.5 Million)	893,104.58
m	Personal Hirepurchase/Personal Auto Loans (Above Rs. 2.5 Million)	249,450.94
n	Investment in Equity and other capital instruments of institutions	746,297.15
o	Staff Loan secured by residential properties	451,132.24
p	Other Assets	1,415,719.18
q	Off Balance sheet items	383,355.57
Total Risk Weighted Exposures for Credit Risk		40,029,980.89

iv Amount of NPA's (Both Gross and Net)

Particulars		Gross Amount	Loan Loss Provision	Amount (in '000) Net Amount
a	Restructured/Reschedule Loan	-	-	-
b	Substandard Loan	498,696.52	108,708.51	389,988.01
c	Doubtful Loan	237,122.84	96,930.93	140,191.91
d	Loss Loan	718,560.92	654,503.00	64,057.92
Total		1,454,380.28	860,142.44	594,237.85

v NPA Ratios

Particulars		Gross/Net NPA	Gross/Net Advances	%
a	Gross NPA to Gross loan and Advances	1,454,380.28	44,344,188.01	3.28%
b	Net NPA to Net loan and Advances	594,237.85	42,754,626.26	1.39%

vi Movement of Non - Performing Assets

Particulars		Current Year	Previous Year	Movement
a	Restructured/Reschedule Loan	-	-	-
b	Substandard Loan	498,696.52	692,874.63	(194,178.10)
c	Doubtful Loan	237,122.84	282,887.49	(45,764.65)
d	Loss Loan	718,560.92	33,976.30	684,584.62
Total		1,454,380.28	1,009,738.42	444,641.86

vi Write off of Loans and Interest Suspense

Particulars		Current Year	Previous Year	Movement
a	Write off of Loan	1,477.49	2,199.61	(722.12)
b	Write off of Interest	-	-	-
Total		1,477.49	2,199.61	(722.12)

vii Movement of Loan Loss Provision

Particulars		Current Year	Previous Year	Movement
a	Loan Loss Provision	1,631,587.99	1,458,348.07	173,239.91

viii Movement of Interest Suspense

Particulars		Current Year	Previous Year	Movement
a	Interest Suspense	723,104.31	558,416.63	164,687.68

ix Details of additional Loan Loss Provisions

Particulars		Current Year	Previous Year	Movement
a	PG & Third Party Collateral	3,858.71	-	3,858.71

x Segregation of Investment Portfolio

Particulars		Amount (in '000)
a	Held for maturity	8,329,509.32
b	Held for trading	-
c	Available for sale	729,501.31

2. 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.

i 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.

ii Operation 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.

iii 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.

iv Credit Risk Mitigants (CRM)

Eligible CRM benefits availed.

Particulars		Amount (in '000)
a	Deposits with Bank	465,313.31
b	Gold	139,141.05
Total		604,454.37