

**Sindhu Bikas Bank Limited**  
**Condensed Consolidated Statement of Financial Position**  
At the quarter end of Chaitra, 2078

Amount in NPR, Full Figure

Particulars	Bank	
	This Quarter Ending	Immediate Previous Year Ending
<b>Assets</b>		
Cash and Cash Equivalent	1,121,902,218	805,427,268
Due from Nepal Rastra Bank	83,633,352	139,354,986
Placement with Banks and FIs	-	-
Derivative Financial Instruments	-	-
Other Trading Assets	-	-
Loans and Advances to Banks and FIs	373,758,939	628,478,272
Loans and Advances to Customers	3,485,180,294	2,926,053,692
Investment Securities	53,539,896	83,906,460
Current Tax Assets	27,780,936	20,053,742
Investment in Subsidiaries	-	-
Investment in Associates	-	-
Investment Property	77,831,247	25,756,777
Property and Equipment	195,047,736	197,052,917
Goodwill and Intangible Assets	2,227,372	2,941,292
Deferred Tax Assets	13,374,047	4,683,300
Other Assets	75,541,554	122,122,189
<b>Total Assets</b>	<b>5,509,817,591</b>	<b>4,955,830,896</b>
<b>Liabilities</b>		
Due to Banks and FIS	380,000,000	-
Due to Nepal Rasra Bank	-	-
Derivative Financial Instruments	-	-
Deposit from Customers	4,408,078,403	4,257,853,058
Borrowings	-	-
Current Tax Liabilities	18,568,398	13,695,337
Provisions	-	-
Deferred Tax Liabilities	-	-
Other Liabilities	61,837,536	46,933,702
Debt Securities Issured	-	-
Subordinated Liabilities	-	-
<b>Total Liabilities</b>	<b>4,868,484,338</b>	<b>4,318,482,096</b>
<b>Equity</b>		
Share Capital	557,456,067	557,456,067
Share Premium	-	-
Retained Earnings	(33,074,285)	20,876,320
Reserves	116,951,471	59,016,412
<b>Total Equity Attributable to Equity Holders</b>	<b>641,333,254</b>	<b>637,348,799</b>
Non Controlling Interest	-	-
<b>Total Equity</b>	<b>641,333,254</b>	<b>637,348,799</b>
<b>Total Liabilities and Equity</b>	<b>5,509,817,591</b>	<b>4,955,830,896</b>

**Sindhu Bikas Bank Limited**  
**Condensed Statement of Profit or Loss**  
At the quarter end of Chaitra, 2078

Amount in NPR, Full Figure

Particulars	Bank			
	Current Year		Previous Year Corresponding	
	This Quarter	Upto this Quarter (YTD)	This Quarter	Upto this Quarter (YTD)
Interest Income	99,799,446	311,650,146	86,869,440	252,381,834
Interest Expenses	71,166,578	192,656,366	52,360,263	142,395,638
<b>Net Interest Income</b>	<b>28,632,868</b>	<b>118,993,780</b>	<b>34,509,177</b>	<b>109,986,196</b>
Fees and Commission Income	4,231,953	17,040,829	5,849,081	20,562,448
Fees and Commission Expenses	6,722	42,295	194,763	780,548
<b>Net Fees and Commission Income</b>	<b>4,225,232</b>	<b>16,998,534</b>	<b>5,654,318</b>	<b>19,781,900</b>
<b>Net Interest, Fees and Commission Income</b>	<b>32,858,100</b>	<b>135,992,314</b>	<b>40,163,495</b>	<b>129,768,096</b>
Net Trading Income				
Other Operating Income	1,387,021	1,387,021	1,133,664	41,257,838
<b>Total Operating Income</b>	<b>34,245,121</b>	<b>137,379,334</b>	<b>41,297,160</b>	<b>171,025,934</b>
Impairment Charge/(Reversal) for Loans and other Losses	(12,608,651)	(30,786,096)	9,419,080	26,643,444
<b>Net Operating Income</b>	<b>46,853,771</b>	<b>168,165,431</b>	<b>31,878,079</b>	<b>144,382,490</b>
Personnel Expenses	19,215,468	59,356,260	15,447,164	51,975,005
Other Operating Expenses	12,887,183	35,386,084	10,870,886	31,229,922
Depreciation and Amortization	3,649,074	11,528,426	3,017,229	10,200,481
<b>Operating Profit</b>	<b>11,102,048</b>	<b>61,894,660</b>	<b>2,542,800</b>	<b>50,977,082</b>
Non-Operating Income	-	-	-	-
Non-Operating Expenses	-	-	-	-
<b>Profit Before Income and Tax</b>	<b>11,102,048</b>	<b>61,894,660</b>	<b>2,542,800</b>	<b>50,977,082</b>
Income Tax Expenses	<b>3,330,614</b>	<b>18,568,398</b>	<b>762,840</b>	<b>15,293,125</b>
Current Tax	3,330,614	18,568,398	762,840	15,293,125
Deferred Tax	-	-	-	-
<b>Profit/(Loss) For the Period</b>	<b>7,771,433</b>	<b>43,326,262</b>	<b>1,779,960</b>	<b>35,683,957</b>

**Sindhu Bikas Bank Limited**  
**Condensed Consolidated Statement of comprehensive income**  
At the quarter end of Chaitra, 2078

Amount in NPR, Full Figure

Particulars	Bank			
	Current Year		Previous Year Corresponding	
	This Quarter	Upto this Quarter (YTD)	This Quarter	Upto this Quarter (YTD)
Profit or loss for the year	7,771,433	43,326,262	1,779,960	35,683,957
<b>Other comprehensive income</b>				
<b>a) Items that will not be reclassified to Profit or loss</b>				
• Gains/(losses) from Investments in equity instruments measured at fair value	(19,464,509)	(28,969,155)	511,626	1,969,756
• Gains/(losses) on revaluation	-	-	-	-
• Actuarial gains/(losses) on defined benefit plans	-	-	-	-
• Income tax relating to above items	5,839,353	8,690,747	(153,488)	(590,927)
<b>Net other comprehensive income that will not be reclassified to profit or loss</b>	<b>(13,625,156)</b>	<b>(20,278,409)</b>	<b>358,138</b>	<b>1,378,829</b>
<b>b) Items that are or may be reclassified to profit or loss</b>				
• Gains/(losses) on cash flow hedge				
• Exchange gains/(losses) (arising from trasalating financial assets of foreign operation)				
• Income tax relating to above items				
• Reclassify to profit or loss				
<b>Net other comprehensive income that are or may be reclassified to profit or loss</b>	-	-	-	-
<b>c) Share of other comprehensive income of associate accounted as per equited method</b>				
<b>Other comprehensive income for the period, net of income tax</b>	<b>(13,625,156)</b>	<b>(20,278,409)</b>	<b>358,138</b>	<b>1,378,829</b>
<b>Total comprehensive income for the period</b>	<b>(5,853,723)</b>	<b>23,047,854</b>	<b>2,138,098</b>	<b>37,062,786</b>
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Bank	(5,853,723)	23,047,854	2,138,098	37,062,786
Non-controlling interest				
<b>Total comprehensive income for the period</b>	<b>(5,853,723)</b>	<b>23,047,854</b>	<b>2,138,098</b>	<b>37,062,786</b>
<b>Earning per share</b>				
Basic earning per share		<b>10.36</b>		<b>8.53</b>
Annualized earning per share		<b>10.36</b>		<b>8.53</b>
Diluted earning per share		<b>10.36</b>		<b>8.53</b>

## Sindhu Bikas Bank Limited

### Ratios as per NRB Directive

At the quarter end of Chaitra, 2078

Particulars	Bank			
	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)
Capital Fund to RWA		13.90%		24.66%
Non-Performing Loan(NPL)to Total Loans (As per NRB Directive)		1.65%		1.63%
Total Loss Loan Provision to Total NPL (As per NRB Directive)		136.94%		123.10%
Costs of Funds		7.10%		7.73%
Credit to Deposit Ratio (As per NRB Directive)		87.78%		63.51%
Base Rate (As per NRB Directive)		10.52%		11.94%
Interest Rate Spread (As per NRB Directive)		4.98%		6.05%

**Sidhu Bikash Bank Limited**  
**Statement of Changes in Equity**  
**For the quarter end Chaitra, 2078**

Amount in NPR, Full Figure

Particulars	Attributable to Equity-Holders of the Bank										Non-Controlling Interest	Total Equity
	Share Capital	Share Premium	General Reserve	Exchange Equalisation	Fair Value Reserve	Regulatory Reserve	Revaluation Reserve	Retained Earning	Other Reserve	Total		
<b>Balance at Shrawan 01, 2078</b>	<b>557,456,067</b>	<b>-</b>	<b>41,045,363</b>	<b>-</b>	<b>(6,168,617)</b>	<b>5,153,735</b>	<b>-</b>	<b>20,267,842</b>	<b>531,010</b>	<b>618,285,400</b>		<b>618,285,400</b>
<b>Comprehensive Income for the year</b>												
Profit for the year								43,326,262		43,326,262		43,326,262
Gains/(losses) from investment in equity instruments measured at fair value					(20,278,409)					(20,278,409)		(20,278,409)
<b>Total Comprehensive Income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(20,278,409)</b>	<b>-</b>	<b>-</b>	<b>43,326,262</b>	<b>-</b>	<b>23,047,854</b>	<b>-</b>	<b>23,047,854</b>
Transfer to Reserves during the year			8,665,252			92,855,248		(101,953,763)	433,263	-		-
Transfer from Reserves during the year					-	(5,153,735)		5,285,374	(131,639)	-		-
Share Issued										-		-
Share Based Payments										-		-
Dividend to Equity-Holders										-		-
Bonus Shares Issued	-	-						-		-		-
Cash Dividend Paid								-		-		-
Other										-		-
<b>Total Contributions by and Distributions</b>	<b>-</b>	<b>-</b>	<b>8,665,252</b>	<b>-</b>	<b>(20,278,409)</b>	<b>87,701,512</b>	<b>-</b>	<b>(53,342,126)</b>	<b>301,624</b>	<b>23,047,854</b>		<b>23,047,854</b>
<b>Balance at Chaitra end, 2078</b>	<b>557,456,067</b>	<b>-</b>	<b>49,710,616</b>	<b>-</b>	<b>(26,447,026)</b>	<b>92,855,248</b>	<b>-</b>	<b>(33,074,285)</b>	<b>832,634</b>	<b>641,333,253</b>		<b>641,333,253</b>

**Sindhu Bikas Bank Limited**  
**Details about the distributable profit**

At the quarter end of Chaitra, 2078

Amount in NPR, full figure

Particulars	Current Year
	Upto This Quarter (YTD)
<b>Opening Retained Earning</b>	20,267,842
<b>Net profit or (loss) as per statement of profit or loss</b>	43,326,262
<b>1. Appropriations</b>	
<b><u>1.1 Profit required to be appropriated to:</u></b>	(8,966,876)
a. General Reserve (-)	(8,665,252)
b. Capital Redemption Reserve (-)	-
c. Exchange Fluctuation Fund (-)	-
d. CSR Fund (-)	(433,263)
e. Employees Training Fund (-)	-
f. Other (-)	131,639
<b><u>1.2 Profit required to be transferred to Regulatory Reserve:</u></b>	(87,701,512)
a. Transferred to Regulatory Reserve (-)	(92,855,248)
b. Transferred from Regulatory Reserve (+)	5,153,735
<b>Net Profit for the period end available for distribution</b>	(33,074,285)

**Sindhu Bikas Bank Limited**  
**Condensed Consolidated Statement of cash flows**

At the quarter end of Chaitra, 2078

Amount in NPR, Full Figure

Particulars	Bank	
	Current Year Upto this Quarter (YTD)	Previous Year Corresponding Upto this Quarter (YTD)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received (+)	254,469,228	314,392,254
Fees and other income received (+)	17,040,829	24,865,300
Divided received (+)	-	-
Receipts from other operating activities (+)	752,168	-
Interest paid (-)	(192,656,366)	(197,335,303)
Commission and fees paid (-)	(42,295)	(1,321,830)
Cash payment to employees (-)	(59,356,260)	(66,589,304)
Other expense paid (-)	(35,386,084)	(44,590,861)
<b>Operating cash flows before changes in operating assets and liabilities</b>	<b>(15,178,781)</b>	<b>29,420,256</b>
<b>(Increase)/Decrease in operating assets</b>	<b>(287,155,578)</b>	<b>(1,149,149,391)</b>
Due from Nepal Rastra Bank	55,721,634	(3,362,940)
Placement with bank and financial institutions	-	-
Other trading assets	-	-
Loan and advances to bank and financial institutions	254,719,333	(218,365,451)
Loans and advances to customers	(693,616,617)	(857,655,763)
Other assets	96,020,073	(69,765,237)
<b>Increase/(Decrease) in operating liabilities</b>	<b>550,002,241</b>	<b>943,726,657</b>
Due to bank and financial institutions	380,000,000	
Due to Nepal Rastra Bank		
Deposit from customers	150,225,346	930,039,686
Borrowings	-	-
Other liabilities	19,776,896	13,686,971
<b>Net cash flow from operating activities before tax paid</b>	<b>247,667,883</b>	<b>(176,002,477)</b>
Income taxes paid (-)	(18,568,398)	(13,695,337)
<b>Net cash flow from operating activities</b>	<b>229,099,485</b>	<b>(189,697,814)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities	30,366,564	(58,839,628)
Receipts from sale of investment securities	210,950	42,108,779
Purchase of property and equipment	(8,809,325)	(12,685,343)
Receipt from the sale of property and equipment		
Purchase of intangible assets		(862,686)
Receipt from the sale of intangible assets		
Purchase of investment properties		
Receipt from the sale of investment properties	(52,074,471)	1,355,620
Interest received	29,448,498	23,645,208
Dividend received	423,902	-
<b>Net cash used in investing activities</b>	<b>(433,881)</b>	<b>(5,278,050)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipt from issue of debt securities		
Repayment of debt securities		
Receipt from issue of subordinated liabilities		
Repayment of subordinated liabilities		
Receipt from issue of shares		
Dividends paid		
Interest paid		
Other receipt/payment	87,809,346	(4,567,225)
<b>Net cash from financing activities</b>	<b>87,809,346</b>	<b>(4,567,225)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>316,474,950</b>	<b>(199,543,089)</b>
Cash and cash equivalents at beginning of the year	805,427,268	1,004,970,357
Effect of exchange rate fluctuations on cash and cash equivalents held		
<b>Cash and cash equivalents at Chaitra end, 2078</b>	<b>1,121,902,218</b>	<b>805,427,268</b>

## Notes to the Interim Financial Statements

**Sindhu Bikash Bank Limited is a first development bank, opened at Sindhupalchok district of Nepal started operation in Bhadra 24, 2067 i.e. September 9, 2010. This bank is licensed by Nepal Rastra Bank (Central Bank of Nepal) & running under the Company Act & Bank & Financial Institution Act of Nepal.**

### 1. Basis of Preparation

The Interim financial statements of the bank have been prepared as per Nepal Financial Reporting Standards (NFRS): NAS 34 Interim Financial Reporting and Carve-outs as issued by Institute of Chartered Accountant of Nepal (ICAN).

The interim financial statements of the Bank have been prepared on going concern basis and under historical conventions except where the standards require otherwise.

The consolidated financial statements are presented in functional and presentation currency of the Bank i.e. Nepalese Rupee ("NPR") which is the currency of the primary economic environment in which the Bank operates.

### 2. Statement of Compliance with NFRS

The Interim Financial Statements of the Bank have been prepared in accordance with the requirement of Nepal Financial Reporting Standards (NFRS)-NAS 34 "Interim Financial Reporting" as published by the Accounting Standards Board (ASB) Nepal and pronounced by "The Institute of Chartered Accountants of Nepal" (ICAN) and carve out issued by the Institute of Chartered Accountants of Nepal and in compliance with BAFIA 2073 and Unified Directives 2075 issued by Nepal Rastra Bank and all other applicable laws and regulations.

The formats used in the preparation of the Financial Statements and the disclosures made therein comply with the specified formats prescribed by the Nepal Rastra Bank for the Preparation, presentation and publication of Interim Financial Statements.

The Condensed Interim Financial Statement comprise of:

- Condensed Statement of Financial Position
- Condensed Statement of Profit or Loss
- Condensed Statement of Comprehensive Income
- Condensed Statement of Changes in Equity
- Condensed Statement of Cash Flows
- Notes to Interim Financial Statements and
- Ratios as per NRB Directive

#### 2.1 Reporting Period

Reporting Period is the period from the first day of Magh of any year to the last day of quarter end, i.e. Ashoj, Poush, Chaitra and Ashadh as per Nepali calendar. The financial statement thus presented is for the third quarter of the fiscal year 2078/79 i.e. period from 1st Magh 2078 to Chaitra end 2078.



## **2.2 Functional and Presentation Currency**

The Financial Statements of the Bank are presented in Nepalese Rupees (NRs), which is the functional and presentation currency of the Bank. The figures are rounded to nearest integer, except otherwise indicated.

## **2.3 Comparative Information**

Comparative information is provided in narrative and descriptive nature, if it is relevant to understand the current period's interim financial statement and re-classified wherever necessary to conform to current period presentation. Further, audited Financials has been taken into consideration for Comparison purpose.

## **3. Use of Estimates, assumptions and judgments**

The preparation of financial statements requires the management to make estimates and assumptions that are considered while reporting amounts of assets and liabilities (including contingent assets and liabilities) as of the date of the financial statements. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Future results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognized prospectively in current and future periods.

Information about assumptions and estimation that have a significant risk of resulting in a material adjustment within the next financial year are:

- Measurement of defined benefit obligations.
- Provisions, commitments and contingencies
- Determination of useful life of the property, plants and equipment.
- Assessment of the Bank's ability to continue as going concern.
- Determination of fair value of financial instruments; and property and equipment.
- Impairment of financial and non-financial assets.
- Assessment of current as well as deferred tax.
- Impairment on loans and advances (Higher of provision for loan loss calculated as per NRB and Impairment loss calculated as per NFRS as carve out issued by ICAN to be mandatorily implemented till carve out period)

## **4. Changes in accounting policies**

The Bank has applied its accounting policies consistently from year to year except for some comparatives have been grouped or regrouped to facilitate comparison, corrections of errors and any deviations from the same have been explicitly mentioned.

## **5. Significant Accounting Policies**

The accounting policies applied and method of computation followed in the preparation of the consolidated interim financial statement is in consistent with the accounting policies applied and method of computation followed in preparation of the annual financial statement.

## **5.1 Cash and Cash Equivalent**

Cash and cash equivalents include cash in hand, balances with B/FIs, money at call & short notice and highly liquid financial assets with original maturities of three months or less from the acquisition dates that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments.

## **5.2 Financial Assets and Financial Liabilities**

The Bank determines the classification of its financial instruments (assets and liabilities) at initial recognition. The classification of financial instruments is done as:

- Financial assets or liabilities held-for-trading
- Financial assets or liabilities held at fair value through profit or loss
- Financial Instruments measured at amortized cost
- Financial Investments at FVTOCI

### **8.2.1 Recognition**

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

### **8.2.2 Classification**

The classification of financial instruments at initial recognition depends on the purpose and the management’s intention for which the financial instruments are acquired and their characteristics.

#### **a. Financial assets or liabilities held-for-trading**

Financial assets / liabilities held for the purpose of selling in the short term and for which there is a recent pattern of short term profit taking. The Bank has not designated any financial assets and liabilities upon initial recognition as held for trading.

#### **b. Financial assets or liabilities designated at fair value through profit or loss**

Management designates an instrument at fair value through profit or loss upon initial recognition when the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis. The Bank has not designated any financial assets and liabilities upon initial recognition as at fair value through profit or loss.

#### **c. Financial Instruments measured at amortized cost**

These financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, such financial investments are subsequently measured at amortized cost using the Effective Interest Rate (EIR), less impairment. Amortized cost is generally calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR.

Included in this classification are loans and advances, treasury bills, government bonds and other debt securities.

**d. Financial Assets and liabilities measured at fair value through other comprehensive income.**

These investments include equity and debt securities. Equity investments classified as FVOCI are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. After initial measurement, such financial investments are subsequently measured at fair value.

**8.2.3 Measurement**

*a. Initial Measurement*

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Transaction cost in relation to financial assets and liabilities at fair value through profit or loss are recognized in Statement of Profit or Loss.

*b. Subsequent Measurement*

A financial asset or financial liability is subsequently measured either at fair value or at amortized cost based on the classification of the financial asset or liability. Financial asset or liability classified as measured at amortized cost is subsequently measured at amortized cost using effective interest rate method.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or un-collectability.

Financial assets classified at fair value are subsequently measured at fair value. The subsequent changes in fair value of financial assets at fair value through profit or loss are recognized in Statement of Profit or Loss whereas of financial assets at fair value through other comprehensive income are recognized in other comprehensive income.

**8.2.4 Derecognition**

Financial assets are de-recognized when the right to receive cash flows from the assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Bank has retained control, the assets continue to be recognized to the extent of the Bank's continuing involvement. Financial liabilities are de-recognized when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expired.

**8.2.5 Determination of Fair value**

Fair value is the amount for which an asset could be exchanged or a liability be settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The fair values are determined according to the following hierarchy as per NFRS 13:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The bank measures the fair value of an instrument using quoted prices in an active market if available. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transaction on arm's length basis.

Further, All unquoted equity investments are recorded at cost.

#### **8.2.6 Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when and only when Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under NFRSs or for gains and losses arising from a group of similar transaction such as in trading activity.

#### **8.2.7 Impairment of Financial Assets and liabilities**

Loans & Advances: The Bank recognizes impairment on loans and advances as the higher of the amount computed as per the norms prescribed by the Regulator and amount determined as per paragraph 63 of NAS -39.

Under the norms prescribed by the Regulator, impairment is provisioned from 0.25% to 100% of the outstanding balance depending on the categorization of the individual loans & advances.

For assessment of impairment under NAS 39, the Bank reviews its individually significant loans and advances at each statement of financial position date against pre-determined criteria to assess whether an impairment loss should be recorded in the income statement. The Bank has set the criteria of Significance for Individual Impairment as follows:

- i. Top 50 Customers based on the amortized cost, outstanding as at year end date
- ii. The loans those are overdue for more than 180 days as at year end date.

In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. All individually not significant loans and advances and those significant loans & advances not individually impaired are assessed collectively, in groups of assets with similar product nature (viz. Home Loan, Hire Purchase Loan, Short Term Loan, Term Loan and Personal Loan), to determine whether impairment need to be recognized due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio

(such as levels of arrears, credit utilization, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

*Financial Investments at FVOCI:*

For these financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired. The Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost.

In the case of equity investments, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized in other comprehensive income.

**8.2.8 Reversal of Impairment**

If the amount of an impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognized, the excess is written back by reducing the financial asset Impairment allowance account accordingly. The write-back is recognized in the Statement of Profit or Loss.

**8.2.9 Write-off of Financial Assets Carried At Amortized Cost**

Financial assets (and the related impairment allowance accounts) are normally written off either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realization of security.

**8.2.10 Collateral Valuation**

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Nepal Rastra Bank. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuator and audited financial statements.

**5.3 Collateral Legally Repossessed or Where Properties have Devolved to the Bank**

Legally Repossessed Collateral represents Non-Financial Assets acquired by the Bank in settlement of the overdue loans. The assets are initially recognized at fair value when acquired. The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. The proceeds are used to reduce or repay the outstanding claim. The immovable property acquired by foreclosure of collateral from defaulting customers, or which has devolved on the Bank as part settlement of debt, has not been occupied for business use.

These assets are shown as Legally Repossessed Collateral under "Other Assets."

#### **5.4 Trading Assets**

One of the categories of financial assets at fair value through profit or loss is “held for trading” financial assets. All financial assets acquired or held for the purpose of selling in the short term or for which there is a recent pattern of short term profit taking are trading assets.

#### **5.5 NFRS Carve out**

##### **Recognition and Measurement (Incurred Loss Model to measure the Impairment Loss on Loans and Advances)**

NAS 39 Para 58 requires an entity to assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss.

However, as per carve out on NAS 39 Para 58, the Bank has assessed and measured impairment loss on loan and advances as the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per paragraph 63 of NAS 39.

#### **5.6 Derivative financial Instruments: -**

Bank does not have any Derivative financial Instruments

#### **5.7 Property Plant and Equipment**

##### **5.7.1 Recognition**

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Bank applies the requirements of the Nepal Accounting Standard - NAS 16 (Property, Plant and Equipment) in accounting for these assets.

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably measured.

##### **5.7.2 Measurement**

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of an item of property, plant& equipment. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

### 5.7.3 Cost Model

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

### 5.7.4 Revaluation Model

The Bank has not applied the revaluation model to the any class of freehold land and buildings or other assets. Such properties are carried at a previously recognized GAAP Amount.

On revaluation of an asset, any increase in the carrying amount is recognized in 'Other comprehensive income' and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Profit or Loss. In this circumstance, the increase is recognized as income to the extent of previous write down. Any decrease in the carrying amount is recognized as an expense in the Statement of Profit or Loss or debited to the Other Comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset.

The decrease recognized in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

### 5.7.5 Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item, if it is probable that the future economic benefits embodied within that part will flow to the Bank and it can be reliably measured. The cost of day to day servicing of property, plant and equipment are charged to the Statement of Profit or Loss as incurred.

### 5.7.6 Depreciation

Depreciation is calculated by using the written down value method on cost or valuation of the Property & Equipment other than freehold land and leasehold properties. Depreciation on leasehold properties is calculated by using the straight line method on cost or valuation of the property. The rates of depreciations are given below:

Asset Category	Rate of Depreciation per annum (%)	
	Current Year	Previous Year
Freehold Buildings	5%	5%
Motor Vehicles	15%	15%
Computer Equipment	25%	25%
Furniture, Office Equipment	15%	15%
Leasehold Properties	20%	20%

#### **5.7.7 Changes in Estimates**

The asset's methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

#### **5.7.8 Capital Work in Progress**

These are expenses of capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalization. Capital work-in-progress would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

#### **5.7.9 Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of an asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Bank incurs in connection with the borrowing of funds.

#### **5.7.10 De-recognition**

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of property, plant and equipment is included in the Statement of Profit or Loss when the item is derecognized. When replacement costs are recognized in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognized. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost of inspections is derecognized.

### **5.8 Goodwill and Intangible Assets**

#### **5.8.1 Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance, held for use in the production or supply of goods or services, for rental to others or for administrative purposes. An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. An intangible asset is initially measured at cost. Expenditure incurred on an intangible item that was initially recognized as an expense by the Bank in previous annual Financial Statements or interim Financial Statements are not recognized as part of the cost of an intangible asset at a later date.

#### **5.8.2 Computer Software & Licenses**

Cost of purchased licenses and all computer software costs incurred, licensed for use by the Bank, which are not integrally related to associated hardware, which can be clearly identified, reliably measured, and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category 'Intangible assets' and carried at cost less accumulated amortization and any accumulated impairment losses.



### **5.8.3 Subsequent Expenditure**

Expenditure incurred on software is capitalized only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

Goodwill is measured at cost less accumulated impairment losses.

### **5.8.4 Amortization of Intangible Assets**

Intangible Assets, except for goodwill, are amortized on a straight–line basis in the Statement of Profit or Loss from the date when the asset is available for use, over the best of its useful economic life based on a pattern in which the asset’s economic benefits are consumed by the bank. Amortization methods, useful lives, residual values are reviewed at each financial year end and adjusted if appropriate. The Bank assumes that there is no residual value for its intangible assets.

### **5.8.5 De-recognition of Intangible Assets**

The carrying amount of an item of intangible asset is derecognized on disposal or when no future economic benefits are expected from its use. The gain or loss arising on de recognition of an item of intangible assets is included in the Statement of Profit or Loss when the item is derecognized.

### **5.9 Investment Property**

Investment properties include land or land and buildings other than those classified as property and equipment and non-current assets held for sale. Generally, it includes land, land and building acquired by the Bank as non-banking assets but not sold as on the reporting date. The Bank holds investment property that has been acquired through enforcement of security over the loans and advances.

Investment property is accounted for under Cost Model in the Financial Statements. Accordingly, after recognition as an asset, the property is carried at its cost, less impairment losses. If any property is reclassified to investment property due to changes in its use, fair value of such property at the date of reclassification becomes its cost for subsequent accounting.

Building situated at Charikot has been classified as investment property and accounted for under cost model, accordingly property is carried at cost less impairment losses i.e. depreciation.

### **5.10 Income Tax**

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income. The Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to tax authorities.

### **5.11 Current Tax**

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to Inland Revenue Department in respect of the current year, using the tax rates and tax laws enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years.

## **5.12 Deferred Tax**

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination, and at the time of transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and is probable that the temporary differences will not reverse in the foreseeable future.
- Deferred tax assets are recognized for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilized except: Where the deferred tax asset relating to the deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in Subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference will be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that sufficient profit will be available to allow the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority.

## **5.13 Deposits and liabilities**

Deposit and liabilities are the Bank's sources of funding. Deposits include noninterest bearing deposits, saving deposits, term deposits, call deposits and margin deposits. The estimated fair value of deposits with no stated maturity period is the amount repayable on demand. The fair value of fixed interest bearing deposits is considered as the interest receivable on these deposits plus carrying amount of these deposits. The fair value of debt securities issued is also considered as the carrying amount of these debt securities issued. Sub-ordinated liabilities are liabilities subordinated, at the event of winding up, to the claims of depositors, debt securities issued and other creditors.

As per Para 09 of NAS 39 regarding Financial Instruments recognition and measurement, EIR rate is to be used for booking such interest expense and when calculating the EIR, an entity shall estimate cash flows considering all contractual term of the financial instrument but not credit loss, which includes the fees and points received or paid, transaction costs, premiums, discounts as per the Carve Out regarding the EIR rate treatment issued by ICAN, when calculating EIR, all these transaction cost shall be considered unless it is immaterial or impracticable to do so. Since all these transaction costs cannot be identified separately for every customer and it seems impracticable, separate EIR rate has not been computed as allowed by Carve Out issued by ICAN. The Amortization is included in “Interest expenses” in the Statement of Profit or Loss.

#### **5.14 Provisions**

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking in to account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows. A provision for onerous contracts is recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Provision are not recognized for future operating losses.

Before a provision is established, the Bank recognizes any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

#### **5.15 Revenue Recognition**

As per NAS 18 “Revenue” Revenue is recognized to the extent that it is probable that the economic benefits will flow to Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

##### **5.15.1 Interest Income**

For all financial assets measured at amortized cost, interest bearing financial assets classified as available-for-sale interest income is recorded using the rate that closely approximates the EIR because the bank considers that the cost of exact calculation of effective interest rate method exceeds the benefit that would be derived from such compliance. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

Similarly interest bearing financial assets classified as Fair value through Profit and loss Effective interest is not recognized on such instruments. As transaction cost on such instruments are directly recognized in the statement of Profit and loss.

Further, as per the carve out regarding the EIR rate treatment issued by ICAN, when calculating EIR, all these shall be considered unless it is immaterial or impracticable to do so. Since all these transaction costs cannot be identified separately and separate EIR computation for every customer seems impracticable, such transaction costs of all previous years has not been considered when computing EIR. Due to impracticability, such relevant costs are ignored, due to which EIR rate equals to the rate provided to customers and therefore, income recognized by system on accrual basis has been considered as income

#### **5.15.2 Fee and Commission Income**

Fees earned for the provision of services over a period of time are accrued over that period. These fees include Service fees, commission income.

Fees and other commission income are recognized on accrual basis.

#### **5.15.3 Dividend Income**

Dividend income is on equity instruments are recognized in the statement of profit and loss within other income when the Bank's right to receive payment is established.

#### **5.15.4 Net Trading Income**

Net trading income comprises gains less losses relating to trading assets and liabilities, and includes all realized interest, dividend and foreign exchange differences as wells as unrealized changes in fair value of trading assets and liabilities.

#### **5.15.5 Net Income from other financial instrument at fair value through Profit or Loss**

Trading assets such as equity shares and mutual fund are recognized at fair value through profit or loss. No other financial instrument are designated at fair value through profit or loss. The bank has no income under the heading net income from other financial instrument at fair value through profit or loss.

#### **5.15.6 Interest Expense**

For financial liabilities measured at amortized cost using the rate that closely approximates effective interest rate, interest expense is recorded using such rate. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

#### **5.15.7 Employee Benefits**

Employee benefits include:

- Short-term employee benefits such as the following, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services:
  - i. Wages, salaries and social security contributions;
  - ii. Paid annual leave and paid sick leave;
  - iii. Profit sharing and bonuses, and

- iv. Non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;

Short term employee benefits are measured on an undiscounted basis and are expenses as the related service is provided.

- Termination Benefits
- Other long term benefit
- Post-employment benefits, such as the following:

#### **Defined Contribution Plans**

A defined contribution plan is a post-employment benefit plan under which an Bank pays fixed contribution into a separate Bank (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods, as defined in Nepal Accounting Standards – NAS 19 (Employee Benefits).

#### **Defined Benefit Plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, staff gratuity has been considered as defined benefit plans as per Nepal Accounting Standards – NAS 19 (Employee Benefits).

#### **Gratuity**

An actuarial valuation is carried out every year to ascertain the full liability under gratuity. The calculation is performed using project unit credit method. However actuarial valuation has not been done in quarterly financials and hence will be adjusted in Annual Financials.

#### **Unutilized Accumulated Leave**

Bank's liability towards the accumulated leave which is expected to be utilized beyond one year from the end of the reporting period is treated as other long term employee benefits. Bank's net obligation towards unutilized accumulated leave is calculated by discounting the amount of future benefit that employees have earned in return for their service in the current and prior periods to determine the present value of such benefits. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of Bank's obligation. The calculation is performed using the Projected Unit Credit method. Net change in liability for unutilized accumulated leave including any actuarial gain and loss are recognized in the Statement of Profit or Loss under 'Personnel Expenses' in the period in which they arise. However actuarial valuation has not been done in quarterly financials and hence will be adjusted in Annual Financials.

### **5.16 Other Operating Expenses**

Other operating expenses are accounted on accrual basis and charged to the Statement of Profit and loss unless they are of capital nature.

### **5.17 Share capital and reserves**

Share capital and reserves are different classes of equity claims. Equity claims are claims on the residual interest in the assets of the entity after deducting all its liabilities. Changes in equity during the reporting period comprise income and expenses recognized in the statement of financial performance; plus, additional contributions from holders of equity claims, minus distributions to holders of equity claims.

### **5.18 Earnings per share**

Bank presents basic and diluted Earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit and loss attributable to ordinary equity holders of Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit and loss attributable to the ordinary equity holders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, if any.

## **6. Segment Reporting**

As Per NFRS 8, an operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

Bank has identified reportable segment on basis of geographical area by the management for decision making purpose.

## **7. Events after Interim Period**

The Bank monitors and assesses events that may have potential impact to qualify as adjusting and/or non-adjusting events after the end of the reporting period. All adjusting events are adjusted in the books with additional disclosures and non-adjusting material events are disclosed in the notes with possible financial impact, to the extent ascertainable.

There are no material events that have occurred subsequent to the reporting date till the publication of this interim financial statement.

## **8. Effect of changes in the composition of the entity during the interim period including merger and acquisition**

No such change in composition has occurred.

