Nepal Bank Limited

Dharmapath, Kathmandu

Interim Financial Statement (Unaudited)

As on Poush End 2081

Condensed Statement of Financial Position (Quarterly)
As on Quarter ended Poush, 2081 (Mid-January 2025)

Figures in NPR

Assets	This Quarter Ending	Immediate Previous Year Ending
Cash and cash equivalent	13,222,480,735	8,294,659,041
Due from Nepal Rastra Bank	16,621,399,871	21,545,521,833
Placement with Bank and Financial Institutions	5,123,510,000	4,115,390,000
Derivative Financial Instrument	4,206,054,371	3,334,953,041
Other Trading Assets	162,103,177	98,304,465
Loan and advances to B/FIs	6,753,143,775	6,414,490,428
Loan and Advances to Customers	209,279,072,001	197,039,988,466
Investment Securities	81,494,699,077	73,809,706,168
Current Tax Assets	2,849,277,779	2,346,103,943
Investment in Subsidiaries	-	-
Investment in Associates	2,338,491,051	2,194,195,884
Investment Property	204,112,166	205,738,502
Property and Equipment	13,183,592,271	13,231,867,780
Goodwill and Intangible Assets	15,719,334	22,251,984
Deferred Tax Assets	-	-
Other Assets	9,391,840,693	6,826,331,534
Total Assets	**364,845,496,302**	**339,479,503,068**
Liabilities		
Due to Bank and Financial Institutions	1,852,230,546	476,582,133
Due to Nepal Rastra Bank	-	-
Derivative Financial Instruments	4,227,230,056	3,321,660,000
Deposits from Customers	305,983,478,966	283,083,745,209
Borrowings	138,100,000	-
Current Tax Liabilities	-	-
Provisions	162,473,644	99,819,578
Deferred Tax Liabilities	4,306,954,851	4,271,120,978
Other Liabilities	6,187,939,703	6,883,706,502
Debt securities issued	3,495,258,697	3,494,939,268
Subordinated Liabilities	-	-
Total Liabilities	**326,353,666,463**	**301,631,573,668**
Equity		
Share Capital	14,694,022,928	14,694,022,928
Share Premium	-	-
Retained Earnings	607,175,738	769,308,377
Reserves	23,190,631,173	22,384,598,095
Total equity attributable to equity holders	**38,491,829,839**	**37,847,929,400**
Non-controlling interest	-	-
Total Equity	**38,491,829,839**	**37,847,929,400**
Total Liabilities and Equity	**364,845,496,302**	**339,479,503,068**

Condensed Statement of Profit or Loss

For the Quarter Ended Poush, 2081 (Mid-January 2025)

Figures in NPR

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Interest Income	5,578,114,902	11,445,110,084	6,534,151,054	13,249,579,976
Interest expense	3,159,726,067	6,818,468,882	4,117,866,709	8,615,513,692
Net interest income	**2,418,388,834**	**4,626,641,203**	**2,416,284,344**	**4,634,066,284**
Fees and Commission Income	309,171,444	673,007,259	261,522,726	597,922,561
Fees and Commission Expense	63,168,302	131,676,150	25,368,292	44,117,272
Net fee and commission income	**246,003,142**	**541,331,109**	**236,154,434**	**553,805,290**
Net interest, fee and commission income	**2,664,391,976**	**5,167,972,311**	**2,652,438,778**	**5,187,871,574**
Net trading income	25,814,960	78,254,506	32,183,884	44,817,388
Other operating income	97,854,460	189,246,143	82,914,254	184,333,541
Total operating income	**2,788,061,396**	**5,435,472,960**	**2,767,536,916**	**5,417,022,503**
Impairment charge/(reversal) for loans and other losses	1,838,949,709	2,527,442,029	735,474,740	2,077,267,639
Net operating income	**949,111,687**	**2,908,030,931**	**2,032,062,176**	**3,339,754,864**
Operating Expenses				
Personnel Expense	895,563,591	1,843,844,919	986,951,596	1,882,861,224
Other Operating Expense	237,578,223	471,652,393	294,488,187	511,842,786
Depreciation and Amortization	89,729,870	175,765,821	91,929,656	182,457,253
Operating profit	(273,759,997)	416,767,798	658,692,736	762,593,600
Non-operating Income	**1,687,896**	**1,705,383**	**1,036,664**	**1,055,070**
Non-operating expense	-	-	-	-
Profit before Income tax	**(272,072,102)**	**418,473,181**	**659,729,400**	**763,648,670**
Income tax Expenses				
Current Tax	(91,386,546)	-	233,483,937	233,483,937
Deferred Tax	(39,504,903)	(42,544,466)	(21,435,950)	(59,887,066)
Profit/(loss) for the period	**(141,180,653)**	**461,017,647**	**447,681,412**	**590,051,799**

Statement of Comprehensive Income
For the Quarter ended Poush, 2081 (Mid-January 2025)

Figures in NPR

Particulars		Current Year		Previous Year Corresponding	
		This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Profit or Loss for the Period		**(141,180,653)**	**461,017,647**	**447,681,412**	**590,051,799**
Other Comprehensive Income					
a	**Items that will not be reclassified to Profit or Loss**				
	Gains / (Losses) from investment in equity instruments measured at fair value	901,609,477	787,704,151	484,108,836	370,203,509
	Gains / (Losses) on revaluation				
	Actuarial Gains / (Losses) on defined benefit plans	(338,347,399)	(526,443,020)	(188,554,779)	(376,650,400)
	Income tax relating to above items	(168,978,624)	(78,378,339)	(88,666,217)	1,934,067
	Net other Comprehensive Income that will not be reclassified to Profit or Loss	**394,283,455**	**182,882,792**	**206,887,840**	**(4,512,824)**
b	**Items that are or may be reclassified to Profit or Loss**				
	Gains (Losses) on cash flow hedge				
	Exchange gains (Losses) (arising from translating financial assets of foreign operation)				
	Income tax relating to above items				
	Net other Comprehensive Income that are or may be reclassified to Profit or Loss	-	-	-	-
c	**Share of other comprehensive income of associate accounted as per equited method**	-	-	-	-
	Other Comprehensive income for the period, net of income tax	**394,283,455**	**182,882,792**	**206,887,840**	**(4,512,824)**
Total Comprehensive income for the period		**253,102,802**	**643,900,438**	**654,569,252**	**585,538,975**
	Profit attributable to:				
	Equity shareholder of the bank	**253,102,802**	**643,900,438**	**654,569,252**	**585,538,975**
	Non-controlling interest	-	-	-	-
Total		**253,102,802**	**643,900,438**	**654,569,252**	**585,538,975**

Ratios as per NRB Directive

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Earnings Per Share				
Basic Earnings Per Share		6.27		8.03
Diluted Earnings per share		6.27		8.03
Ratio as per NRB Directives				
Tier 1 Capital to RWA		10.08%		10.43%
CET 1 Capital to RWA		10.08%		10.43%
Capital fund to RWA		12.95%		13.13%
Return on Equity		2.42%		3.18%
Return on Assets		0.26%		0.38%
Non-Performing Loan (NPL) to total loan		4.99%		4.50%
Total Loan Loss Provision to Total NPL		96.91%		97.71%
Cost of Funds		4.20%		6.43%
Credit to Deposit Ratio		72.40%		72.62%
Base Rate		6.16%		8.55%
Interest Rate Spread		3.91%		3.85%

नेपाल बैंक लिमिटेड
NEPAL BANK LIMITED

Condensed Consolidated Statement of Changes in Equity

For the Quarter Ended Poush 2081 (Mid January of 2025)

Figures in NPR

Attributable to equity holders of the Bank

Particulars	Share Capital	Share premium	General reserve	Exchange equalisation reserve	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained earning	Other reserve	Total	Non-controlling interest	Total equity
Balance at 1st Shrawan 2080	**14,694,022,928**	**-**	**7,952,622,366**	**87,340,885**	**5,696,490,660**	**3,155,001,112**	**7,743,591,321**	**389,959**	**(2,806,787,423)**	**36,522,671,808**		**36,522,671,808**
Comprehensive income for the year		-								-		-
Profit for the year								**1,656,831,829**		**1,656,831,829**		**1,656,831,829**
Other comprehensive income, net of tax										-		-
Gains/(losses) from investment in equity instruments measured at fair value.						(43,668,002)				(43,668,002)		**(43,668,002)**
Gains/(losses) on revaluation										-		-
Actuarial gains/(losses) on defined benefit plans									(253,530,445)	(253,530,445)		**(253,530,445)**
Gains/(losses) on cash flow hedges										-		-
Exchange gains/(losses) (arising from translating financial assets of foreign operation)										-		-
Total Comprehensive income for the year	-	-	-	-	-	**(43,668,002)**	-	**1,656,831,829**	**(253,530,445)**	**1,359,633,382**		**1,359,633,382**
Transfer to reserve during the year			331,366,366		132,680,939	-		-	423,866,106	887,913,411		887,913,411
Transfer from reserve during the year						-		(887,913,411)		(887,913,411)		**(887,913,411)**
Deferred tax impact of respective reserve										-		-
Transactions with owners, directly recognised in equity										-		-
share issued										-		-
Share based payment										-		-
Dividends to equity holders										-		-
Bonus shares issued		-						-		-		-
Cash dividend paid										-		-
Other		-				-		-	(34,375,790)	(34,375,790)		**(34,375,790)**
Total contributions by and distributions	**-**	**-**	**331,366,366**	**-**	**132,680,939**	**-**	**-**	**(887,913,411)**	**389,490,316**	**(34,375,790)**		**(34,375,790)**
Balance at Ashad End 2081	**14,694,022,928**	**-**	**8,283,988,731**	**87,340,885**	**5,829,171,599**	**3,111,333,110**	**7,743,591,321**	**769,308,377**	**(2,670,827,551)**	**37,847,929,400**		**37,847,929,400**

Balance at 1st Shrawan 2081	**14,694,022,928**	**-**	**8,283,988,731**	**87,340,885**	**5,829,171,599**	**3,111,333,110**	**7,743,591,321**	**769,308,377**	**(2,670,827,551)**	**37,847,929,400**		**37,847,929,400**
Comprehensive income for the year		-								-		-
Profit for the year								**461,017,647**		461,017,647		**461,017,647**
Other comprehensive income, net of tax										-		-
Gains/(losses) from investment in equity instruments measured at fair value.						551,392,906				**551,392,906**		**551,392,906**
Gains/(losses) on revaluation										-		-
Actuarial gains/(losses) on defined benefit plans									(368,510,114)	**(368,510,114)**		**(368,510,114)**
Gains/(losses) on cash flow hedges										-		-
Exchange gains/(losses) (arising from translating financial assets of foreign operation)										-		-
Total Comprehensive income for the year	-	-	-	-	-	**551,392,906**	-	**461,017,647**	**(368,510,114)**	**643,900,438**		**643,900,438**
Transfer to reserve during the year			92,203,529		349,637,255	-		(30,000,000)	236,086,769	**647,927,553**		**647,927,553**
Transfer from reserve during the year						-		(647,927,553)		**(647,927,553)**		**(647,927,553)**
Deferred tax impact of respective reserve					(54,777,267)			54,777,267		-		-
Transactions with owners, directly recognised in equity										-		-
share issued										-		-
Share based payment										-		-
Dividends to equity holders										-		-
Bonus shares issued		-						-		-		-
Cash dividend paid										-		-
Other		-				-		-	-	-		-
Total contributions by and distributions	-	-	**92,203,529**	-	**294,859,988**	-	-	**(623,150,286)**	**236,086,769**	-		-
Balance at Poush End 2081	**14,694,022,928**	**-**	**8,376,192,259**	**87,340,885**	**6,124,031,587**	**3,662,726,016**	**7,743,591,321**	**607,175,738**	**(2,803,250,894)**	**38,491,829,839**		**38,491,829,839**

Statement of Cash Flows

For the Quarter ended Poush, 2081 (Mid-January 2025)

Figures in NPR

Particulars	Up to This Quarter	Corresponding Previous Year Up to This Quarter
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	9,817,647,112	12,585,244,585
Fees and other income received	673,007,259	597,922,561
Dividend received	-	-
Receipts from other operating activities	254,066,098	227,281,064
Interest paid	(6,783,311,340)	(8,578,099,616)
Commission and fees paid	(131,676,150)	(44,117,272)
Cash payment to employees	(1,681,418,371)	(1,707,379,998)
Other expense paid	(396,363,692)	(512,226,226)
Operating cash flows before changes in operating assets and liabilities	**1,751,950,916**	**2,568,625,099**
(Increase)/Decrease in operating assets		
Due from Nepal Rastra Bank	4,924,121,961	(5,326,616,322)
Placement with Bank and Financial Institutions	(1,008,120,000)	(3,394,991,956)
Other trading assets	(63,798,712)	13,256,865
Loans and advances to bank and financial institutions	(338,653,347)	324,456,238
Loans and advances to customers	(12,275,125,833)	(3,638,385,894)
Other assets	(3,436,610,489)	(2,809,772,094)
Increase/(Decrease) in operating liabilities		
Due to bank and financial institutions	1,375,648,413	(565,032,518)
Due to Nepal Rastra Bank	-	(50,000,000)
Deposit from customers	22,899,733,757	13,668,943,446
Borrowings	138,100,000	(262,300,000)
Other liabilities	(2,217,625,287)	3,702,304,959
Net cash flow from operating activities before tax paid	**11,749,621,379**	**4,230,487,822**
Income taxes paid	(518,121,601)	(1,477,248,159)
Net cash flow from operating activities	**11,231,499,778**	**2,753,239,663**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investment securities	-	-
Receipts from sale of investment securities	(7,684,992,909)	68,944,072
Purchase of property and equipment	(47,829,105)	(68,371,265)
Receipt from the sale of property and equipment	-	215,350
Purchase of intangible assets	-	(2,474,310)
Receipt from the sale of intangible assets	-	-
Purchase of investment properties	3,486,870	27,991,165
Receipt from the sale of investment properties	1,860,534	15,343,512
Interest received	1,551,315,109	-
Dividend received	16,046,097	4,431,676

Net cash used in investing activities	**(6,160,113,404)**	**46,080,200**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt from issue of debt securities	-	-
Repayment of debt securities	-	-
Receipts from issue of subordinated liabilities	-	-
Repayment of subordinated liability	-	-
Receipts from issue of shares	-	-
Dividends paid	-	-
Interest paid	(143,564,679)	-
Other receipt/payment	-	-
Net cash from financing activities	**(143,564,679)**	**-**
Net increase (decrease) in cash and cash equivalents	**4,927,821,694**	**2,799,319,863**
Cash and cash equivalents at the beginning of the period	8,294,659,041	8,656,502,983
Effect of exchange rate fluctuations on cash and cash equivalents held	-	-
Cash and cash equivalents at the end of the period	**13,222,480,735**	**11,455,822,846**

Statement of Distributable Profit or Loss
For the Quarter Ended Poush, 2081 (Mid-January 2025)

Figures in NPR

Particulars	Poush 2081	Poush 2080
Net Profit for the Quarter end	**461,017,647**	**590,051,799**
Appropriations		
1.1 Profit required to be appropriated to statutory reserve		
a. General Reserve	(92,203,529)	(118,010,360)
b. Exchange Fluctuation Fund		
c. Capital Redemption Reserve		
d. Corporate Social Responsibility Fund	15,999,824	(79,783)
e. Employees Training Fund	(23,031,972)	(20,302,944)
f. Others	-	-
-Employee Welfare Fund	(4,610,176)	(5,900,518)
-Debenture Redemption Reserve	(194,444,444)	(194,444,444)
Profit or (loss) before regulatory adjustment	**162,727,348**	**(338,738,050)**
Profit required to be transfer to Regulatory Reserve	**(324,859,988)**	**(820,780,764)**
a. Interest receivable (-)/previous accrued interest received (+)	18,023,717	(565,536,174)
b. Short loan loss provision in accounts (-)/reversal (+)		
c. Short provision for possible losses on investment (-)/reversal (+)		
d. Short loan loss provision on Non-Banking Assets (-)/reversal (+)	849,142	8,410,689
e. Deferred tax assets recognized (-)/ reversal (+)	54,777,267	
f. Goodwill recognized (-)/ impairment of Goodwill (+)		
g. Bargain purchase gain recognized (-)/reversal (+)		
h. Actuarial loss recognized (-)/reversal (+)	(368,510,114)	(263,655,280)
i. Other		
-Fair Value of Investment Securities	-	-
-Investment Adjustment Reserve	(30,000,000)	-
- Others	-	
Net Profit for Quarter end available for distribution	**(162,132,639)**	**(569,467,015)**
Opening Retained Earnings as on Shrawan 01, 2081	769,308,377	389,959
Adjustments		
Distribution:		
Bonus shares issued	-	-
Cash Dividend paid	-	-
Total Distributable profit or (loss)	607,175,739	(569,077,054)
Annualized Distributable Profit/Loss per share	**8.26**	**(7.75)**

Notes to the Interim Financial Statements

1. Basis of Preparation

The interim financial statements of the Bank have been prepared on accrual basis of accounting except the Cash flow information which is prepared, on a cash basis, using the direct method. The interest income is recognized on effective interest rate method.

The financial statements comprise the Condensed Statement of Financial Position, Condensed Statement of Profit or Loss, Condensed Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and the Notes to the Accounts. Summary of significant accounting policies applied in preparation of financial statements are set out below in point number (5). These policies are consistently applied to all the periods presented, except for the changes in accounting policies disclosed specifically.

The interim financial statements are presented in Nepalese Currency (NPR) (rounded to the nearest Rupee unless otherwise stated), which is the bank's functional currency. The Bank determines the functional currency and items included in the financial statements are measured using that functional currency.

Reporting Period is a period from the first day of Shrawan (mid-July) of any year to the last day of quarter end i.e. Ashoj (mid-October), Poush (mid-January), Chaitra (mid-April), Ashad (mid-July) as per Nepalese calendar.

The current period refers to 1st Shrawan 2081 to 29th Poush 2081 as per Nepalese Calendar corresponding to 16th July 2024 to 13th January 2025 as per English Calendar and corresponding previous year period is 1st Shrawan 2080 to 29th Poush 2080 as per Nepalese Calendar corresponding to 17th July 2023 to 14th January 2024 as per English calendar.

Period	Nepalese Calendar	English Calendar
Current Year Period	1st Shrawan 2081 to 29th Poush 2081	16th July 2024 to 13th January 2025
Previous Year Period	1st Shrawan 2080 to 29th Poush 2080	17th July 2023 to 14th January 2024

2. Statement of Compliance with NFRSs

The interim financial statements have been prepared in accordance with Nepal Financial Reporting Standard (hereinafter referred as NFRS) and carve out laid down by the Institute of Chartered Accountant of Nepal.

The financial statements have been prepared on the going-concern basis.

The Bank presents its interim financial statements as per the format specified in directive no. (4) of unified directive issued by Nepal Rastra Bank (NRB).

3. Use of Estimates, assumptions and judgments

The preparation of the Bank's financial statement requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable estimates and underlying assumptions are reviewed on an ongoing basis.

Information about assumptions, estimates and judgment used in preparation of interim financial statements for F.Y. 2081/82 that has a significant risk of resulting in a material adjustment within the next financial year are:

- Key assumptions used in discounted cash flow projections.
- Measurement of defined benefit obligations.
- Provisions, commitments and contingencies.
- Determination of net realizable value.
- Determination of useful life of the property, plant 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.

4. Changes in accounting policies

The Bank has consistently applied the accounting policies to all periods presented in these interim financial statements except for changes in accounting policies that have been disclosed separately.

5. Significant Accounting policies

The principal accounting policies applied by the Bank in preparation of these interim financial statements are presented below. These policies have been consistently applied to all the years presented unless stated otherwise.

5.1 Basis of Measurement

The interim financial statements are prepared on the historical-cost basis except for the following material items in the statement of financial position:

- Investment property is measured at cost under deemed cost approach.
- Liabilities for cash-settled, share-based-payment arrangements are measured at fair value.
- Derivative financial instruments are measured at fair value.
- Defined benefit schemes, surpluses and deficits are measured at fair value.
- Impairment of financial asset is measured at fair value and related disposal cost.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The estimates and judgments used in the preparation of the financial statements are continuously evaluated by the Bank. Any revisions to accounting estimates are recognized prospectively in the period in which the estimates are revised and in the future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in notes that follow.

5.2 Materiality and Aggregation

In compliance with NAS 1 - Presentation of Financial Statements, each material class of similar items is presented separately in the financial Statements. Items of dissimilar nature or functions are presented separately unless they are not material. Such presentation of line items is consistent with the format issued by NRB.

5.3 Basis of consolidation

The Bank does not have any subsidiaries or special purpose entities over which it exercises control. Hence, only standalone financial statement is prepared.

5.4 Cash and cash equivalent

Cash and cash equivalents include cash at vault and money at call and short notice which are subject to an insignificant risk of changes in value including interest receivable on investment with maturity up to 3 month or less. Cash and Cash equivalent are measured at amortized cost in the statement of financial position.

Statement of Cash Flows has been prepared by using the 'Direct Method' in accordance with NAS 07- Statement of Cash Flows.

5.5 Financial assets and financial liabilities

Recognition

The Bank initially recognizes a financial asset or a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument. The Bank initially recognize loans and advances, deposits; and debt securities/ subordinated liabilities issued on the date that they are originated which is the date that the Bank becomes party to the contractual provisions of the instruments. Investments in equity instruments, bonds, debenture, Government securities, NRB bond or deposit auction, reverse repos, outright purchase are recognized on trade date at which the Bank commits to purchase/ acquire the financial assets. Regular way purchase and sale of financial assets are recognized on trade date. All financial assets and liabilities are initially recognized at their cost value and are subsequently presented as per NFRS based on the respective classification.

Classification

i. Financial Assets

The Bank classifies the financial assets as subsequently measured at amortized cost or fair value on the basis of the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The two classes of financial assets are as follows:

1. Financial assets measured at amortized cost

The Bank classifies a financial asset measured at amortized cost if both of the following conditions are met:

a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Financial asset measured at fair value

Financial assets other than those measured at amortized cost are measured at fair value. Financial assets measured at fair value are further classified into two categories as below:

a) Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss (FVTPL) if they are held for trading or are designated at fair value through profit or loss. Upon initial recognition, transaction costs are directly attributable to the acquisition are recognized in profit or loss as incurred. Such assets are subsequently measured at fair value and changes in fair value are recognized in Statement of Profit or Loss.

b) Financial assets at fair value through other comprehensive income

Investment in an equity instrument that is not held for trading and at the initial recognition, the Bank makes an irrevocable election that the subsequent changes in fair value of the instrument is to be recognized in other comprehensive income are classified as financial assets at fair value though other comprehensive income. Such assets are subsequently measured at fair value and changes in fair value are recognized in other comprehensive income.

ii. Financial Liabilities

The Bank classifies the financial liabilities as follows:

a) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as fair value through profit or loss (FVTPL) if they are held for trading or are designated at fair value through profit or loss. Upon initial recognition, transaction cost is directly attributable to the acquisition are recognized in Statement of Profit or Loss as incurred. Subsequent changes in fair value is recognized at profit or loss.

b) Financial liabilities measured at amortized cost

All financial liabilities other than measured at fair value though profit or loss are classified as subsequently measured at amortized cost using effective interest method.

Measurement

Financial assets at FVTOCI

On initial recognition, the Bank can make an irrevocable election (on an instrument-by instrument basis) to present the subsequent changes in fair value in other comprehensive income pertaining to investments in equity instruments. This election is not permitted if the equity investment is held for trading. These elected investments are initially measured at fair value. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the 'Fair Value Reserve'.

Dividends on these investments in equity instruments are recognized when the Bank's right to receive the dividends is established, i.e. when it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of dividend can be measured reliably. Dividend earned are recognized in the Statement of Profit or Loss as 'Other income' line item.

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Bank irrevocably elects on initial recognition to present subsequent changes in fair value in other comprehensive income for investments in equity instruments which are not held for trading.

Debt instruments that do not meet the amortized cost criteria or FVTOCI criteria (see above) are measured at FVTPL. In addition, debt instruments that meet the amortized cost criteria or the FVTOCI criteria but are designated as at FVTPL are measured at FVTPL.

A financial asset that meets the amortized cost criteria or debt instruments that meet the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in Statement of Profit and Loss. The net gain or loss recognized in Statement of Profit and Loss incorporates any dividend or interest earned on the financial asset and is included in the 'Other income' line item. Dividend on financial assets at FVTPL is recognized when the Bank's right to receive the dividends is established, i.e. when it is probable that the economic benefits associated with the dividend will flow to the entity; Dividend does not represent a recovery of part of cost of the investment and the amount of dividend can be measured reliably.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the bank's documented risk management or investment strategy, and information about the Company is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and NFRS 9 permits the entire combined contract to be designated as at FVTPL in accordance with NFRS 9.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in Statement of Profit or Loss. The net gain or loss recognized in Statement of Profit or Loss incorporates any interest paid on the financial liability and is included in the 'Other income' line item.

However, for non-held-for-trading financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss, in which case these effects of changes in credit risk are recognized in Statement of Profit or Loss. The remaining amount of change in the fair value of liability is always recognized in Statement of Profit or Loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are reflected immediately in retained earnings and are not subsequently reclassified to Statement of Profit or Loss.

Financial liabilities subsequently measured at amortized cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortized cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortized cost are determined based on the effective interest method. Interest expense that is not capitalized as part of costs of an asset is included in the 'Finance Expenses' line item.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

De-recognition

i. ***De-recognition of financial assets***

   The bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in such transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognized as a separate asset or liability. On de-recognition of a financial asset, the difference between the carrying amount of the asset, and the sum of

(i) The consideration received and
(ii) Any cumulative gain or loss that had been recognized in other comprehensive income is recognized in retained earnings.

The Bank enters into transactions whereby it transfers assets recognized on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example repurchase transactions.

ii. De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in Statement of Profit or Loss.

Determination of fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The fair value measurement hierarchy is as follows:

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 valuations are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 portfolios are those where there are unobservable inputs of the instruments. The inputs are not based on observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability (Level 01 valuation) nor based on a valuation technique that uses only data from observable markets (Level 02 valuation), then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out. In case the fair value is evidenced by a quoted price in an active market for an identical asset or liability (Level 01 valuation), the difference between the transaction price and fair value is recognized in profit or loss immediately.

Impairment losses on financial assets

The measurement of impairment losses across the categories of financial assets under NFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, the Bank reviews its individually significant loans and advances portfolio at each reporting date to assess whether an impairment loss should be recognized in the Statement of Profit or loss. In particular, the management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, management makes judgements about a borrower's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

A collective impairment provision is established for:

- Banks of homogeneous loans and advances that are not considered individually significant; and
- Assets of Banks that are individually significant but that were not found to be individually impaired.

Following NFRS 9, the Bank's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the Bank's ECL models that are considered accounting judgements and estimates include:

- Criteria for qualitatively assessing whether there has been a significant increase in credit risk (SICR) and if so allowances for financial assets measured on a Life Time Expected Credit Loss (LT-ECL) basis.
- Segmentation of financial assets when their ECL is assessed on a collective basis.
- Various statistical formulas and the choice of inputs used in the development of ECL models.
- Associations between macroeconomic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect of these inputs on Probability of Default (PDs), Loss Given Default (LGD) and Exposure At Default (EAD).
- Forward-looking macroeconomic scenarios and their probability weightings.
- Determining Effective interest rate; *(Bank has considered Coupon rate of loan as effective interest rate as transaction cost associated with extending credit facility is considered nominal).*

As such, the accuracy of the impairment provision depends on the model assumptions and parameters used in determining the ECL calculations.

Further, the Bank has assigned weightages for base case, best case and worst-case scenarios when assessing the probability weighted forward looking macro-economic indicators.

5.6 Trading assets

Interest income on all trading assets are considered to be incidental to the Bank's trading operations and are presented together with all other changes in fair value of trading assets and liabilities in net trading income.

Interest expense on all trading liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in fair value of trading assets and liabilities in net trading income.

5.7 Derivatives assets and derivative liabilities

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized in the income statement in Net trading income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognized in the income statement in Net trading income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the income statement.

5.8 Property and Equipment

a) Recognition and Measurement

Property and Equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Bank and the cost of the asset can be reliably measured. The cost includes expenditures that are directly attributable to the acquisition of the assets. Cost of self-constructed assets includes followings:

- Cost of materials and direct labour;
- Any other cost directly attributable to bringing the assets to the working condition for their intended use; and
- Capitalized borrowing cost

Property and equipment are measured at cost (for land using deemed cost at on the transition date) less accumulated depreciation and accumulated impairment loss if any. Neither class of the property and equipment are measured at revaluation model nor is their fair value measured at the reporting date. Subsequent expenditure is capitalized if it is probable that the future economic benefits from the expenditure will flow to the entity. Ongoing repairs and maintenance to keep the assets in working condition are expensed as incurred.

Any gain or losses on de-recognition of an item of property and equipment is recognized in profit or loss.

b) Capital work in progress

Assets in the course of construction are capitalized in the assets under capital work in progress account (CWIP). At the point when an asset is capable of operating at management's intended use, the cost of construction is transferred to the appropriate category of property, plant and equipment and depreciation commences. Where an obligation (legal or constructive) exists to dismantle or remove an asset or restore a site to its former condition at the end of its useful life, the present value of the estimated cost of dismantling, removing or restoring the site is capitalized along with the cost of acquisition or construction upon completion and a corresponding liability is recognized.

c) Depreciation

Property and equipment are depreciated from the date they are available for use on property on written down value method over estimated useful lives as determined by the Management. Depreciation is recognized in profit or loss. Land is not depreciated. Charging of depreciation is ceased from the earlier of the date from which the asset is classified as held for sale or is derecognized.

The estimated useful lives of significant items of property and equipment for current year and comparative periods are as follows:

Class of Assets	Useful Life
Building	20 years
Leasehold Properties	As per lease agreement (maximum to 10 years)
Computer and Accessories	4 years
Vehicles	5 years
Furniture fixture & Equipment	4 years
Other Assets	6.66 years

Assets costing less than NPR 2,000 are fully depreciated in the year of purchase.

5.9 Goodwill / Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The intangible asset with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Certain computer software costs are capitalized and recognized as intangible assets based on materiality, accounting prudence and significant benefits expected to flow therefrom for a period longer than one year. The estimated useful lives of significant items of intangible assets for current year and comparative periods are as follows:

Class of Assets	Useful Life
Computer Software	5 years

5.10 Investment Property

Investment property is the land or building or both held either for rental income or for capital appreciation or for both, but not for sale in ordinary course of business and owner-occupied property. The Bank holds investment property that has been acquired through the enforcement of security over the loan and advances.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred. If the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Investment property which initially measured at cost and subsequently at Cost Model. Accordingly, such properties are subsequently measured at cost less accumulated depreciation and impairment loss if any.

Investment properties are derecognized either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

5.11 Income tax

Bank is subject to tax laws of Nepal. Income Taxes have been calculated as per the provisions of the Income Tax Act, 2058. Deferred tax is recorded on temporary differences between the tax bases of assets and liabilities and their carrying amounts, at the rates that have been enacted or substantively enacted at the reporting date. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax law carry-forwards become deductible. The Bank considers the expected reversal of deferred tax liabilities and projected future taxable income making this assessment. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

Income tax comprises current and deferred tax. Income tax expense is recognized in the statement of profit and loss except to the extent it relates to items directly recognized in equity or in other comprehensive income.

Current Tax

Current tax is the amount of tax payable based on the taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of profit and loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in the countries where the Bank operates and generates taxable income. Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Deferred Tax

Deferred tax is recognized on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is determined using tax rates (and laws) enacted or substantively enacted at the reporting date and that are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are reviewed at each reporting date and reversed if it is no longer probable that the related tax benefits will be realized. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

i. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

ii. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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 differences can be utilized.

Deferred tax relating to items recognized in OCI is recognized in OCI. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5.12 Deposits, debt securities issued and subordinated liabilities

Bank deposits consist of money placed into the Bank by its customers. These deposits are made to deposit accounts such as fixed deposit accounts, savings accounts, margin deposit accounts, call deposit accounts and current accounts.

5.13 Provisions

Provisions are recognized when the bank has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and when the amount can be reliably estimated.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.
A disclosure for contingent liabilities is made where there is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- present obligation that arises from past events but is not recognized because:
    - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    - The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Commitments include the amount of purchase order (net of advances) issued to parties for completion of assets.

Provisions, contingent liabilities, contingent assets and commitments are reviewed at each reporting period. Provisions for onerous contracts are recognized when the expected benefits to be derived by the bank from a contract are lower than the unavoidable costs of meeting the future obligations under the contract.

5.14 Revenue Recognition

Revenue comprises of interest income, fees and commission, foreign exchange income, cards income, disposal income etc. Revenue is recognized to the extent it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Revenue is not recognized during the period in which its recoverability of income is not probable. The bases of incomes recognition are as below:

Interest income

Beginning from Q1 of F.Y. 2081/82, Recognition of interest income on loan and advances is based upon "NFRS 9 ECL Related Guidelines, 2024" issued by NRB. Prior to that, recognition of interest income was based upon "Guideline on Recognition of Interest Income, 2019" issued by NRB.

Modality of recognition of interest income is presented below.

Particulars	Stage-1	Stage -2	Stage -3
Criteria	Where credit has not significantly increased since Initial Recognition	Significant Increase in Credit Risk	Credit Impaired
Credit Risk	Low	Moderate to High	Significant
ECL Model	Twelve-month ECL	Lifetime ECL	Lifetime ECL
Interest Income Recognition	Interest on Gross Recognition following Accrual basis	Interest on Gross Recognition following Accrual basis	Interest on actual cash receipts basis

Fee and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset are included in measurement of effective interest rate. Other fees and commission income including management fee, service charges, syndication fee, forex transaction commission, commission of issue of letter of credit and guarantee are recognized as the related services are performed.

Dividend income

Dividend on investment in resident company is recognized when the right to receive payment is established. Dividend income are presented in net trading income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity instruments.

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions. Net trading income also includes gain on foreign exchange transaction.

Net income from other financial instrument at fair value through Profit or Loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- 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 assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in Net gain or loss on financial assets and liabilities designated at fair value through profit or loss is recognized in statement of Profit or Loss. Interest earned or incurred is accrued in Interest income or Interest expense, respectively, using the effective interest rate (EIR), while dividend income is recorded in other operating income when the right to the payment has been established.

5.15 Interest expense

Interest expense on all financial liabilities including deposits are recognized in profit or loss using effective interest rate method. Interest expense on all trading liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in fair value of trading assets and liabilities in net trading income.

5.16 Employees Benefits

a) Short Term Employee Benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is also recognized for the amount expected to be paid as bonus as required by the prevailing Bonus Act. Obligations under short term employee benefits results based on past service provided by the employee when the obligation can be estimated reliably.

Short-term employee benefits include all the following items (if payable within 12 months after the end of the reporting period):

- wages, salaries and social security contributions;
- paid annual leave and paid sick leave;
- non-monetary benefits

b) Post-Employment Benefit Plan

Post-employment benefit plan includes followings:

i. Defined Contribution Plan

A defined contribution plan is a post-employment benefit plan under which an entity pays a fixed contribution to a separate entity and has no legal or constructive obligation to pay future amounts. Obligations for contributions to defined contribution plans are recognized as personnel expense in profit or loss in the periods during which the related service are rendered by employees. Pre-paid contributions are recognized as an asset to the extent that cash refund or reduction in future payments is available. Contributions to a defined contribution plan being due for more than 12 months after the end of the period in which the employee render the service are discounted at their present value. The following are the defined contribution plan provided by the Bank to its employees:

a) Employees Provident Fund

In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Bank contribute monthly at a pre-determined rate (currently, 10% of the basic salary plus grades). Bank does not assume any future liability for provident fund benefits other than its annual contribution.

b) Contributory Gratuity Plan

With effective from 01/04/2079, contributory gratuity plan has been introduced in the bank for the new recruits. As per the plan, in case of permanent employee both the employee and the bank contribute monthly at a pre-determined rate (currently 6 % of monthly salary) and for contract employee bank contributes 8.33 % of the basic salary in the plan. Bank does not assume any future liability for such contributory plan other than its annual contribution.

ii. Defined Benefit Plan

The Bank provides Pension & Gratuity Plan, Retirement Plan and Leave Encashment Plan (in terms of Annual Leave and Sick Leave) as defined benefits to its employees. These benefits are post-employment benefit plans and are paid based on length of service. These benefit plans are funded whereas the Bank makes earmark investment of these funds.

The obligation under these plans are calculated by a qualified actuary every year using projected unit credit method. Actuarial valuation requires various assumptions including financial assumptions like discount rate, future salary escalation etc.

The following are the defined benefit plans provided by the Bank to its employees:

a) Pension Plan

The pension plan provides for lump sum payments to vested employees at retirement or equated payment till death of the employee (and half thereafter to the spouse of the employee).

b) Gratuity (Other than Contributory Gratuity)

Bank provides for gratuity on accrual basis covering eligible employees in terms of Employee Service Byelaws of the Bank. The plan provides for lump sum payments to vested employees at retirement or upon death while in employment or on termination of employment for an amount equivalent to defined days' eligible salary payable for each completed years of service. The Bank accounts for the liability for gratuity as per the actuarial valuation.

c) Retirement Benefit Plan

Bank provides retirement benefit to its employee based on length of service upon completion of vesting condition (currently 10 years of service period).

c) Termination Benefits

Termination benefits are recognized as expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal plan to provide termination benefits to employees as a result of an offer made to encourage voluntary redundancy. Termination benefits are recognized if the Banks made an offer for voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be measured reliably. If the benefits are payable in more than 12 months after the reporting date, they are discounted to their present value.

d) Other Long-Term Employee Benefits

Other employee benefits which are payable in more than 12 months after the reporting date which are not categorized under post-employment and termination benefits are categorized under Other Long-Term Employee Benefits. This includes long term Paid absences such as long service or sabbatical leave.

Leave

The employees of the Bank are entitled to carry forward a part of their unavailed/unutilized leave subject to a maximum limit. The employees can encash unavailed/unutilized leave partially in terms of Employee Service Byelaws of the Bank. The Bank accounts for the liability for accumulated leave as per the actuarial valuation.

5.17 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

The Bank as a Lessee:

NFRS 16 is first time adoption in Nepalese BFIs since 1st Shrawan 2078. Now, there is no longer distinction between operating lease and finance lease for lessee. The leases are capitalized and presented on the statement of financial position as both assets, known as right of use (ROU) asset, and lease liabilities and expenses of depreciation and interest expense on the statement of profit and loss.

Under NFRS 16, a lease is defined as a contract conveying an entity the right to utilize a specific asset for a period of time in exchange for consideration where right to obtain or control substantially all economic benefits from the use of identified asset is established except short term lease and low value assets.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the implicit interest rate / incremental borrowing rate i.e. market rate.

The Bank as a lessor

Leases in which the Bank does not transfer substantially all of the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

5.18 Foreign Currency translation

The items included in the financial statements of the entity are measured using the functional currency of the Bank which Nepalese Rupees is using the exchange rates prevailing at the dates when the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the buying rate of exchange at the balance sheet date. Any resulting exchange differences are included in the “Other Operating Income” in statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of initial transaction. Non-monetary item assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

Foreign exchange differences arising on settlement of monetary items is included in “Net Trading Income” in statement of profit or loss.

5.19 Financial guarantee and loan commitment

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

5.20 Share capital and reserves

The Bank classifies the capital instruments as equity instruments or financial liabilities in accordance with the substance with the contractual terms of the instruments. Equity is defined as residual interest in total assets of an entity after deducting all its liabilities. Common shares are classified as equity of the Bank and distributions thereon are presented in statement of changes in equity.

The Bank is required to maintain the capital adequacy ratio imposed by the regulator. The ratio is fixed at 11% for current year and the Bank has maintained the ratio as mentioned above under ratios as per NRB directive as at Poush end 2081.

Incremental costs directly attributable to issue of an equity instruments are deducted from the equity.

5.21 Earnings per share including diluted earnings

Basic earnings per share is computed by dividing the profit/ (loss) for the year by the weighted average number of equity shares outstanding during the year.

Diluted earnings per share is computed by dividing the profit/ (loss) for the year as adjusted for dividend, interest and other charges to expense or income (net of any attributable taxes) relating to the dilutive potential equity shares, by the weighted average number of equity shares considered for deriving basic earnings per share and the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares. Potential equity shares are deemed to be dilutive only if their conversion to equity shares would decrease the net profit per share from continuing ordinary operations. Potential dilutive equity shares are deemed to be converted as at the beginning of the period, unless they have been issued at a later date.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

6. Segment Information

A. Information about reportable Segment

Figures in NPR

Particulars	Banking		Treasury		Remittance		Government Transaction		All Other		Total	
	Current Quarter	Corresponding Previous year Quarter	Current Quarter	Corresponding Previous year Quarter	Current Quarter	Corresponding Previous year Quarter	Current Quarter	Corresponding Previous year Quarter	Current Quarter	Corresponding Previous year Quarter	Current Quarter	Corresponding Previous year Quarter
Revenues from external customers	9,749,819,953	11,356,775,015	1,738,626,159	1,921,246,003	183,501,172	160,348,336	44,599,567	23,243,160	670,776,524	616,096,023	12,387,323,375	14,077,708,537
Intersegment revenues	-	-	-	-	-	-	-	-	-	-	-	-
Segment Profit / (Loss) before tax	403,909,042	663,993,683	1,738,626,159	1,921,246,003	177,490,005	153,655,454	44,599,567	23,243,160	(1,903,607,127)	(1,998,489,631)	461,017,647	763,648,670
Segment Assets	219,810,565,982	190,011,364,647	93,927,248,694	65,345,317,541	-	-	1,248,619,004	538,549,465	45,652,915,406	52,324,799,182	360,639,349,086	308,220,030,835
Segment liabilities	308,003,444,441	259,059,334,467	-	-	-	-	-	-	14,122,899,125	14,767,797,951	322,126,343,566	273,827,132,418

B. Reconciliation of reportable segment profit or loss *Figures in NPR*

Particulars	Current Quarter	Corresponding Previous year Quarter
Total profit before tax for reportable segments	2,364,624,774	2,762,138,301
Profit before tax for other Segments	(1,903,607,127)	(1,998,489,631)
Elimination of inter-segment profit	-	-
Elimination of discontinued operation	-	-
Unallocated amounts:	-	-
- Other Corporate expenses		
Profit before tax	**461,017,647**	**763,648,670**

7. Related Parties disclosures

The related parties of the Bank which meets the definition of related parties as defined in "NAS 24 Related Parties Disclosure" are as follows:

7.1 Nepal Government

Nepal Government holds 51% shares in the bank and representation in the board of directors of the bank, is considered to be related party to the bank.

7.2 Key Management Personnel (KMP)

The key management personnel are those persons having authority and responsibility of planning, directing and controlling the activities of the entity, directly or indirectly including any director. The key management of the Bank includes members of its Board of Directors, Chief Executive Officer, and other higher-level employee of the Bank. The name of the key management personnel who were holding various positions in the office during the Quarter (As at Poush End 2081) is as follows:

Name of Directors

S.No.	Name	Position
1.	Dr. Chandra Bahadur Adhikari	Chairperson
2.	Mr. Than Prasad Pangyani	Director
3.	Mr. Ganga Prasad Gyawali	Director
4.	Ms. Shadhana Ghimire	Director

Composition of the Board of Directors consists of 7 members. However, the terms of Mr. Vivek S.J.B Rana, Mr. Vishnu Kumar Agrawal and Mr. Dhurba Prasad Adhikari concluded on 2081.09.28. The resulting vacancies will be filled during the upcoming Annual General Meeting.

Top Management

S.No.	Name	Post
1.	Tilak Raj Pandeya	Chief Executive Officer
2.	Samata Pant (Bhatta)	Deputy Chief Executive Officer
3.	Laxman Poudel	Assistant Chief Executive officer
4.	Bishwo Raj Baral	Assistant Chief Executive officer
5.	Prakash Kumar Adhikari	Assistant Chief Executive officer
6.	Hom Bahadur Khadka	Assistant Chief Executive officer

7.3 Compensation to Key Management Personnel

The members of Board of Directors are entitled for meeting allowances. Salary and allowances are provided to Chief Executive Officer and other member of the management team. Salary and Allowances paid to the Chief Executive Officer is based on the contract entered by the Bank with him whereas compensation paid to other members of management team are governed by Employees Byelaws and decisions made by management time to time in this regard. In addition to salaries and allowances, non-cash benefits like vehicle facility, subsidized rate employees' loan, and termination benefits are also provided to KMP.

The details relating to compensation paid to key management personnel (Director's only) are as follows:

Figures in NPR

S.No.	Particulars	Up to Poush End 2081
1.	Director's Fee	694,600
2.	Other Expenses	1,029,021
	Total	**1,723,621**

Details relating to compensation paid to key management personnel other than directors are as follows:

Figures in NPR

S.No.	Name	Up to Poush End 2081
1.	Tilak Raj Pandeya	3,450,000
2.	Samata Pant (Bhatta)	1,377,324
3.	Laxman Paudel	1,324,612
4.	Bishwo Raj Baral	1,331,886
5.	Prakash Kumar Adhikari	1,385,886
6.	Hom Bahadur Khadka	1,325,886
	Total	**10,195,594**

Note: Besides above remuneration, other facilities like staff loan facilities and vehicle facilities were provided to KMPs as per the Employee Bye law of the bank.

8. Dividend paid (aggregate or per share) separately for ordinary shares or other shares

During the reporting period bank has not distributed any dividend.

9. Issues, repurchase and repayment of debt and equity securities

No any issues, repurchase and repayment of debt and equity securities during the interim period as on Poush End 2081.

10. Events after interim period

There are no material events after reporting date affecting financial status as on Poush End 2081.

11. Effect of changes in the composition of the entity during the interim period including merger and acquisition

No such changes during the interim period as on Poush End 2081.

12. Comparative Figures

Figures of previous reporting period have been reclassified wherever necessary in order to facilitate comparison. The figures reported in interim financials are subject to change upon otherwise instructions of statutory auditor and/or regulatory authorities.

In accordance with NRB Unified Directives no. (4), annual accounts can only be made public after receiving approval from the NRB Supervision Department. The Audited financial statements for F.Y. 2080/81 have been submitted to NRB for such approval. However, as of the reporting date, clearance has not yet been obtained. Consequently, the year-end figures for the immediate previous year, as presented in this interim report, are based on the unaudited financial statements of the said period. The impact of the audited financial statements has not been reflected in this interim report. Therefore, reported figures for the immediate previous year end may be subject to change once the audited financial statements are incorporated following NRB's approval.

13. Explanatory Notes

Impairment charges and other losses

Prior to Q1 of F.Y. 2081/82, bank used to recognize impairment on loans and advances as higher of impairment calculated based upon paragraph 63 of Nepal Accounting Standard-NAS 39 and prudential norms prescribed by NRB applying Carve-out provided by The Institute of Chartered Accountants Nepal (ICAN). From Q1 of F.Y. 2081/82, bank has calculated impairment on financial assets as per NFRS 9 (ECL).

Explanatory note on same has been detailed below.

Identification and measurement of impairment of financial assets

The Bank records an allowance for ECL for loans and advances to customers, debt and other financial instruments measured at amortized cost, debt instruments measured at FVOCI, any other financial assets measured at amortized cost, loan commitments, financial guarantee contracts etc.

NFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

- **Stage 1:** A financial asset that is not originally credit impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

- **Stage 2:** If a significant increase in credit risk (SICR) since origination is identified, the financial asset is moved to Stage 2 and the Bank records an allowance for LTECL.

- **Stage 3:** If a financial asset is credit-impaired, it is moved to Stage 3 and the Bank recognizes an allowance for LTECL, with probability of default at 100%.

Purchased or originated credit impaired (POCI) financial assets:

Financial assets which are credit impaired on initial recognition are categorized within Stage 3 with a carrying value already reflecting the LTECL.

Significant Increase in Credit Risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and available qualitative information analysis, based on the Bank's historical experience and credit assessment and including forward looking information.

The Bank considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with the rebuttable presumption in NFRS 9.

The Bank individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include inter-alia:

- When the absolute lifetime PD is 5% or more
- When the relative lifetime PD is increased by 100% or more
- When the risk rating (internal or external) downgraded by 2 notches since initial recognition
- When the risk rating downgraded to non-investment grade by external credit rating agency (BB+ or below) or by bank's internal credit rating system
- When there is deterioration of relevant determinants of credit risk (e.g. future cash flows) for an individual obligor (or pool of obligors)
- When there is expectation of forbearance or restructuring due to financial difficulties
- When there is deterioration of prospects for sector or industries within which a borrower operates
- When the borrowers are affected by macroeconomic conditions based on reasonable and supportable forecasts.
- When there are modification of terms resulting in restructuring/rescheduling
- Credit Quality Indicators determined as per internal credit assessment of performing loans which are subject to individual monitoring and review, are weaker than that in the initial recognition
- Management decision to strengthen collateral and/or covenant requirements for credit exposures because of changes in the credit risk of those exposures since initial recognition.

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with SICR and assessed accordingly in ECL computations. The Bank also considers the conditions stipulated in the guidelines issued by the NRB on identifying SICR criteria for assessing credit facilities for ECL computations. The Bank regularly monitors the effectiveness of the criteria used to identify SICR to confirm that the criteria is capable of identifying SICR before an exposure is in default.

Definition of default and credit impaired assets

The Bank considers loans and advances to other customers are defaulted when:

- The borrower is unlikely to pay its obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- The borrower becomes 90 days past due on its contractual payments.

In assessing whether a borrower is in default, the Bank reviews its individually significant loans and advances above a predefined threshold at each reporting date. Further, as per "Unified NRB directive/02", Non-Performing Loans (NPL) means all the credit facilities where the contractual payments of a customer are past due for more than 90 days or has remained in excess of the sanctioned limit for more than 90 days, and any other credit facilities classified as Stage 3 credit facility under NFRS 9.

Movement between the stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on bank's assessments and also as per the Policy on Upgrading of Credit Facilities. Financial instruments are transferred out of Stage 3 when they no longer exhibit any evidence of credit impairment as described above as per the Policy on Upgrading of Credit Facilities.

The Bank has developed a comprehensive Policy on Upgrading of Credit Facilities in line with the NFRS 9-Expected Credit Loss Related Guidelines, 2024. Accordingly, credit facilities other than restructured and rescheduled facilities are upgraded to a better stage.

Transfer from Stage 2 to Stage 1:

If all due contractual payments associated with such credit facility as at the date of upgrading are fully settled.

Transfer Out of Stage 3:
Though the conditions for an exposure to be classified in Stage 3 no longer exist, the Bank continues to monitor for a minimum probationary period of 180 days to upgrade from Stage 3.

For Restructured/Rescheduled Exposures:
Restructured and rescheduled facilities are gradually upgraded upon satisfactory repayment for a stipulated period according to the policy while exercising prudence principles. The Bank monitor restructured/ rescheduled exposures classified under Stage 3 for a minimum probationary period of 24 months before upgradation.

Banking financial assets measured on collective basis
The Bank calculates ECL either on a collective or an individual basis. Those financial assets for which, the Bank determines that no provision is required under individual impairment are then collectively assessed for ECL. For the purpose of ECL calculation on collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to other customers are grouped in to homogeneous portfolios, based on a combination of product and customer characteristics.

Impairment charges as per NFRS 9
The Bank recognizes loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Placements with banks;
- Loans and advances to other customers;
- Financial assets at amortized cost-debt and other financial instruments;
- Debt instruments at fair value through other comprehensive income;
- Loan commitments and financial guarantee contracts.

No impairment loss is recognized on equity investments.

The Bank assesses the credit risk and the estimates unbiased and probability- weighted ECL, and incorporates all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

Impairment charges on loans and advances to customers
For loans and advances above a predefined threshold, the Bank individually assesses for significant increase in credit risk (SICR). If a particular loan is individually impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If the Bank determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

The Bank computes ECL using three main components; a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from developed statistical models and historical data and then adjusted to reflect forward-looking information.

- **PD-**The probability of default represents the likelihood of a borrower defaulting on its financial obligations either over the next 12-months (12m PD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due (DPD) is the primary input into the determination of the term structure of PD for exposures. DPD are determined by counting the number of days since the due date. The Bank employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

- **LGD** -The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD. The Bank applies standard haircuts and selling costs rates duly prescribed by Nepal Rastra Bank to derive realizable value of the collaterals.

- **EAD**-The exposure at default represents the expected exposure in the event of a default. The Bank estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months. To calculate EAD of all other loans, default events over the lifetime of the financial instruments are considered.

Impairment charges on financial investments
Impairment charges on financial investments include ECL on debt instruments at FVOCI and financial assets at amortised cost.

The Bank does not have historical loss experience on debt instruments at amortised cost and debt instruments at FVOCI. EAD of a debt instrument is its gross carrying amount.

Credit cards and revolving facilities
The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities. The Bank reviews the sanction limits at least annually and therefore has the right to cancel and/or reduce the limits. Therefore, the Bank calculates only the 12-month ECL (12m ECL) allowance on these facilities. The EAD is arrived by taking the maximum of either sanction limit adjusted for Credit Conversion Factor (CCF) and the gross carrying amount of the loan (utilized amount). The expected 12-month default probabilities are applied to EAD and multiplied by the expected LGD.

Undrawn loan commitments
When estimating Life Time ECL (LTECL) for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down.

Forward-looking information
The Bank incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Bank also obtained experienced credit judgement from economic outlook and Risk Management Departments to formulate a base case, a best case and a worst case scenario. The base case represents a most-likely outcome and is aligned with information used by the Bank for strategic planning and budgeting. Quantitative economic factors are based on economic data and forecasts published by the NSO, NRB, and other reliable sources and statistical models.

Drivers of Credit Risk

Parameters	*Sources*
Real GDP (% change p.a.)	National Statistics Office (NSO)
Inflation rate (% of change p.a.)	NRB
Unemployment (%)	IMF / World Bank
Interest Rate (% of change p.a.)	NRB
NEPSE Index	NEPSE

The calculation of ECLs
The Bank measures loss allowance at an amount equal to LTECL, except for following, which are measured as 12m ECL.

- Loans and advances on which credit risk has not increased significantly since the initial recognition.
- Debt instruments that are determined to have low credit risk at the reporting date.

The Bank considers a debt instrument to have a low credit risk when they have an “investment grade” credit risk rating.

ECLs are measured as follows:
Financial assets that are not credit- impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);

- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of expected cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive;

Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Financial assets that are not credit-impaired at the reporting date
As described above, the Bank calculates 12m ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to EAD and multiplied by the economic factor adjustment expected LGD and discounted by an approximation to the original EIR, if necessary. When the financial asset has shown a SICR since origination, the Bank records an allowance for LTECLs based on PDs estimated over the lifetime of the instrument.

Financial assets that are credit-impaired at the reporting date
Impairment allowance on credit-impaired financial assets assessed on individual basis is computed as the difference between the asset’s gross carrying amount and the present value of estimated future cash flows. The expected future cash flows are based on the estimate made by credit risk officers‘ as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. The Bank regularly reviews the assumptions for projecting future cash flows.

Further, the loans and advances identified as credit impaired will be assessed for impairment with 100% PD.

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, gold, Government Securities, Letters of Credit/Guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements, etc. While determining loss rate or recovery rate for the purpose of calculation of loss allowance, expected cash flows from collateral realization have been considered based on latest reliable internal/external valuations.

Write-off of financial assets

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

Scenario probability weighting

Scenario	As on Poush end 2081
Best Case	20%
Base (Normal) Case	30%
Worst Case	50%

Impairment Charge as per Expected Credit Loss (ECL) method

Figures in NPR

Particulars	As on Ashoj end 2081	As on Poush end 2081
Loans and advances to customers (A)*	3,789,946,360	6,968,765,510
Other financial assets (B)**	-	-
Off-balance sheet exposures (C)	523,183,868	588,028,518
Total impairment charges (D = A+B+C)	**4,313,130,228**	**7,556,794,028**
Investments in subsidiaries (E)	-	-
Direct write-offs (F)	-	-
Total Impairment Charge	**4,313,130,228**	**7,556,794,028**

Note:

1. **Individual assessment of Loans & Advances to customer has not been performed during the current reporting period. Hence, only collective assessment has been performed for calculation of ECL for Loans and advances to customers.*

2. **ECL calculation for loan to employees provided as per employee bye law of the bank has not been performed during the current reporting period. Impairment for such category of loan is based on management estimates.*

3. ***Bank has not calculated ECL for Other Financial Assets during the current reporting period as the amount is currently not expected to have a significant impact. Bank will periodically assess the same.*

Impairment Charge as per Staging of Financial Assets

Figures in NPR

Particulars	As on Poush end 2081			
	Stage-1	Stage -2	*Stage -3*	*Total*
Loans and advances to customers (A)	480,096,633	5,125,219,961	1,363,448,915	**6,968,765,510**
Other Financial Assets (B)				
Cash and cash equivalents	-	-	-	-
Due from Nepal Rastra Bank	-	-	-	-
Placement with Bank and Financial Institutions	-	-	-	-
Derivative Financial Instruments	-	-	-	-
Other Trading Assets	-	-	-	-

Other assets	-	-	-	-
Off-balance sheet exposures (C)	588,028,518			588,028,518
Total impairment charges (D = A+B+C)	**1,068,125,151**	**5,125,219,961**	**1,363,448,915**	**7,556,794,028**

Recognition of Impairment Charges on Loans and Advances

The Bank, following regulatory backstop as mentioned in Clause 16 of "NFRS 9- Expected Credit Loss Related Guidelines, 2024" has recognized impairment on credit exposures as the HIGHER of total ECL calculated as per NFRS 9 and existing regulatory provisions as mentioned in NRB Unified Directives no 02.

Following is the details of impairment under both methods:

Figures in NPR

Particulars	As of Poush end 2081
Total Impairment on loan and advances as per NRB Unified Directives no. (02)	10,785,363,308
Total Impairment on exposures duly calculated under ECL methods as per NFRS 9	7,556,794,028

The higher of two above, i.e. NPR 10,785,363,308 has been taken in account for impairment loss on loan and advances for the reporting period.

Disclosure as per Securities Registration and Issuance Regulation, 2073
(Related to sub-Rule (1) of Rule 26)
Quarterly Detail as of Poush end 2081 (January 13, 2025)

1. Financial Statements

A. Statement of Financial Position and statement of profit or Loss

Published along with this report.

B. Related Party Disclosure

Nepal Government holds 51% shares in the bank and has representation on the board of directors of the bank and hence it is considered to be a related party to the bank.

The directors, chief executive officer and other key management personnel are also considered to be related parties to the bank. No transaction between the bank and KMPs was observed other than as prescribed under the employee's bylaws of the bank and relating to remuneration.

C. Major Financial Highlights

a.	Earnings per Share (Annualized)	NPR 6.27	d.	Liquidity	36.34 %
b.	Market Value per Share	NPR 260.50	e.	Return on Assets	0.26 %
c.	Price Earnings Ratio	(Times) 41.51	f.	Net worth per Share	NPR 261.96

2. Management Analysis

a. Net profit up to this quarter for the current FY 2081/82 has Decrease in comparison to the same period of the previous year because of decrease in interest income and increase in impairment charges.
b. Retained Earnings has increased during current quarter of FY 2081/82 in comparison to the same period of the previous year because of transfer of amount from regulatory reserve to retained earnings as per provision of directives by NRB on Deferred tax Asset, Non-Banking Asset and Accrued Interest Income.
c. Increase in NPL and impairment charges occurred/resulted due to stagnant economy has impacted the profitability and reserves of the bank during the quarter under review.
d. The liquidity of the bank is sufficient to meet the lending opportunities. However, low credit demand in the overall banking industry during the review period has been a great concern.
e. The objective of business diversification and improvement in qualitative services covering remote area branches has resulted in banking access and financial inclusiveness along with customer-friendly services nationwide as per the need of time and client.
f. The bank is constantly improving its IT infrastructure to allow automated transactions through digital channels and make the bank more competitive, along with the initiation of procurement for new competitive CBS.
g. The bank has prepared a robust risk management and AML/CFT policy as per international norms and is implementing them thoroughly.

3. Detail relating to legal action

Bank has filed 12 cases during the quarter related to Loan Recovery and Tax disputes and no case have been filed against the bank. No notice and information have been received by the bank to date regarding any cases filed for and against promoters/directors/on account of violation of prevailing laws or commission of criminal offenses or financial crime.

4. Analysis of share transactions and progress of the bank

a. Management view on share transactions of the bank in the securities market –

Share transaction of the bank takes place in the secondary market of the Nepal Stock Exchange through open share market operation. Management ‘s view on this is neutral. Transaction volume has decreased in comparison to immediately preceding quarter.

b. Maximum, minimum, and last share price of the bank, including total number of shares traded and days of transaction during the quarter.

Maximum Price: NPR 300 Minimum Price: NPR 260.5 Last Price: NPR 260.5
Transaction volume: 3,990,065 shares Days of transaction: 55

5. Problems and Challenges

Internal

- Non-performing loan and its management.
- Increased operational cost.
- Retention of qualified and skilled human resources.
- Risk Management of increasing digitization and digital products.

External

- Concern on world economy growth amidst Russia-Ukraine war and Middle East Unrest.
- Decline in growth of Construction and Production sector.
- High Liquidity in Banking Sector.
- Difficulty in lending due to economic stagnation and low government spending.
- Regulated interest spread squeezing the margin.
- Stiff competition from other Bank and Financial Institutions.
- Fluctuation in foreign exchange rate along with increasing inflation rate.

Strategy

- Focus on controlled business growth and profit management.
- Digitize the banking services to increase operating efficiency and continue to introduce new banking products.
- Explore new sectors for the non-interest income of the bank.
- Focus on Prudent Assets and Liability Management of the bank.
- Maintain effectiveness in customer service and dealings with simplified processes.
- Focus on Risk Management and Internal Control along with compliance of applicable Rules and Regulations.

6. Corporate Governance

The Board of the bank is the apex body that is responsible and accountable to the shareholders for the maintenance of good governance in the bank.

The Risk Management Committee, which is a sub-committee of the Board, is entrusted to review the overall risks of the bank and recommend the Board and management for policy prescription when required. The Sub-committee meets regularly as and when required.

The Audit Committee, which is a sub-committee of the Board, reviews the audit reports of all the branches and departments/divisions of the bank sand gives feedback to the Board and the Senior Management.

The Staff Service Facility Committee, which is a sub-committee of the Board, reviews the facilities and services of the staffs of bank and gives feedback to the Board and the Senior Management.

The Credit Committee of the bank is the CEO-level committee comprising the senior executive representing various business functions of the bank to approve, review, and monitor the credit portfolio of the bank. This committee also recommends the credit-related proposal to the Board for approval.

The ALM Committee, which is led by the CEO, is responsible for the prudent management of the Financials of the bank. It reviews interest rate risk, liquidity risk, and market risk of the bank regularly.

The AML Committee is the committee formed under the board of directors of the bank to monitor and review the AML/CFT and CPF Activities of the Bank.

The Governance Division, which is headed by the Board Secretary, is responsible for monitoring the governance in the bank and report to the Board and concerned regulatory bodies.

7. Declaration by the Chief Executive Officer on the Truthfulness and Accuracy of information

I, as at the date, hereby individually accept responsibility for the accuracy of the information and details contained in this report. I also hereby declare that to the best of my knowledge and belief, the information contained in this report is true, accurate, and complete, and there are no other matters concealed, the omission of which shall adversely affect the informed investment decision by the investors.