Machhapuchchhre Bank Ltd.

Condensed Consolidated Statement of Financial Position (Unaudited)

As on Quarter ended 31 Ashadh 2077(15 July,2020)

	Group		Bank	
Assets	**This Quarter Ending**	**Immediate Previous Year Ending (Audited)**	**This Quarter Ending**	**Immediate Previous Year Ending (Audited)**
Cash and cash equivalent	9,778,359,842	9,442,900,351	9,778,359,842	9,442,900,351
Due from Nepal Rastra Bank	4,552,001,488	3,226,962,097	4,552,001,488	3,226,962,097
Placement with Bank and Financial Institutions	81,135,769	1,458,033,992	81,135,769	1,458,033,992
Derivative financial instruments	67,415,547	72,597,160	67,415,547	72,597,160
Other trading assets	212,019,133	358,694,537	212,019,133	358,694,537
Loan and advances to B/FIs	2,471,154,353	2,440,166,215	2,471,154,353	2,440,166,215
Loans and advances to customers	92,336,302,537	75,095,773,816	92,336,302,537	75,095,773,816
Investment securities	11,939,913,270	10,306,077,788	11,932,413,270	10,306,077,788
Current tax assets	277,885,831	208,733,311	277,848,680	209,977,311
Investment in subsidiaries	-	-	200,000,000	200,000,000
Investment in associates	-	-	-	-
Investment property	174,947,305	78,457,743	174,947,305	78,457,743
Property and equipment	1,344,551,049	1,122,933,578	1,335,804,292	1,122,933,578
Goodwill and Intangible assets	65,705,984	49,006,075	65,127,085	49,006,075
Deferred tax assets	35,021,247	21,424,000	35,126,584	21,424,000
Other assets	1,021,318,774	1,162,941,666	1,020,756,025	1,163,041,666
Total Assets	**124,357,732,130**	**105,044,702,329**	**124,540,411,911**	**105,246,046,329**
Liabilities				
Due to Bank and Financial Institutions	2,649,482,101	6,361,837,039	2,649,482,101	6,361,837,039
Due to Nepal Rastra Bank	13,723,693	1,020,524,291	13,723,693	1,020,524,291
Derivative financial instruments	-	-	-	-
Deposits from customers	103,900,036,875	84,990,980,346	104,098,899,866	85,198,402,144
Borrowing	1,214,216,233	-	1,214,216,233	-
Current Tax Liabilities	-	-	-	-
Provisions	-	-	-	-
Deferred tax liabilities	-	-	-	-
Other liabilities	2,002,032,317	1,428,430,348	1,999,565,957	1,428,411,353
Debt securities issued	2,992,929,159	-	2,992,929,159	-
Subordinated Liabilities	-	-	-	-
Total liabilities	**112,772,420,379**	**93,801,772,023**	**112,968,817,009**	**94,009,174,826**
Equity				
Share capital	8,458,477,650	8,055,693,000	8,458,477,650	8,055,693,000
Share premium	30,881,765	30,881,765	30,881,765	30,881,765
Retained earnings	938,045,679	1,299,526,005	924,328,830	1,293,467,202
Reserves	2,157,906,657	1,856,829,536	2,157,906,657	1,856,829,536
Total equity attributable to equity holders	**11,585,311,751**	**11,242,930,306**	**11,571,594,902**	**11,236,871,503**
Non-controlling interest		-	-	-
Total equity	**11,585,311,751**	**11,242,930,306**	**11,571,594,902**	**11,236,871,503**
Total liabilities and equity	**124,357,732,130**	**105,044,702,329**	**124,540,411,911**	**105,246,046,329**

Machhapuchchhre Bank Ltd.
Condensed Consolidated Statement of Profit or Loss (Unaudited)
For the Quarter ended 31 Ashad 2077(15 July,2020)

	Group				Bank			
	Current Year		Previous Year Corresponding		Current Year		Previous Year Corresponding	
Particulars	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Interest income	2,729,290,398	11,353,180,627	2,751,986,909	10,177,522,844	2,728,999,268	11,352,889,497	2,751,986,909	10,177,522,844
Interest expense	1,901,582,212	7,472,897,231	1,799,268,659	6,618,747,741	1,906,009,680	7,490,990,381	1,803,927,949	6,627,767,028
Net interest income	827,708,186	3,880,283,396	952,718,250	3,558,775,103	822,989,588	3,861,899,116	948,058,960	3,549,755,816
Fee and commission income	176,953,581	948,270,625	242,910,602	790,519,271	176,273,216	947,590,260	242,910,602	790,519,271
Fee and commission expense	59,408,468	101,239,162	26,331,744	69,975,241	59,408,468	101,239,162	26,331,744	69,975,241
Net fee and commission income	117,545,113	847,031,463	216,578,858	720,544,030	116,864,748	846,351,098	216,578,858	720,544,030
Net interest, fee and commission income	945,253,299	4,727,314,859	1,169,297,107	4,279,319,133	939,854,336	4,708,250,214	1,164,637,818	4,270,299,846
Net trading income	97,851,851	282,164,384	70,644,513	303,331,669	97,851,851	282,164,384	70,644,513	303,331,669
Other operating income	(1,682,465)	70,129,238	3,926,949	28,138,768	(1,640,465)	70,129,238	3,926,949	28,138,768
Total operating income	**1,041,422,685**	**5,079,608,482**	**1,243,868,570**	**4,610,789,570**	**1,036,065,722**	**5,060,543,836**	**1,239,209,280**	**4,601,770,283**
Impairment charge/(reversal) for loans and other losses	357,646,321	604,002,389	(50,770,210)	117,170,866	357,646,321	604,002,389	(50,770,210)	117,170,866
Net operating income	**683,776,364**	**4,475,606,093**	**1,294,638,780**	**4,493,618,705**	**678,419,401**	**4,456,541,448**	**1,289,979,491**	**4,484,599,418**
Operating expense								
Personnel expenses	266,366,668	1,504,017,422	295,323,589	1,230,381,075	265,500,934	1,501,238,703	295,730,162	1,230,381,075
Other operating expenses	243,270,025	893,269,515	263,054,720	723,913,807	241,808,685	888,605,114	262,985,394	723,550,216
Depreciation & Amortization	46,095,545	161,778,559	35,455,716	130,386,029	45,759,613	161,263,091	35,455,716	130,386,029
Operating Profit	128,044,126	1,916,540,597	700,804,756	2,408,937,793	125,350,169	1,905,434,540	695,808,219	2,400,282,097
Non operating income	1,223,766	8,068,766	770,627	121,903,001	1,223,766	8,068,766	770,627	121,903,001
Non operating expense	1,046,605	67,520,083	43,912,009	94,891,802	1,046,605	67,520,083	43,912,009	94,891,802
Profit before income tax	128,221,288	1,857,089,280	657,663,373	2,435,948,993	125,527,331	1,845,983,223	652,666,836	2,427,293,296
Income tax expense	41,372,941	597,388,509	197,896,068	732,801,947	40,340,274	593,940,498	196,396,923	730,205,054
Current Tax	23,460,301	613,932,617	233,419,393	763,508,737	22,427,633	610,484,607	231,920,248	760,911,844
Deferred Tax	17,912,641	(16,544,108)	(35,523,325)	(30,706,790)	17,912,641	(16,544,108)	(35,523,325)	(30,706,790)
Profit for the period	86,848,347	1,259,700,771	459,767,305	1,703,147,045	85,187,057	1,252,042,725	456,269,914	1,697,088,243

Condensed Consolidated Statement of Comprehensive Income

Particulars	Group				Bank			
	Current Year		Previous Year Corresponding		Current Year		Previous Year Corresponding	
	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Profit or loss for the period	86,848,347	1,259,700,771	459,767,305	1,703,147,045	85,187,057	1,252,042,725	456,269,914	1,697,088,243
Other comprehensive income								
a) Items that will not be reclassified to profit or loss								
-Gains/(losses) from investments in equity instruments measured at fair value	28,479,238	9,471,745	1,450,470	(4,996,603)	28,479,238	9,471,745	1,450,470	(4,996,603)
-Gain/(loss) on revaluation					-			
-Actuarial gain/loss on defined benefit plans	(18,110,759)	(18,110,759)	(11,459,433)	(11,459,433)	(18,110,759)	(18,110,759)	(11,459,433)	(11,459,433)
-Income tax relating to above items	(8,543,771)	(2,841,524)	(3,002,689)	4,936,811	(8,543,771)	(2,841,524)	(3,002,689)	4,936,811
Net other compressive income that will not be reclassified to profit or loss	**1,824,708**	**(11,480,538)**	**(13,011,652)**	**(11,519,225)**	**1,824,708**	**(11,480,538)**	**(13,011,652)**	**(11,519,225)**
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 compressive income that are or may be reclassified to profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
c) Share of other comprehensive income of associate accounted as per equity method	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other comprehensive income for the period, net of income tax	**1,824,708**	**(11,480,538)**	**(13,011,652)**	**(11,519,225)**	**1,824,708**	**(11,480,538)**	**(13,011,652)**	**(11,519,225)**
Total Comprehensive Income for the period	**88,673,054**	**1,248,220,234**	**446,755,653**	**1,691,627,820**	**87,011,765**	**1,240,562,187**	**443,258,261**	**1,685,569,018**
Profit attributable to:								
Equity holders of the Bank	88,673,054	1,248,220,234	446,755,653	1,691,627,820	87,011,765	1,240,562,187	443,258,261	1,685,569,018
Non-controlling interest	-	-	-	-	-	-	-	-
Total	**88,673,054**	**1,248,220,234**	**446,755,653**	**1,691,627,820**	**87,011,765**	**1,240,562,187**	**443,258,261**	**1,685,569,018**
Earnings per share								
Basic earnings per share	1.03	14.89	5.44	20.14	1.01	14.80	5.39	20.06
Annualized Basic Earnings Per Share	4.11	14.89	21.74	20.14	4.03	14.80	21.58	20.06
Diluted earnings per share	4.11	14.89	21.74	20.14	4.03	14.80	21.58	20.06

Machhapuchchhre Bank Ltd.
Condensed Consolidated Statement of Changes in Equity (Unaudited)
For the Period (17 July 2019 to 15 July 2020) ended 31 Ashad 2077
Group

	Attributable to equity holders of the Bank											
	Share Capital	Share premium	General reserve	Exchange equalization reserve	Regulatory reserve	Fair value reserve	Revaluation reserve	Retained earning	Other reserve	Total	Non-controlling interest	Total equity
Balance at Sawan 1, 2075	8,055,693,000	30,881,765	1,114,123,679	10,716,548	342,871,112	(10,213,802)	-	795,090,738	17,708,747	10,356,871,786	-	10,356,871,786
Profit for the period								1,703,147,046		1,703,147,046		1,703,147,046
Other Comprehensive income						(3,497,622)		-	(8,021,603)	(11,519,225)	-	(11,519,225)
Total comprehensive income						(3,497,622)		1,703,147,046	(8,021,603)	1,691,627,821		1,691,627,821
Contributions from and distributions to owners												
Share issued	-	-						-		-		-
Share based payments								-		-		-
Dividends to equity holders												-
Bonus shares issued	-							-		-		-
Cash dividend paid								(805,569,300)		(805,569,300)		(805,569,300)
Other	-	-	339,417,649	5,709,751	47,440,164	-	-	(393,142,477)	574,914	(0)	-	(0)
Total contributions by and distributions	-	-	339,417,649	5,709,751	47,440,164	(3,497,622)	-	504,435,268	(7,446,689)	886,058,521	-	886,058,521
Balance at 32 Ashad 2076	8,055,693,000	30,881,765	1,453,541,328	16,426,299	390,311,276	(13,711,424)	-	1,299,526,006	10,262,058	11,242,930,307	-	11,242,930,307
Balance at Sawan 1, 2076	8,055,693,000	30,881,765	1,453,541,328	16,426,299	390,311,276	(13,711,424)	-	1,299,526,006	10,262,058	11,242,930,307	-	11,242,930,307
Adjustment/Restatement								11,493,984	(11,493,984)			
Adjusted/Restated balance at Sawan 1, 2076	8,055,693,000	30,881,765	1,453,541,328	16,426,299	390,311,276	(13,711,424)	-	1,311,019,990	(1,231,925)	11,242,930,307	-	11,242,930,307
Profit for the period								1,259,700,771		1,259,700,771		1,259,700,771
Other Comprehensive income						6,630,222			(18,110,759)	(11,480,537)		(11,480,537)
Total comprehensive income						6,630,222		1,259,700,771	(18,110,759)	1,248,220,234		1,248,220,234
Contributions from and distributions to owners										-		-
Share issued								-		-		-
Share based payments								-		-		-
Dividends to equity holders										-		-
Bonus shares issued	402,784,651							(402,784,651)		0		0
Cash dividend paid								(886,126,230)		(886,126,230)		(886,126,230)
Other	-	-	250,408,545	14,015,417	69,188,606	-	-	(343,764,200)	(9,560,926)	(19,712,558)		(19,712,558)
Total contributions by and distributions	402,784,651	-	250,408,545	14,015,417	69,188,606	6,630,222	-	(372,974,310)	(27,671,685)	342,381,446	-	342,381,446
Balance at 31 Ashad end 2077	8,458,477,651	30,881,765	1,703,949,873	30,441,716	459,499,882	(7,081,202)	-	938,045,680	(28,903,610)	11,585,311,753	-	11,585,311,753

	Bank											
	Attributable to equity holders of the Bank											
	Share Capital	Share premium	General reserve	Exchange equalization reserve	Regulatory reserve	Fair value reserve	Revaluation reserve	Retained earning	Other reserve	Total	Non-controlling interest	Total equity
Adjusted/Restated balance at 1 Shrawn 2075	8,055,693,000	30,881,765	1,114,123,679	10,716,548	342,871,112	(10,213,802)	-	795,090,738	17,708,747	10,356,871,786	-	10,356,871,786
Profit for the period								1,697,088,243		1,697,088,243	-	1,697,088,243
Other Comprehensive income						(3,497,622)			(8,021,603)	(11,519,225)	-	(11,519,225)
Total comprehensive income						(3,497,622)		1,697,088,243	(8,021,603)	1,685,569,018	-	1,685,569,018
Contributions from and distributions to owners												-
Share issued								-		-	-	-
Share based payments								-		-		-
Dividends to equity holders												-
Bonus shares issued								-		-		-
Cash dividend paid								(805,569,300)		(805,569,300)	-	(805,569,300)
Other	-	-	339,417,649	5,709,751	47,440,164	-	-	(393,142,477)	574,913	(0)	-	(0)
Total contributions by and distributions	-	-	339,417,649	5,709,751	47,440,164	(3,497,622)	-	498,376,465	(7,446,690)	879,999,718	-	879,999,718
Balance at 32 Ashad 2076	8,055,693,000	30,881,765	1,453,541,328	16,426,299	390,311,276	(13,711,424)	-	1,293,467,203	10,262,057	11,236,871,504	-	11,236,871,503
Balance at Sawan 1, 2076	8,055,693,000	30,881,765	1,453,541,328	16,426,299	390,311,276	(13,711,424)	-	1,293,467,203	10,262,057	11,236,871,504	-	11,236,871,503
Adjustment/Restatement								11,493,984	(11,493,984)			
Adjusted/Restated balance at 1 Sawan 2076	8,055,693,000	30,881,765	1,453,541,328	16,426,299	390,311,276	(13,711,424)	-	1,304,961,186	(1,231,926)	11,236,871,504	-	11,236,871,503
Profit for the period								1,252,042,725		1,252,042,725		1,252,042,725
Other Comprehensive income						6,630,222			(18,110,759)	(11,480,537)		(11,480,537)
Total comprehensive income						6,630,222		1,252,042,725	(18,110,759)	1,240,562,188		1,240,562,188
Contributions from and distributions to owners										-		-
Share issued	-	-						-		-		-
Share based payments								-		-		-
Dividends to equity holders										-		-
Bonus shares issued	402,784,650							(402,784,651)		(1)		(1)
Cash dividend paid								(886,126,230)		(886,126,230)		(886,126,230)
Other	-	-	250,408,545	14,015,417	69,188,606	-	-	(343,764,200)	(9,560,926)	(19,712,558)		(19,712,558)
Total contributions by and distributions	402,784,650	-	250,408,545	14,015,417	69,188,606	6,630,222	-	(380,632,356)	(27,671,685)	334,723,399	-	334,723,399
Balance at 31 Ashad end 2077	8,458,477,650	30,881,765	1,703,949,873	30,441,716	459,499,882	(7,081,202)	-	924,328,830	(28,903,611)	11,571,594,903	-	11,571,594,902

Machhapuchchhre Bank Ltd.
Condensed Consolidated Statement of Cash Flows (Unaudited)
For the Period (17 July 2019 to 15 July 2020) ended 31 Ashad 2077

	Group		Bank	
Particular	Up to This Quarter	Corresponding Previous Year Up to this Quarter	Up to This Quarter	Corresponding Previous Year Up to this Quarter
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	10,904,628,595	9,850,604,524	10,904,628,595	9,850,604,524
Fees and other income received	947,590,260	790,519,271	947,590,260	790,519,271
Divided received	-	-	-	-
Receipts from other operating activities	355,881,846	424,495,043	355,881,846	424,495,043
Interest paid	(7,211,178,796)	(6,770,253,963)	(7,220,198,084)	(6,779,273,251)
Commission and fees paid	(101,239,162)	(69,975,241)	(101,239,162)	(69,975,241)
Cash payment to employees	(1,501,238,703)	(1,201,198,406)	(1,501,238,703)	(1,201,198,406)
Other expense paid	(976,201,346)	(723,913,807)	(975,837,756)	(723,550,216)
Operating cash flows before changes in operating assets and liabilities	**2,418,242,693**	**2,300,277,422**	**2,409,586,997**	**2,291,621,725**
(Increase)/Decrease in operating assets				
Due from Nepal Rastra Bank	(1,325,039,391)	3,869,645,721	(1,325,039,391)	3,869,645,721
Placement with bank and financial institutions	1,376,898,223	(62,730,027)	1,376,898,223	(62,730,027)
Other trading assets	151,857,017	(106,635,833)	151,857,017	(106,635,833)
Loan and advances to bank and financial institutions	(30,988,138)	(647,420,779)	(30,988,138)	(647,420,779)
Loans and advances to customers	(17,844,531,110)	(12,952,495,340)	(17,844,531,110)	(12,952,495,340)
Other assets	142,285,640	(656,558,405)	142,285,640	(656,558,405)
	(17,529,517,758)	(10,556,194,664)	(17,529,517,758)	(10,556,194,664)
Increase/(Decrease) in operating liabilities				
Due to bank and financial institutions	(3,712,354,937)	5,029,490,039	(3,712,354,937)	5,029,490,039
Due to Nepal Rastra Bank	(1,006,800,598)	382,721,807	(1,006,800,598)	382,721,807
Deposit from customers	18,693,075,923	13,848,607,704	18,900,497,722	14,056,029,503
Borrowings	1,214,216,233	-	1,214,216,233	-
Other liabilities	553,162,840	211,790,541	553,043,845	211,671,546
Net cash flow from operating activities before tax paid	15,741,299,461	19,472,610,090	15,948,602,265	19,679,912,894
Income taxes paid	(679,708,869)	(771,870,275)	(678,355,976)	(770,517,381)
Net cash flow from operating activities	**(49,684,472)**	**10,444,822,574**	**150,315,528**	**10,644,822,574**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities	(1,416,863,737)	(3,924,020,102)	(1,616,863,737)	(4,124,020,102)
Receipts from sale of investment securities	-	1,345,079,880	-	1,345,079,880
Purchase of property and equipment	(476,626,844)	(394,174,259)	(476,626,844)	(394,174,259)
Receipt from the sale of property and equipment	111,984,836	22,595,768	111,984,836	22,595,768
Purchase of intangible assets	(25,612,806)	(7,950,264)	(25,612,806)	(7,950,264)
Receipt from the sale of intangible assets	-	268,375	-	268,375
Purchase of investment properties	(96,489,562)	(53,586,919)	(96,489,562)	(53,586,919)
Receipt from the sale of investment properties	-	-	-	-
Interest received	448,260,902	400,771,482	448,260,902	400,771,482
Dividend received	4,480,543	3,207,495	4,480,543	3,207,495
Net cash used in investing activities	(1,450,866,669)	(2,607,808,543)	(1,650,866,669)	(2,807,808,543)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipt from issue of debt securities	2,992,929,159	-	2,992,929,159	-
Repayment of debt securities	-	-	-	-
Receipt from issue of subordinated liabilities	-	-	-	-
Repayment of subordinated liabilities	-	-	-	-
Receipt from issue of shares	-	-	-	-
Dividends paid	(886,126,230)	(781,143,647)	(886,126,230)	(781,143,647)
Interest paid	(270,792,297)	-	(270,792,297)	-
Other receipt/payment	-	-	-	-
Net cash from financing activities	**1,836,010,632**	**(781,143,647)**	**1,836,010,632**	**(781,143,647)**
Net increase (decrease) in cash and cash equivalents	335,459,491	7,055,870,384	335,459,491	7,055,870,384
Cash and cash equivalents at Sawan 1, 2076	9,442,900,351	2,364,190,960	9,442,900,351	2,364,190,960
Effect of exchange rate fluctuations on cash and cash equivalents held	-	22,839,007		22,839,007
Cash and Cash Equivalents at 31 Ashad 2077	**9,778,359,842**	**9,442,900,351**	**9,778,359,842**	**9,442,900,351**

Ratios as per NRB Directive

Particulars	Group				Bank			
	Current Year		Previous Year Corresponding		Current Year		Previous Year Corresponding	
	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Capital fund to RWA		13.00%		12.79%		13.00%		12.79%
Non-performing loan (NPL) to total loan		0.54%		0.37%		0.54%		0.37%
Total loan loss provision to Total NPL		305.96%		333.05%		305.96%		333.05%
Cost of Funds		6.71%		7.88%		6.71%		7.88%
Credit to Deposit Ratio		73.81%		76.98%		73.81%		76.98%
Base Rate		9.21%		10.37%		9.21%		10.37%
Interest Rate Spread		4.36%		4.27%		4.36%		4.27%

Distributable Profit Note

Particular	Amount
Net Profit for the period end 31 Ashad 2077 (4th quarter)	**1,252,042,725**
1. Appropriations	
1.1 Profit required to be appropriated to statutory reserve	**274,575,594**
a. General Reserve	250,408,545
b. Capital Redemption Reserve	-
c. Exchange Fluctuation Fund	14,015,417
d. Corporate Social Responsibity Fund	12,520,427
e. Employees Training Fund	(2,368,795)
f. Other	-
1.2 Profit required to be transfer to Regulatory Reserve	**69,188,606**
a. Transfer to Regulatory Reserve	69,188,606
b. Transfer from Regulatory Reserve	-
Net Profit for the period end 31 Ashad 2077 available for distribution	**908,278,524**

Contents

1. General Information

1.1 Reporting Entity

Machhapuchchhre Bank Limited (hereinafter referred to as "the Bank") is a public limited company, incorporated on 16 February 1998 as per the then Companies Act 1964 of Nepal, and domiciled in Nepal. The Bank obtained license from Nepal Rastra Bank on 27 September 2000. The registered office of the Bank is located at Lazimpat, Kathmandu, Nepal. The Bank is listed in Nepal Stock Exchange Limited (the sole stock exchange in Nepal) for public trading.

The principal activities of the Bank are to provide full-fledged commercial banking services including, agency services, trade finance services, card services, e-commerce products and services and commodity trading services to its customers through its strategic business units, branches, extension counters, ATMs and network of agents.

1.2 Subsidiary

The Bank has recognized Machhapuchchhre Capital Limited as a subsidiary company in which Bank held 100% controlling interest at the report date.

Machhapuchchhre Capital Limited is wholly owned subsidiary of the Bank and was incorporated on Ashwin 8, 2075 as a public limited company as per the Companies Act 2063 and licensed by Securities Board of Nepal under the Securities Businessperson (Merchant Banker) Regulations, 2008 to provide merchant banking and investment banking services.

Subsidiary	Cost as on Ashad end 2077
Machhapuchchhre Capital Limited	200,000,000

The financial year of subsidiary is same as that of the Bank.

1.3 Group

The Group" represents The Bank and its subsidiary.

2. Basis of Preparation

2.1 Basis of Preparation

The Financial Statements of the Bank have been prepared in accordance with the requirement of Nepal Financial Reporting Standards (NFRS) as published by the Accounting Standards Board (ASB) Nepal and pronounced by The Institute of Chartered Accountants of Nepal (ICAN) and in the format issued by Nepal Rastra Bank in Directive No. 4 of NRB Directives, 2076. The Group has opted for certain Carve Out which are briefly described in Notes to Accounts.

The Financial Statements comprise of:

- Condensed Consolidated Statement of Financial Position (SOFP)
- Condensed Consolidated Statement of Profit and Loss (SOPL)
- Condensed Consolidated Statement of Other Comprehensive Income (SOCI)
- Condensed Consolidated Statement of Changes in Equity (SOCE)
- Condensed Consolidated Statement of Cash Flows (SOCF)

- Notes to the Consolidated Financial Statements comprising summary of Significant Accounting Policies and explanatory notes.

2.2 Statement of Compliance

The financial statements of the group have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) as issued by Accounting Standards Board and carve out issued by the Institute of Chartered Accountants of Nepal and in compliance with BAFIA 2073 and Unified Directives 2076 issued by Nepal Rastra Bank and all other applicable laws and regulations. These policies have been consistently applied to all the years presented except otherwise stated.

2.3 Reporting Period and approval of financial statements

The Bank follows the Nepalese financial year based on the Nepalese calendar. The corresponding dates for the English calendar are as follows:

Relevant Financial Statement	Nepalese Calendar Date/Period	English Calendar Date/Period
Consolidated Statement of Financial Position	31 Ashad 2077	15 July 2020
Consolidated Statement of Profit/Loss	1 Shrawan 2076 to 31 Ashad,2077	17 July 2019 to 15 July 2020
Consolidated Statement of Other Comprehensive Income	1 Shrawan 2076 to 31 Ashad,2077	17 July 2019 to 15 July 2020
Consolidated Statement of Cash flow	1 Shrawan 2076 to 31 Ashad,2077	17 July 2019 to 15 July 2020
Consolidated Statement of Changes in Equity	1 Shrawan 2076 to 31 Ashad,2077	17 July 2019 to 15 July 2020

2.4 Functional and Presentation Currency

The Nepalese Rupees (NRs), being the currency of primary economic environment under which bank operates, has been used as the functional currency. The financial information has been presented in Nepalese Rupees and has been shown in actual figure, unless indicated otherwise.

2.5 Significant Accounting Judgments, Estimates and Assumptions

The Management of the Bank has made judgments, estimations and assumptions which affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses that is required for the preparation of financial statements in conformity with Nepal Financial Reporting Standards (NFRS). The Management believes that the estimates used in preparation of financial statements are prudent and reasonable. Estimates and underlying assumptions are reviewed on an ongoing basis. Necessary revisions to accounting estimates are recognized in the period in which such estimates are revised and in any future periods affected. Actual results may differ from these estimates.

Any revision in accounting estimate is recognized prospectively in present and future periods as required under NAS 8 Accounting Policies, Changes in Accounting Estimates and Error.

Significant estimates, assumptions and judgments used in applying accounting policies which have material effect in financial statements are:

- Impairment on loans and advances (Higher of provision for loan loss calculated as per NRB Guideline and Impairment loss calculated as per NFRS as per carve out issued by ICAN to be mandatorily implemented till carve out period)

2.6 Accounting Policies and Changes in Accounting Polices

There are different accounting principles adopted by management and these policies are consistently applied to all years presented except or changes in accounting policies that has been disclosed separately.

The Bank, under NFRS, is required to apply accounting policies to most appropriately suit its circumstances and operating environment. Further, the Bank is required to make judgments in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the financial statements. This may later be determined that a different choice could have been more appropriate. The accounting policies have been included in the relevant notes for each item of the financial statements and the effect and nature of the changes, if any, have been disclosed.

2.7 New Standards in issue but not yet effective

The Institute of Chartered Accountants of Nepal (ICAN) has pronounced Nepal Financial Reporting Standards 2018 (NFRS 2018) on 11 Ashad 2077. Accordingly, some new standards have been introduced with amendment to existing standards.

NFRSs 2018 shall introduce following standards which shall be applicable to the bank with the dates as mentioned.

Standard	Effective from	Financial Year
NFRS 9 Financial Instruments	16 July 2021	FY 2021-22
NFRS 15 Revenue from Contract with Customers	16 July 2021	FY 2021-22
NFRS 16 Leases	16 July 2021	FY 2021-22

2.7.1 NFRS 9 'Financial Instruments'- Impairment

IFRS 9 'Financial Instruments' was issued by the IASB in July 2014 and effective internationally for the financials beginning on or after 1 January 2018. Accounting Standard Board of Nepal endorsed NFRS 9 Financial Instruments with some exceptions, mainly in the Impairment. Currently, Incurred Loss Model as specified in NAS 39 is used in FY 2076-77. However, with introduction of NFRS 2018, NFRS 9 shall cover Expected Credit Loss Model which is in line with the IFRS 9 Financial Instruments.

The requirement of NFRS 9 is Expected Credit Loss Model.

Expected Credit Loss Model (ECL) of Impairment

The Expected Credit Loss (ECL) model is a forward-looking model. The ECL estimates are unbiased, probability-weighted, and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Under the general approach, NFRS 9 recognizes three stage approach to measure expected credit losses and recognized interest income.

Stage 1: 12-month ECL – No significantly increased credit risk Financial instruments that have not had a significant increase in credit risk since initial recognition require, at initial recognition a provision for ECL associated with the probability of default events occurring within the next 12 months (12-month ECL). For those financial assets with a remaining maturity of less than 12 months, a Probability of Default (PD) is used that corresponds to the remaining maturity. Interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL

Stage 2: Lifetime ECL – Significantly increased credit risk in the event of a significant increase in credit risk since initial recognition, a provision is required for the lifetime ECL representing losses over the life of the financial instrument (lifetime ECL). Interest income will continue to be recognized on a gross basis.

Stage 3: Lifetime ECL – Defaulted Financial instruments that move into Stage 3 once credit impaired and purchases of credit impaired assets will require a lifetime provision. Interest income will be calculated based on the gross carrying amount of the financial asset less ECL

The management is still assessing the potential impact on its financial statements, if Expected Credit Loss (ECL) model is introduced.

	Stage 1	**Stage 2**	**Stage 3**
Nature	12 month expected credit loss	Lifetime expected credit loss	Lifetime expected credit loss
Risk	No significant risk since initial recognition	Significant credit risk since initial recognition	Credit impaired (With objective evidence of impairment)
Nature	Performing	Underperforming	Non-performing
Interest Revenue	Effective interest on gross carrying amount	Effective interest on gross carrying amount	Effective interest on Carrying amount less ECL

2.8.1 NFRS-15: Revenue from contract with customers

NFRS 15 is a new standard for revenue recognition which overhauls the existing revenue recognition standards. The standard requires the following five step model framework to be followed for revenue recognition:

- Identification of the contracts with the customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract (as identified in step ii)
- Recognition of revenue when the entity satisfies a performance obligation.

The management is assessing the potential impact on its financial statements resulting from application of IFRS 15.

NFRS 15 Revenue from Contracts with Customers: The standard shall supersede existing NAS 18 Revenue and NAS 11 Construction Contract

2.8.2 NFRS 16 'Leases'

NFRS 16 'Leases' is effective for annual periods beginning on or after 16 July 2021. NFRS 16 is the new accounting standard for leases and will replace NAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'. The new standard removes the distinction between operating or finance leases for lessee accounting, resulting in all leases being treated as finance leases. A lessee is required to recognize a right-of-use asset (ROU) representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The main reason for this change is that this approach will result in a more comparable representation of a lessee's assets and liabilities in relation to other companies and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach.

IFRS 16 Leases has not yet been adopted by the Accounting Standard Board of Nepal.

NFRS 16 Leases: It shall supersede NAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains lease, SIC-15 Operating Lease – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

2.8 New Standards and interpretation not adopted

In preparing financial statement, Standards and pronouncement issued by Accounting Standard Board Nepal has been adopted. Management has used its assumptions and understandings for preparation of financial statements under compliance with NFRS, however, certain interpretations might vary regarding the recognition, measurement, and other related provisions where the standards are not specific and not clear.

2.9 Discounting

Discounting has been done, using the relevant discount rate, for computing the present value of a payment or stream of payments that is to be received in future in case required under NFRS for any valuations, adjustments. Market interest rates, EIR rates are used for discounting the future payments as required under the provision. It has been applied in the cases where discounting is material.

2.10 Prior Period Errors

Prior Period Errors are omissions or misstatements in an entity's financial statements. Such omissions may relate to one or more prior periods. Correction of an error is done by calculating the cumulative effect of the change on the financial statements of the period as if new method or estimate had always been used for all the affected prior years' financial statements. Sometimes such changes may not be practicable, in such cases, it is applied to the latest period possible by making corresponding adjustment to the opening balance of the period.

2.11 Materiality and Aggregation

In compliance with NFRS 1 Presentation of Financial Statements, each material class of similar items is presented separately in financial statements. Items of dissimilar nature are presented separately unless they are material.

2.12 Offsetting

Assets and liabilities, income and expense are reported separately and no assets and liabilities, or income and expense are offset unless required or permitted by NFRS.

2.13 Rounding

The statements have been rounded off to nearest Rupees in relevant assertions.

3. Summary of significant accounting policies

The principal accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, unless otherwise stated. The preparation of financial statements requires the use of certain accounting estimates. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects have been disclosed.

3.1 Basis of Measurement

The financial statements have been prepared on historical cost basis except for the following material items in the statement of financial position:

- Financial instruments at fair value through profit or loss or through OCI are measured at fair value.
- Financial instruments subsequently measured at amortized cost.
- Liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

3.2 Basis of Consolidation

3.2.1 Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method as per the requirements of NFRS 3 (Business Combinations). The Bank measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquire, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is immediately recognized in the profit or loss.

The Bank elects on a transaction by transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that the Bank incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured, and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss except for measurement period adjustment

3.2.2 Non-Controlling Interest (NCI)

Bank elects to measure any non-controlling interests for each business combination in the acquire either:

- At fair value (full goodwill method); or
- At their proportionate share of the acquirer's identifiable net assets (partial goodwill method)

Changes in the Bank's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognized in profit or loss.

3.2.3 Subsidiaries

Subsidiaries are the entities controlled by the Bank. The Bank controls an entity if it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

The Bank reassesses whether it has control if there are changes to one or more of the elements of control. The Financial Statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances as stated on Para 19 of the NFRS 10.

3.2.4 Loss of Control

When the Bank loses control over a Subsidiary, it derecognizes the assets and liabilities of the former subsidiary at its carrying value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant NFRS. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with relevant NFRS or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. The Bank recognizes the gain or loss associated with the loss of control attributable to the former controlling interest.

3.2.5 Special Purpose Entity(SPE)

Special purpose entity is a legal entity (*usually limited company of some type or, sometimes, a limited partnership*) created to fulfil narrow, specific or temporary objectives. SPEs are typically used by companies to isolate the firm from financial risk. The Bank does not have any special purpose entity as of now.

3.2.6 Transaction Elimination on Consolidation

All intra-group balances and transaction, and any unrealized income and expense (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3.3 Cash and Cash equivalent

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

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

3.4 Due from Nepal Rastra Bank

Due from Nepal Rastra Bank includes statutory balances held with Nepal Rastra Bank for compulsory cash reserve, securities purchased from Nepal Rastra Bank under resale agreement and other deposits with and receivables from Nepal Rastra Bank. Balances with central banks are carried at amortized cost in the Statement of Financial Position.

3.5 Placement with Bank and Financial Institution:

Placements with banks and financial Institutions includes placement with other banks with original maturities of more than three months from the acquisition date. Placements with banks are initially measured at fair value. After initial measurement, they are subsequently measured at amortized cost using the Effective Interest Rate (EIR), less allowance for impairment. Interest income from placements with banks is included in “Interest income” in the Statement of Profit or Loss.

3.6 Financial Assets and Financial Liabilities

3.6.1 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 are recognized on settlement date.

3.6.2 Classification

Financial instruments are classified as

- Financial Assets
- Financial Liabilities

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;

- **Financial assets measured at amortized cost**
- **Financial asset measured at fair value**

i. Financial assets measured at amortized cost

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

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

ii. 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:

- Financial assets at fair value through profit or loss.
- Financial assets at fair value through other comprehensive income

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 cost 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 its financial liabilities, other than financial guarantees and loan Commitments, as follows;

- Financial Liabilities at Fair Value through Profit or Loss
- Financial Liabilities measured at amortized cost

a) Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities are classified as fair value through profit or loss 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 Statement of Profit or Loss as incurred. except for particular liabilities designated as at FVTPL, the amount of the change in the fair value that is attributable to changes in the liability's credit risk is recognized in Other Comprehensive Income.

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.

3.6.3 Measurement

Initial Measurement

A financial asset or financial liability is measured initially at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Transaction cost in relation to financial assets and liabilities at fair value through profit or loss are recognized in Statement of Profit or Loss.

Subsequent Measurement

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

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

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

3.6.4 Derecognition

Derecognition of Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows 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 derecognition that is created or retained by the Bank is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the consideration received (including any new asset obtained less any new liability assumed) shall recognized in profit or loss.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Derecognition of Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled 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.

3.6.5 Determination of Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability be settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The fair value of a liability reflects its non-performance risk. The fair values are determined according to the following hierarchy:

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 at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognized in profit or loss on initial recognition of the instrument. In other cases the difference is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

All unquoted equity investments are recorded at cost, considering the non-trading of promoter shares up to the date of balance sheet, the market price of such shares could not be ascertained with certainty. Hence, these investments are recognized at cost net of impairment, if any.

3.6.6 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either settle them on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under NFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.6.7 Impairment

At each reporting date the Bank assesses whether there is any indication that an asset may have been impaired. If such indication exists, the recoverable amount is determined. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank considers the following factors in assessing objective evidence of impairment:

- Whether the counterparty is in default of principal or interest payments.
- When a counterparty files for bankruptcy and this would avoid or delay discharge of its obligation.
- Where the Bank initiates legal recourse of recovery in respect of a credit obligation of the counterpart.
- Where the Bank consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments.
- Where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics. Impairment test is done on annual basis for trade receivables and other financial assets based on the internal and external indication observed.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortized cost

Financial assets carried at amortized cost (such as amounts due from Banks, loans and advances to customers as well as held–to–maturity investments is impaired, and impairment losses are recognized, only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset. The amount of the loss is measured as the difference between the asset's carrying amount and the deemed recoverable value of loan.

Bank considers evidence of impairment for loans and advances and investment securities measured at amortized cost at both specific asset and collective level. Bank first assess individually whether objective evidence of impairment exists for financial assets that are individually significant and assessed on collective basis for those that are not individually significant. Loans and advances to customers with significant value are assessed for individual impairment test. The recoverable value of loan is estimated on the basis of realizable value of collateral and the conduct of the borrower/past experience of the bank.

If there is objective evidence that impairment loss has been incurred, the amount of loss is measured at the difference between asset's carrying amount and present value of estimated future cash flows. Carrying amount of the asset is reduced through the use of an allowance account and amount of loss is recognized in profit or loss. All individually significant loans and advances and investment securities are assessed for specific impairment. Those not found to be specifically impaired are collectively assessed for impairment by grouping together loan and advances and held to maturity with similar risk characteristics.

Assets that are individually assessed and for which no impairment exists are grouped with financial assets with similar credit risk characteristics and collectively assessed for impairment. The credit risk statistics for each group of the loan and advances are determined by management prudently being based on the past experience. For the purpose of collective assessment of impairment bank has categorized assets in to four broad products as follows:

1. Term Loan
2. Auto Loan
3. Home Loan
4. Overdraft

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the other reserves and funds (impairment reserve) in other comprehensive income and statement of changes in equity. If a future write–off is later recovered, the recovery is credited to the 'Income Statement'.

Loan Loss Provision as per direction of Nepal Rastra Bank

Loan loss provisions in respect of non-performing loans and advances are based on management's assessment of the degree of impairment of the loans and advances, subject to the minimum provisioning level prescribed in relevant NRB guidelines. Provision is made for possible losses on loans and advances including bills purchased at 1% to 100% on the basis of classification of loans and advances, overdraft and bills purchased in accordance with NRB directives.

Policies Adopted

The bank adopts carve out issued by ICAN for measurement of impairment loss on loans and advances. As per the Carve out notice issued by ICAN, the Bank has measured impairment loss on loan and advances as the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per paragraph 63 of NAS 39.

Impairment of investment in equity instrument classified as fair value though other comprehensive income

Where objective evidence of impairment exists for financial assets measured at FVTOCI except investment in equity instrument, the cumulative loss (measured as the difference between the amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of profit or loss) is reclassified from equity and recognised in the profit or loss. A significant or prolonged decline in the fair value of an equity security below its cost is considered, among other factors in assessing objective evidence of impairment for equity securities.

3.7 Trading Asset and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as a part of a portfolio that is managed together for short term profit or position taking.

Trading assets and liabilities are initially recognized at fair value and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss as regarded as fair value through profit & loss account.

3.8 Derivative financial Instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk, indices etc. Derivatives are categorized as trading unless they are designated as hedging instruments. All derivatives are initially recognized and subsequently measured at fair value, with all revaluation gains or losses recognized in the Statement of Profit or Loss under Operating Income. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value is determined using the closing rates ruling on the reporting date.

3.9 Property, Plant and Equipment

Recognition

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Bank applies the requirements of the NAS 16 Property, Plant and Equipment in accounting for these assets. Property, plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes purchase price including any non-refundable taxes after deducting volume rebates and trade discounts and such other costs that are incurred to bring asset to location and condition to be operating in a manner intended by management.

Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of an item of property, plant & equipment. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Cost Model

Property and equipment is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment loss. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met. Bank has adopted cost model for entire class of property and equipment. The items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment loss.

Revaluation Model

On revaluation of an asset, any increase in the carrying amount is recognized in 'Other comprehensive income' and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Profit or Loss. In this circumstance, the increase is recognized as income to the extent of previous write down. Any decrease in the carrying amount is recognized as an expense in the Statement of Profit or Loss or debited to the Other Comprehensive Income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under revaluation reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

The Bank has not applied the revaluation model to the class of freehold land and buildings or other assets.

Subsequent Cost

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

Derecognition

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

Depreciation

Depreciation is calculated by using the straight line method (SLM) on cost or carrying value of property, plant & equipment other than freehold land. Land is not depreciated as it has indefinite useful life. Management has determined the expected life of the fixed assets for depreciation purpose as follows:

S.N.	Assets Types	Expected useful life (Years)
1	Building	50
2	Vehicle	7
3	Furniture Wooden	8
4	Furniture Metal	10
5	Office Equipment	10
6	Computers	5
7	Generators and Others	10
8	ATM	7
9	Battery	3

The depreciation on the assets purchased and capitalized during the current year has been accounted from the next month of purchase. In case of assets being sold and written off, the depreciation is charged up to the previous month of disposal and gain or loss on the sales transaction is accounted for.

a) Depreciation for income tax purpose is calculated separately at the rate and manner prescribed by the Income Tax Act, 2058.

b) Assets with a unit value of NPR 10,000 or less are expensed-off during the year of purchase irrespective of its useful life.

c) Leasehold improvements are depreciation over the lease period or 10 years whichever is lower.

d) Software, licenses are amortized over a period of useful life and in case useful life cannot be ascertained the bank has the policy to amortize the cost in five years.

Changes in Estimates

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

Capital Work in Progress

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

3.10 Intangible Assets and Goodwill

Recognition

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

Computer Software

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

Goodwill

Goodwill, if any that arises upon the acquisition of Subsidiaries is included in intangible assets.

Subsequent Expenditure

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

Amortization of Intangible Assets

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

Derecognition of Intangible Assets

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

3.11 Government Grant

Government grant is recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Income approach is followed in recording grant income.

Government grants related to the assets including non monetary grants at fair value is presented in the statement of financial position by setting up Deferred Grant Income.

Grants related to income are presented as part of profit or loss under other income.

During the period the Bank has received grant from Sakchyam Access to Finance for Poor Challenge Fund (AFPCF or the Project) Programme is an initiative funded by UK Aid.

3.12 Investment Property / Non Current Asset held for sale

Investment properties include land or land and buildings other than those classified as property and equipment and non-current assets held for sale. They are either held for rental income or for capital appreciation or for both, but not for sale in ordinary course of business and owner occupied property. Generally, it includes land, land and building acquired by the Bank as non-banking assets but not sold as on the reporting date. They have been valued at cost or fair value whichever is lower.

The Bank holds investment property that has been acquired through enforcement of security over the loans and advances. Accordingly, Investment properties include the assets obtained as security for loans & advances and subsequently taken over by the Bank in the course of loan recovery.

Non-Current Assets Held for Sale

Non-current assets (such as property) and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell if their carrying amount is recovered principally through sale rather than continuing use. They are recognized and measured when:

(i) Their carrying amounts will be recovered principally through sale;
(ii) They are available-for-sale in their present condition; and
(iii) Their sale is highly probable.

Any impairment loss on initial classification and subsequent measurement is recognized as expense. Also, any increase in fair value less cost to sell (not exceeding the accumulated impairment loss that has been previously recognized) is recognized in profit or loss. Immediately before the initial classification as held for sale, the carrying amounts of the assets (or assets and liabilities in a disposal group) are measured in accordance with the applicable accounting policies described above.

3.13 Due to Banks and Financial Institution

Due to banks represents credit balances in Nostro Accounts, short-term borrowings from banks, deposit accepted from “D” class financial Institutions. These are initially recognized at fair value. Subsequent to initial recognition, these are measured at their amortized cost. As per the Carve Out regarding the EIR rate treatment issued by ICAN, when calculating EIR, all these transaction cost shall be considered unless it is immaterial or impracticable to do so. Since all these transaction costs cannot be identified separately for every customer and it seems impracticable, separate EIR rate has not been computed as allowed by Carve Out issued by ICAN. The Amortization is included in “Interest expenses” in the Statement of Profit or Loss.

3.14 Deposit from Customers:

The Bank accepts deposits from its customers under savings account, current account, term deposits and margin accounts which allows money to be deposited and withdrawn by the account holder. These transactions are recorded on the bank's books, and the resulting balance is recorded as a liability for the Bank and represents the amount owed by the Bank to the customer. They have been valued at amortized cost.

As per Para 09 of NAS 39 regarding Financial Instruments recognition and measurement, EIR rate is to be used for booking such interest expense and when calculating the EIR, an entity shall estimate cash flows considering all contractual term of the financial instrument but not credit loss, which includes the fees and points received or paid, transaction costs, premiums, discounts

As per the Carve Out regarding the EIR rate treatment issued by ICAN, when calculating EIR, all these transaction cost shall be considered unless it is immaterial or impracticable to do so. Since all these transaction costs cannot be identified separately for every customer and it seems impracticable, separate EIR rate has not been computed as allowed by Carve Out issued by ICAN. The Amortization is included in “Interest expenses” in the Statement of Profit or Loss.

3.15 Debt Securities issued

It includes debentures, bonds or other debt securities issued by the Bank. Deposits, debt securities issued, and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss. However, debentures issued by the bank are subordinate to the deposits from customer.

3.16 Subordinated Liabilities

Subordinated liabilities are those liabilities which at the event of winding up are subordinate to the claims of depositors, debt securities issued and other creditors. The bank does not have any of such subordinated liabilities

3.17 Provisions

The Bank recognizes a provision if, as a result of past event, the Bank has a present constructive or legal obligation that can be reliability measured and it is probable that an outflow of economic benefit will be required to settle the obligation.

A disclosure for contingent liability is made when there is a possible obligation or a present obligation as a result of past event that may but probably will not require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

A provision for onerous contract is recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligation under the contract.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed. Contingent assets are not recognized in the financial statements if it is not probable that the amount will be received. If it is probable then disclosure is given for the contingent asset. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognized in the period in which the change occurs.

3.18 Contingent Liabilities and Commitments:

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined under NAS 37 – "Provisions, Contingent Liabilities and Contingent Assets". In the normal course of business, the Bank undertakes commitments and incurs contingent liabilities with legal recourse to its customers to accommodate the financial and investment needs of clients, to conduct trading activities and to manage its own exposure to risk. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. 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. Guarantees and standby letters of credit carry a similar credit risk to loans. Operating lease commitments of the Bank (as a lessor and as a lessee) and pending legal claims against the Bank also form part of commitments of the Bank. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. These financial instruments generate interest or fees and carries elements of credit risk in excess of those amounts recognized as assets and liabilities in the Statement of Financial Position. However, no material losses are anticipated as a result of these transactions.

3.19 Litigation

Litigations are anticipated in the context of business operations due to the nature of the transactions involved. The Bank is involved in various such legal actions and the controls have been established to deal with such legal claims. There are pending litigations existing as at the end of the reporting period against the Bank, resulting through normal business operations. Litigations against the Bank have been assessed in terms of the probability of any claims or damages arising against the Bank, which require provisions to be made in the Financial Statements as per NAS 37 – "Provisions, Contingent Liabilities and Contingent Assets".

3.20 Borrowing Cost:

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

3.21 Income Tax

As per Nepal Accounting Standard- NAS 12 (Income Taxes) tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognized in the statement of Profit or Loss, except to the extent it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or in other comprehensive income.

3.21.1 Current Tax

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

3.21.2 Deferred Tax

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

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

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- In respect of deductible temporary differences associated with investments in Subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference will be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority.

3.22 Revenue Recognition

Revenue is the gross inflow of economic benefits during the period arising from the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. Revenue is recognized to the extent that it is probable that the economic benefits will flow to Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

3.22.1 Interest Income

Interest income includes interest income on the basis of accrual basis from loan and advance to borrowers, loans, and investment in government securities, investment in NRB bond, corporate bonds, and interest on investment securities measured at fair value.

Since all these transaction costs cannot be identified separately and separate EIR computation for every customer seems impracticable, such transaction costs of all previous years has not been considered when computing EIR. Due to impracticability, such relevant costs are ignored, due to which EIR rate equals to the rate provided to customers and therefore, income recognized by system on accrual basis has been considered as income Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Guideline on Recognition of Interest Income, 2019 by NRB.

Criteria for determining loans on which interest no longer be recognized to the profit or loss account but shall be suspended

Guideline issued by NRB on income recognition defines certain criteria for determining loans on which interest no longer be recognized to the profit or loss account but shall be suspended .These criteria are as follows

(a) Loans where there is reasonable doubt about the ultimate collectability of principal or interest;

(b) Loans against which individual impairment as per NAS 39 or life time impairment as per NFRS 9 has been made;

(c) Loans where contractual payments of principal and/or interest are more than 3 months in arrears and where the “net realizable value” of security is insufficient to cover payment of principal and accrued interest;

(d) Loans where contractual payments of principal and/or interest are more than 12 months in arrears, irrespective of the net realizable value of collateral;

(e) Overdrafts and other short term facilities which have not been settled after the expiry of the loan and even not renewed within 3 months of the expiry, and where the net realizable value of security is insufficient to cover payment of principal and accrued interest;

(f) Overdrafts and other short term facilities which have not been settled after the expiry of the loan and even not renewed within 12 months of the expiry, irrespective of the net realizable value of collateral;

Criteria to cease the accrual of interest

Bank and financial institutions shall accrue the interest on loan although it has been decided to suspend the recognition of income. However, BFIs shall cease to accrue interest on loan, in case where contractual payments of principal and/or interest of the loan are due for more than 12 months and the “net realizable value” of security is insufficient to cover payment of principal and accrued interest. Cessation of accrual of interest for accounting purpose shall not preclude an entity to continue to accrue interest on a memorandum basis for legal enforcement purposes unless the loan is written off.

3.22.2 Fee and Commission Income

Fees and Commission Income being the transaction costs integral to the effective interest rate on financial asset. However, as per the Carve out issued by ICAN regarding the treatment of fee and commission in EIR rate, fees and points to be considered for EIR computation unless it is impracticable to determine reliably. Since, such transaction costs are not identifiable for separate customer and therefore being impracticable, they have not been considered when computing EIR. They have been booked on accrual basis except commission on guarantees issued by the bank which is recognized as income over the period of the guarantee, except for guarantee commission not exceeding NPR one lakhs is recognized at the time of issue. Other fee and commission income are recognized on accrual basis.

3.22.3 Dividend Income

Dividend income are recognized when right to receive such dividend is established. Usually this is the ex-dividend date for equity securities. Dividends 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 investment.

3.22.4 Net Trading Income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

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

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities designated at fair value through profit or loss. It includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

3.23 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.

3.24 Impairment of non-financial Assets:

Bank assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, Bank estimates the recoverable amount which is higher of Fair Value less cost to sell or value in use. Where the carrying amount exceeds its recoverable amount, asset is considered impaired and is written down to recoverable amount.

3.25 Employment Benefits

I. Short term employee Benefits:

Short term employee benefits are the benefits that are expected to be settled wholly before 12 months and therefore booked as expense in the period in which employees render the related service. It includes the following:

- Wages, salaries and social security contributions
- Paid annual and paid sick leave
- Profit sharing and bonuses
- Non-monetary benefits

II. Post-employment benefit

Post-employment benefit includes the following

a) Defined Contribution Plans

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

The contribution payable by the employer to a defined contribution plan in proportion to the services rendered to Bank by the employees and is recorded as an expense under 'Personnel Expense' as and when they become due.

Bank contributed 10% of the salary of each employee to the Employees' Provident Fund and also gratuity amount is deposited in CIT. The above expenses are identified as contributions to 'Defined Contribution Plans' as defined in Nepal Accounting Standards – NAS 19 (Employee Benefits).

b) Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Accordingly, leave encashment and gratuity has been considered as defined benefit plans as per Nepal Accounting Standards – NAS 19 (Employee Benefits). Net Obligation in DBP is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that benefit to determine its present value and then deducting the fair value of any plan assets. Bank recognizes all actuarial gains and losses arising from DBP in the Other Comprehensive Income and expenses related to DBP under personnel expense in the Statement of Profit or Loss.

Under NFRS, the actuarial gains and losses form part of re measurement of the net defined benefit liability / asset which is recognized in Other Comprehensive income (OCI). Also, the tax effect of the same has also been recognized in Other Comprehensive Income (OCI) under NFRS. Some assumptions used by actuarial valuator for valuation are as under:

1. **Discount Rate:** It is based on Yield to Maturity Available on Government Bonds having similar term to decrement-adjusted estimated term of liabilities.

2. **Expected Return on Planned Asset:** Average long term rate of return expected on investments of Trust Fund.

3. **Salary Escalation Rate:** Management estimation of 8% after considering the expected earnings inflation as well as performance and seniority related increase.

4. **Withdrawal rate:** Management estimation on the basis of 8% on the basis of expected long term future employee turnover within the organization.

5. **Mortality Rate:** Nepali Assured Lives Mortality issued by Beema Samiti.

(a) Gratuity

An actuarial valuation is carried out every year to ascertain the full liability under gratuity. Bank's obligation in respect of defined benefit obligation is calculated by estimating the amount of future benefit that employees have earned for their service in the current and prior periods and discounting that benefit to determine its present value, then deducting the fair value of any plan assets to determine the net amount to be shown in the Statement of Financial Position. The value of a defined benefit asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reduction on the future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirement that apply to any plan in Bank. An economic benefit is available to Bank if it is realizable during the life of the plan, or on settlement of the plan liabilities.

Bank determines the interest expense on the defined benefit liability by applying the discount rate used to measure the defined benefit liability at the beginning of the annual period to the defined benefit liability at the beginning of the annual period. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of Bank's obligations.

The increase in gratuity liabilities attributable to the services provided by employees during the under 'Personnel Expenses' together with the net interest expense. Also, actuarial gain loss have been shown under Other Comprehensive Income (OCI) Bank recognizes the total actuarial gain/ (loss) that arises in computing Bank's obligation in respect of gratuity in other comprehensive income during the period in which it occurs.
The demographic assumptions underlying the valuation are retirement age (58 years), early withdrawal from service and retirement on medical grounds.

III. Other long term employee benefit

Other long-term employee benefits include items such as unutilized leave balance, if not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service:

(a) Unutilized Accumulated Leave

Bank's liability towards the accumulated leave which is expected to be utilized beyond one year from the end of the reporting period is treated as other long term employee benefits. Bank's net obligation towards unutilized accumulated leave is calculated by discounting the amount of future benefit that employees have earned in return for their service in the current and prior periods to determine the present value of such benefits. The discount rate is the yield at the reporting date on government binds that have maturity dates approximating to the terms of Bank's obligation. The calculation is performed using the Projected Unit Credit method. Net change in liability for unutilized accumulated leave including any actuarial gain and loss are recognized in the Statement of Profit or Loss under 'Personnel Expenses' in the period in which they arise. Actuarial gain/losses on unutilized leave balance is charged to profit or loss.

3.26 Other expense

Other Expense have been recognized in the Statement of Profit or Loss as they are incurred in the period to which they relate. All expenditure incurred in the operation of the business and in maintaining the capital assets in a state of efficiency has been charged to revenue in arriving at profit for the year. Provisions in respect of other expenses are recognized when there is present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

3.27 Leases

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement 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.

Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance lease.

When Bank is a lessee under finance leases, the leased assets are capitalized and included in 'Property, Plant and Equipment' and the corresponding liability to the lessor is included in 'Other liabilities'. A finance lease and its corresponding liability are recognized initially at the fair value of the asset or if lower, the present value of the minimum lease payments. Finance charges payable are recognized in 'Interest expenses' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

Operating Lease

All other leases are classified as operating leases. When acting as lessor, Bank includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognized to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

When Bank is the lessee, leased assets are not recognized on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted as per provision mentioned in NAS 17 on Leases.

3.28 Foreign Currency Transactions, Translation and Balances

All foreign currency transactions are translated into the functional currency, which is Nepalese Rupees, using the bank's mid rate prevailing at the dates when the transactions were affected.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Nepalese Rupees using the spot foreign exchange rate ruling at that date which is the bank's mid-rate and all differences arising on non-trading activities are taken to 'Other Operating Income' in the Statement of Profit or Loss.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items in foreign currency measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange differences arising on the settlement or reporting of monetary items at rates different from those which were initially recorded are dealt with in the Statement of Profit or Loss. However, foreign currency differences arising on FVTOCI equity instruments are recognized in other comprehensive income.

3.29 Financial guarantee and loan commitment

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Loan commitment is the commitment where the Bank has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees, whether cancellable or not, or letters of credit and the Bank has not made payments at the reporting date, those instruments are included in these financial statement as commitments.

3.30 Share Capital and Reserves

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity is defined as residual interest in total assets of the Bank 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. Dividends on ordinary shares and preference shares classified as equity are recognized in equity in the period in which they are declared. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments considering the tax benefits achieved thereon.

The holders of ordinary shares are entitled to one vote per share at general meetings of the bank and are entitled to receive the annual dividend payments. The various reserve headings are explained hereinafter:

General reserve

The Bank is required to appropriate a minimum 20% of current year's net profit into this heading each year until it becomes double of paid up capital and then after a minimum 10% of profit each year. This reserve is not available for distribution to shareholders in any form and requires specific approval of the central bank for any transfers from this heading.

Exchange equalization reserve

The Bank is required to appropriate 25% of current year's total revaluation gain (except gain from revaluation of Indian Currency) into this heading.

Fair value reserve

This is a non-statutory reserve and is a requirement in the application of accounting policy for financial assets. NFRS 9 requires that cumulative net change in the fair value of financial assets measured at FVTOCI is recognized under fair value reserve heading until the fair valued asset is de-recognized. Any realized fair value changes upon disposal of the re-valued asset is reclassified from this reserve heading to retained earnings.

Revaluation reserve

This is a non-statutory reserve and is a requirement in the application of accounting policy for non-financial assets such as property, equipment, investment property and intangible assets that are measured following a re-valuation model.

Corporate social responsibility fund

The Bank is required to appropriate an amount equivalent to 1% of net profit into this fund annually. The fund is created towards funding the Bank's corporate social responsibility expenditure during the subsequent year. Balance in this fund is directly reclassified to retained earnings in the subsequent year to the extent of payments made under corporate social responsibility activities.

Investment adjustment reserve

The Bank is required to maintain balance in this reserve heading which is calculated at fixed percentages of the cost of equity investments that are not held for trading. Changes in this reserve requirement are reclassified to retained earnings.

Actuarial gain / loss reserve

This is a non-statutory reserve and is a requirement in the application of accounting policy for employee benefits. NAS 19 requires that actuarial gain or loss resultant of the change in actuarial assumptions used to value defined benefit obligations be presented under this reserve heading. Any change in this reserve heading is recognized through other comprehensive income and is not an appropriation of net profit.

Regulatory reserve

This is a non-free statutory reserve and is a requirement as prescribed in NRB directive. In the transition to NFRS from previous GAAP the Bank is required to reclassify all amounts that are resultant of re-measurement adjustments and that are recognized in retained earnings into this reserve heading. The amount reclassified to this reserve includes:

- Re-measurement adjustments such as interest income recognized against interest receivables,
- Difference in loan loss provision as per NRB directive and impairment on loan and advance as per NFRS,
- Amount equals to deferred tax assets,
- Actual loss recognized in other comprehensive income,
- Amount of goodwill recognized under NFRS.

Pursuant to the NRB Circular no. 6 dated 2076/07/26, regulatory reserve on Accrued Interest Receivable and Non Banking Asset have been considered after taking effect of bonus and income tax.

Debenture Redemption Reserve

The Bank is required to maintain a redemption reserve in respect of borrowing raised through debenture issuance. As per the terms of NRB approval relating to the Bank's debenture issuance, the Bank is annually required to transfer 20% of the debenture's face value to redemption reserve. However, such provision shall not be applicable in the year of issue.

Employees training fund

The Bank is required to incur expenses towards employee training and development for an amount that is equivalent to at least 3% of the preceding year's salary and allowance. Any shortfall amount in meeting this mandatory expense requirement in the current year will have to be transferred to this reserve fund through appropriation of net profit and the amount shall accumulate in the fund available for related expenses in the subsequent year. Balance in this fund is directly reclassified to retained earnings in the subsequent year to the extent of expenses made for employees training related activities.

However, pursuant to the circular no. 14/076/77 dated 2077/01/16, it is not mandatory for the bank to spend such 3% amount. Accordingly, the bank has spent all the balance in the training fund outstanding as at 16 July 2019 and has not created any fund as at 31 Ashad 2077.

3.31 Earnings per Share including diluted earning

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

If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization due to right share, bonus issue, the calculation of basic and diluted earnings per share for all periods presented are adjusted retrospectively.

Dividend on Ordinary Shares

Dividend on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim Dividend are deducted from equity when they are declared and no longer at the discretion of the Bank. Proposed dividend for the year after reporting period and before the authorization of financial statements has been disclosed in notes to accounts as non-adjusting event.

3.32 Segment Reporting

An operating segment is a component that engages in business activities from which it earns revenue and incurs expense, including revenues and expenses that relating to transaction with any of groups other components, whose operating results are reviewed by management. For management purposes, the Bank has organized into operating segments based on business. Also, interest income are identifiable product wise separately.Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the bank's total revenue in the reporting period. Segment results that are reported to the Bank's include directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise head office expense, corporate assets, tax assets and liabilities.

3.33 Capital Management

The primary objective of Capital Management is to ensure maintenance of minimum regulatory capital requirement. The Bank ensures that adequate capital has been allocated to achieve strategic objectives and within the Risk Appetite of the Bank.

Capital Adequacy

Capital Adequacy Ratio (CAR) is a measure of the Bank's capital expressed as a percentage of risk-weighted assets of credit, market and operational aspects of the banking business. It is a measure of financial strength of the Bank which indicates its ability to maintain adequate capital to face with unforeseen scenarios. Bank has maintained capital adequacy in excess of the minimum threshold prescribed by Nepal Rastra Bank.

Bank calculates CAR based on New Capital Adequacy Framework under Basel III requirement in July 2015 issued by NRB. Also, bank monitors the CAR, while stressing rigorously for worst possible scenarios. ICAAP factors out all possible risks such as reputation risk, strategic risk, compliance risk, concentration risk, and interest rate risk on banking book.

3.34 Risk Management

Bank needs to manage Credit, Operational, Market, Liquidity and other risks inherent in bank. There are risk management in process to identify, measure, monitor, and control such risks. In order to manage such risks. Board of the bank is primarily responsible for setting out the risks policies, risk strategies, risk appetite, risk tolerance, risk mitigation etc. Such risks are communicated by the Board down the line for effective and timely implementation adherence. Board of the bank monitors and evaluates the risk on a regular interval and instructs RMC and other related departments, who is responsible for risk management of the bank through CEO/CRO for effective implementation.

In broad sense, Bank's functional structure for risk related matters are presented below

Board of Directors

Board has critical role to play in overseeing overall risks emanating in the bank business. Board approves, modifies, and review overall policies related to risk areas, advises the management to prepare suitable process. Overall accountability for risk management rests on Board and the level of risks organization accepts. Major responsibilities of Board, but not limited to include:

a) Define bank's overall risk tolerance in relation to credit risk, market and liquidity risk.
b) Ensure bank's Credit and investment exposure maintained at prudent levels.
c) Ensure related top management responsible for risk management process.
d) Ensure there is effective, integrated operational risk management framework
e) Ensure implementation of sound fundamental policies that facilitate identification, measurement, monitoring and control of potential risk.

Risk Management Committee

Risk Management Committee is the sub-committee of the Board, which plays pivotal role in managing overall risk management of bank. RMC shall work as a bridge between Board and CRO/ Management and escalate the important risks matters to Board

AML/ CFT committee

A separate committee is formed to ensure compliance of Anti Money Laundering Act, rules and directive No. 19 issued by Nepal Rastra Bank. Also, in order to enable the strong AML culture in the bank and in addition ensure to apply a uniform policy framework throughout the branches in compliance with internal as well as regulatory standards, committee is formed. It devises appropriate risk management framework to identify, assess and minimize the risk pertaining to AML and CFT; and recommend its implementation to management of bank.

Assets and Liability Management Committee

Senior Management Committee is responsible for supervision/management of market risk (mainly interest rate and liquidity risk). It includes the role of monitoring on the structure/ composition of bank's assets and liabilities and decide about product pricing for deposits and advances, deciding on maturity profile, evaluation of market risk and so on.

Credit Risk Management Department:

Credit Risk Management is an independent function of the bank which has the objective to reduce the level of NPL, and delinquent borrowers and to improve the risk assets quality of the bank. It is a centralized function which controls overall risk inherent in lending portfolio and also make an assessment of risk profile in credit files. It includes the assessment/review of purpose of credit, credit assessment of borrower, structuring of credit facilities, disbursement of loan, assessment of waiver policies, and others.

a) To monitor bank's credit portfolio for risk identification, quantification
b) Review risk of asset portfolio sector
c) Periodically review irregular accounts which are NPA
d) Define bank's overall tolerance to risk.
e) Identify risk and analyze risk management tools.

Credit Risk Management

In order to manage credit risk, the Bank has established a sound credit appraisal system. The Bank has credit Policies Guidelines and other product papers approved by The Board of Directors which are strictly followed during credit approval/disbursement. The bank performs market/customer analysis to minimize the credit risk.

Operation Risk Management

A separate independent function has been established for effective management of operational risks of bank. The unit performs the job related to identity, measurement, monitoring and reporting of operational risks as a whole and ensure management of operational risk It evaluates the adequacy of tools and techniques to reduce the operational risk to acceptable level.

The Bank has a strong internal control system so that material fraud and errors can be easily traced. Further, the Bank follows a scientific process for segregation of duty so that internal check be maintained. The Bank follows the operational manual approved by Board of Directors. The Bank has an effective Internal Audit Department which functions to carry out review of internal control system of the bank and ensure that the approved policies, procedures and manuals are strictly followed. The report of the Internal Audit Department is directly submitted to Audit committee.

Market Risk Management

For the management of Market/Liquidity risk, the Bank has a very effective ALM Policy which defines procedures and authority including setting up various risk limits. Under the ALM policy, the Bank has effective Assets Liabilities Committee (ALCO) which meets periodically and reviews interest rates, liquidity position, liquidity gap, FCY open position, investment portfolio, maturity limit for investment and takes necessary decision as well as circulates various guidelines to concerned departments for effective management of market risk.

Liquidity Risk Management

Bank recognize Market Risk as the possibility for loss of earnings or economic value to the bank caused due to adverse changes in the market level of interest rates or prices of securities (equity), foreign exchange rates and commodity price fluctuation, as well as the volatilities, of those prices. While Liquidity risk is chances of failure of a bank to meet obligations as they become due. Effective liquidity risk management helps ensure the Bank's ability to meet its obligations as they fall due without adversely affecting the Bank's financial condition and reduces the probability of developing of an adverse situation.

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms.

To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding as required.

Reputational Risk Management

Reputational risk is the risk of possible damage to the Bank's brand and reputation resulting in loss of earnings or adverse impact on market capitalization or could be perceived as by the stakeholders to be inappropriate, unethical, or inconsistent with bank values and beliefs.

The Bank's Corporate Governance Policy establishes the framework for the governance and management of reputational risk. The framework aims to protect the Bank's reputation and restrict the ability to undertake any activities that may cause material damage to the Bank's branding.

The bank has clearly set the code of conduct / code of ethics which defines acceptable and unacceptable behaviors and explicitly disallow behavior that could lead to any reputation risks or improper or illegal activity, such as financial misreporting, money laundering, fraud, anti-competitive practices, bribery and corruption, or the violation of consumer rights and make clear that employees are expected to conduct themselves ethically in addition to complying with laws, regulations and company policies.

Internal Control

The Board is responsible for ensuring the Bank has appropriate internal control framework in place that supports the achievement of the strategies and objectives. The various functions of the Bank should be looked upon with a view to establish a proper control mechanism is in place during expansion and growth which enables it to maximize profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations and enhance resilience to external events.

The Board has set policies and procedures of risk identification, risk evaluation, risk mitigation and control/monitoring, in line with the NRB directives has effectively implemented the same at the Bank. The effectiveness of the Company's internal control system is reviewed regularly by the Board, its Committees, Management and Internal Audit department.

The Internal Audit monitors compliance with policies/standards and the effectiveness of internal control structures across the Bank through regular audit, special audit, information system audit, Off Site review, AML/CFT/KYC audit, ISO audit as well as Risk based Internal Audit (RBIA) approach. The audits observations are reported to the Chief Executive Officer and Business Heads for initiating immediate corrective measures. Internal Audit reports are periodically forwarded to the Audit Committee for review and the committee issues appropriate corrective action in accordance with the issue involved to the respective department, regional offices or branches.

4. Segmental Information

Segmental Reporting has been presented for three key business segments of the Bank, identified on the basis of key functional business activities that generate revenue for the Bank and incur expenses. These segments serve as the key functional units for resource allocation, decision making and review of operating results/performance by the Management. These are summarized as follows:

A. Information about reportable segments

Amount in NPR Million

Particulars	Banking		Treasury		Transaction Banking		All Others		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
Revenues from external customers	11,324	10,261	1,009	875	316	281	12	4	12,661	11,421
Intersegment revenues	361	358	(440)	(490)	(6)	(6)	85	139	(0)	0
Segment profit (loss) before tax	2,931	3,395	460	274	120	145	(1,665)	(1,387)	1,846	2,427
Segment assets	93,484	77,978	19,067	19,696	376	273	11,613	7,299	124,540	105,246
Segment liabilities	108,054	89,910	1,307	3,348	143	65	15,037	11,923	124,540	105,246

- Revenue from external customers includes the total interest and non-interest revenue
- Intersegment Revenue includes revenues from transaction with other operating segments of Bank. Transactions between segments are reported on pre-determined transfer price.
- Segment Assets and liabilities includes the assets and liabilities identifiable to particular segment.
- The result reported include the items directly attributable to a segment as well as those that can be allocated on reasonable basis.
- Segment assets and liabilities has been netted off from total assets and liabilities regarding the items that can be offset.(contra items)

B. Reconciliation of reportable segment profit or loss

Amount in NPR Million

Particulars	Current Quarter	Corresponding Previous Year Quarter
Total profit before tax for reportable segments	1,846	2,427
Profit before tax for other segments		
Elimination of inter-segment profit		
Elimination of discontinued operation		
Unallocated amounts:		
– Other corporate expenses		
Profit before tax	1,846	2,427

5. Related Parties Disclosures

(i) Related Party Disclosure of the Bank

The related parties of the Bank which meets the definition of related parties as defined in NAS 24 Related Party Disclosures are as follows:

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 year were as follows:

Name of the related party	Nature	Remarks
Machhapuchchhre Capital Limited	Wholly Owned Subsidiary	
Dr. Birendra Prasad Mahatto	BOD Chairman	
Mr. Roshan K.C	Director	
Mr. Gopi Krishna Neupane	Director	
Mr.Jaya Mukunda Khanal	Director	Resigned w.e.f 20 Chaitra, 2076
Mr.Bishwo Prakash Gautam	Director	
Mr.Omesh Lal Shrestha	Director	Resigned w.e.f 19 Ashadh, 2077
Mr. Haribhakta Sigdel	Director	
Mr. Mukunda Mahat	Director	Appointed w.e.f 16 Jestha 2077.
Mr.Suman Sharma	Chief Executive Officer	Resigned w.e.f 1 Chaitra, 2076
Mr.Santosh Koirala	Chief Executive Officer	Appointed w.e.f 1 Baisakh, 2077
Mr.Sarju Kumar Thapa	DGM-Business	
Mr.Bishwambhar Neupane	DGM-Operations	
Mr. Narayan Prakash Bhuju	Chief Technology Officer	

(ii) 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 Key Management Personnel (KMP). 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 member of KMP are governed by Employees Byelaws and decisions made by management from time to time in this regard. In addition to salaries and allowances, non- cash benefits like vehicle facility, subsidized rate employees loan, termination benefits are also provided to KMP. The details relating to compensation paid and expenses incurred to key management personnel (directors only) were as follows:

Particulars	Amount in NPR
Meeting Fees	30,39,000
Other Board Expenses	1,621,342
Total	**4,833,142**

The details relating to compensation paid to key management personnel other than directors were as follows:

Particulars	Amount in NPR
Short term employee benefits	35,572,817
Post- employment benefits	1,616,202
Other long term benefits	436,180
Termination benefits	14,796,330
Total	**52,421,529**

- Post- employment benefits includes Provident Fund and Gratuity. Provident Fund is deposited in an independent institution and Gratuity is provided for as per actuarial valuation against which investment is made in an independent planned asset.
- Other long term employment benefit includes Home Leave and Sick Leave encashment over and above the accumulation limit set as per Employee Byelaws of the Bank.
- KMP also get accidental and medical insurance, vehicle, fuel, lunch and mobile facilities as per Employee Service Byelaws of the Bank.
- Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

Key management personnel are also eligible for the following benefits:

- Benefits as per Employee Service Bylaws of the Bank.
- Bonus out of profit as per Bonus Act.
- Housing loans and advances as per Housing Loan Scheme of the Bank.
- Vehicle facility.

Post-employment benefits includes the retirement payments (gratuity and leave payment) to be made at the time of retirement from service. However, since actuarial basis of accounting has been used and the amount to be benefitted for each employee is not separately identifiable, they have not been disclosed in the amount mentioned above. Actual retirement payment that has been made in this year has been disclosed above.

Total no. of Key Management Personnel as on Ashad End 2077 (including CEO): 4

iii) **Transaction with wholly owned subsidiary**

The Bank has invested Rs. 200 million in Machhapuchchhre Capital Ltd, a wholly owned subsidiary company of the Bank, which is in the process of obtaining necessary approval from SEBON for its operation.

Transactions	Amount
Deposit from Subsidiary	180,000,000
Interest paid to Subsidiary	18,093,150

6. Dividends paid (aggregate or per share) separately for ordinary shares and other shares.

The Bank has paid dividend 5% bonus and 11 % cash dividend on ordinary shares for FY 2075-76 which was approved by the 21st AGM held on 24 Ashwin 2076.

7. Issues, repurchases and repayments of debt and equity securities

The Bank has issued 10-year debenture amounting to NPR. 3 billion (to be listed as unsecured rated redeemable subordinated Basel III compliant debentures) with the face value of Rs. 1000/- each and 10.25% coupon rate p.a, payable semi-annually.

8. Events after Interim Period

No circumstances have arisen and no material events have occurred since the reporting date, which require disclosures or adjustments to the financial statements.

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

During the reporting period there were no material changes in the composition of assets, liabilities and contingent liabilities and the Bank did not engage in any merger and acquisition activities.

10. Effect of Covid-19

- NRB vide its various circulars introduced reliefs to the customers due to Covid-19. Provisions such as 10% discount on interest paid till Chaitra end 2076, 2% rebate on applicable interest as at Chaitra end 2076 for 4th Quarter, waiver on digital transaction until 31 Ashad 2077 etc has been highly affected the Profit of the bank for the year ended 31 Ashad 2077

- COVID-19 continues to spread across the globe and in Nepal as well. On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. On 24 March 2020, Nepal Government announced a strict nationwide lock down which continued till 21 July 2020. The extent to which the COVID-19 pandemic will impact the Bank's results will depend on future developments, which are highly uncertain, including any new information concerning the severity of the COVID-19 pandemic and any action to contain its spread or mitigate its impact whether government-mandated, NRB mandated or as opted by the Bank.

- NRB vide its circular dated 12 Shrawan 2077 provided moratorium period to the moderately affected, medium affected and highly affected borrowers by 6 months, 9 months and 12 months respectively to pay installment of principal and / or interest falling due on or before 31 Ashad

2077. Similarly, loans which were considered under Pass Category as at 29 Poush 2076 and loans disbursed thereafter shall continue to be classified under Pass Category as at 31 Ashad 2077 as well.

11. Distributable Profit Note

Amount in NPR

Particular	Amount
Net Profit for the period end 31 Ashadh 2077	**1,252,042,725**
1. Appropriations	
1.1 Profit required to be appropriated to	**274,575,594**
a. General Reserve	250,408,545
b. Capital Redemption Reserve	-
c. Exchange Fluctuation Fund	14,015,417
d. CSR Fund	12,520,427
e. Employees Training Fund	(2,368,795)
f. Other	-
1.2 Profit required to be transfer to Regulatory Reserve	**69,188,606**
a. Transfer to Regulatory Reserve	69,188,606
b. Transfer from Regulatory Reserve	-
Net Profit for the period end 31 Ashadh 2077 available for distribution	**908,278,524**