Nepal Credit & Commerce Bank Limited
Condensed Statement of Financial Position
As on Ashad end 2076

Rs. in 000

Assets	This Quarter Ending	Immediate Previous Year Ending
Cash and Cash Equivalents	4,046,886	2,913,385
Due from Nepal Rastra Bank	6,804,533	4,826,763
Placement with Bank and Financial Institutions	1,745,613	547,474
Derivative Financial Instruments	78,155	-
Other Trading Assets	-	-
Loans and Advances to BFIs	2,273,535	1,881,003
Loans and Advances to Customers	61,131,877	51,432,194
Investment Securities	8,868,434	8,682,263
Current Tax Assets	-	203,571
Investment in Subsidiaries	-	-
Investment in Associates	34,500	29,500
Investment Property	890,709	975,590
Property and Equipment	883,157	835,452
Goodwill and Intangible Assets	12,543	2,160
Deferred Tax Assets	325,803	324,879
Other Assets	1,137,024	807,234
Total Assets	**88,232,769**	**73,461,467**

Particulars	This Quarter Ending	Immediate Previous Year Ending
Liabilities		
Due to Bank and Financial Institutions	6,352,630	6,170,000
Due to Nepal Rastra Bank	1,244,464	684,909
Derivative Financial Instruments	-	9,669
Deposits from Customers	67,035,624	57,260,544
Borrowings	-	-
Current Tax Liabilities	23,877	-
Provisions	70,937	54,849
Deferred Tax Liabilities	-	-
Other Liabilities	985,485	795,003
Debt Securities Issued	-	-
Subordinated Liabilities	-	-
Total Liabilities	**75,713,016**	**64,974,975**
Equity		
Share Capital	7,018,587	4,679,853
Share Premium	172,446	2,585
Retained Earnings	1,732,777	185,947
Reserves	3,595,943	3,618,107
Total Equity Attributable to Equity Holders	**12,519,753**	**8,486,493**
Non Controlling Interest	-	-
Total Equity	12,519,753	8,486,493
Total Liabilities and Equity	**88,232,769**	**73,461,467**

Nepal Credit & Commerce Bank Limited

Condensed Statement of Profit or Loss

For the Quarter ended Ashad end 2076

Rs. in 000

Particulars	Current Year			Previous Year	
	This Quarter	Up to This Quarter (YTD)	Up to Previous Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Interest Income	2,151,639	8,020,037	5,225,694	1,506,959	6,732,653
Interest Expense	1,294,498	4,932,027	3,784,224	1,335,736	5,119,960
Net Interest Income	**857,141**	**3,088,009**	**1,441,469**	**171,223**	**1,612,693**
Fee and Commission Income	162,911	593,330	343,634	145,932	489,566
Fee and Commission Expense	8,366	22,462	11,709	8,504	20,213
Net Fee and Commission Income	154,545	570,868	331,924	137,428	469,353
Net Interest, Fee and Commisson Income	**1,011,687**	**3,658,878**	**1,773,394**	**308,652**	**2,082,045**
Net Trading Income	43,137	129,093	46,196	16,371	62,567
Other Operating Income	48,858	63,492	40,794	21,790	62,584
Total Operating Income	**1,103,681**	**3,851,463**	**1,860,384**	**346,813**	**2,207,197**
Impairment Charge/ (Reversal) for Loans and Other Lossess	(53,558)	(178,755)	(447,557)	(688,773)	(1,136,330)
Net Operating Income	**1,157,240**	**4,030,218**	**2,307,941**	**1,035,586**	**3,343,527**
Operating Expense				-	
Personnel Expenses	416,669	1,241,044	734,268	304,615	1,038,882
Other Operating Expenses	188,825	521,681	272,447	157,823	430,270
Depreciation & Amortisation	35,207	113,466	58,823	31,839	90,662
Operating Profit	**516,538**	**2,154,027**	**1,242,403**	**541,310**	**1,783,713**
Non Operating Income	1,738	6,013	5,059	644	5,704
Non Operating Expense	-	-	-	-	-
Profit Before Income Tax	**518,277**	**2,160,040**	**1,247,462**	**541,954**	**1,789,417**
Income Tax Expense	-			-	
Current Tax	155,483	633,217	359,443	(231,447)	127,997
Deferred Tax			-	319,904	319,904
Profit/(Loss) for the Period	**362,794**	**1,526,824**	**888,019**	**453,497**	**1,341,516**
Condensed Statement of Other Comprehensive Income					
Profit /(Loss) for the Period	362,794	1,526,824	888,019	453,497	1,341,516
Other Comprehensive Income	7,665	(2,158)	(11,302)	18,040	6,738
Total Comprehensive Income	**370,459**	**1,524,666**	**876,717**	**471,538**	**1,348,255**
Basic Earnings per Share		23.58	20.79		23.51
Diluted Earnings per Share		23.58	20.79		23.51
Profit attributable to:					
Equity-holders of the Bank	370,459	1,524,666	876,717	471,538	1,348,255
Non-Controlling Interest	-	-	-	-	-
Total	**370,459**	**1,524,666**	**876,717**	**471,538**	**1,348,255**

Nepal Credit & Commerce Bank Limited
Statement of Comprehensive Income
For the Quarter ended Ashad end 2076

Rs. in 000

Particulars	Current Year		Previous Year	
	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Profit or loss for the period	**362,794**	**1,526,824**	**453,497**	**1,341,516**
Other Comprehensive Income				
a) Items that will not be reclassified to profit or loss				
Gains/(losses) from investment in equity instruments measured at fair value	10,950	(3,082)	(3,913)	(20,059)
Gains/(losses) on revaluation				
Actuarial gains/(losses) on defined benefit plans	-	-	29,685	29,685
Income tax relating to above items	(3,285)	925	(7,732)	(2,888)
Net other comprehensive income that will not be reclassified to profit or loss	**7,665**	**(2,158)**	**18,040**	**6,738**
a) Items that are or may be reclassified to profit or loss				
Gains/(losses) on cash flow hedge				
Exchange gains/(losses)(arising from translating financial assets of foreign operation)				
Income tax relating to above items				
Net other comprehensive income that are or may be reclassified to profit or loss				
c) Share of other comprehensive income of associate accounted as per equity method	-	-	-	-
Other Comprehensive Income for the period, Net of Income Tax	7,665	(2,158)	18,040	6,738
Total Comprehensive Income for the Period	**370,459**	**1,524,666**	**471,538**	**1,348,255**
Profit attributable to:				
Equity-Holders of the Bank	370,459	1,524,666	471,538	1,348,255
Non-Controlling Interest	-	-	-	-
Total	**370,459**	**1,524,666**	**471,538**	**1,348,255**
Earnings per Share				
Basic Earnings per Share		23.58		23.51
Annualized Basic Earnings per Share		23.58		23.51
Diluted Earnings per Share		23.58		23.51

Ratios as per NRB Directive

Particulars	Bank			
	Current Year		Previous Year	
			Corresponding	
	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Capital fund to RWA		14.04%		11.18%
Non-performing loan (NPL) to total loan		2.78%		3.87%
Total loan loss provision to Total NPL		129.71%		118.17%
Cost of Funds		7.49%		8.27%
Credit to Deposit Ratio		73.84%		76.76%
Base Rate		10.23%		11.92%
Interest Rate Spread		4.70%		4.12%

Notes:

1.Above financial statements are prepared in accordance with Nepal Financial Reporting Standards(NFRS) and certain Carve-outs issued by the Institute of Chartered Accountants of Nepal (ICAN).These figures may vary at the instance of external auditors and regulators.

2.Personnel Expenses include employee's bonus provision and amortization of prepaid benefit of subsidized staff loans provided as per Employee Bylaws of the Bank.

3.Interest income on loan and advances have been recognized on accrual basis except in case of loans where principal and/or interest are due for more than 12 months,irrespective of the net realizable value of collateral.

4.Loan and Advances include accrued interest receivables and staff loan provided as per Employee Bylaws of the Bank; and are presented net of impairment charges. Impairment loss on loan and advances has been measured at 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 Nepal Accounting Standard (NAS) 39.

5. Investment in listed shares and mutual funds are classified as Available For Sale and has been measured at Fair Value through Other Comprehensive Income.

6.**The Board of Directors of the Bank has proposed the distribution of 15.89 % of paid up capital as Bonus Shares amounting Rs. 1,115,253,522 and 0.83 % (tax on bonus share) of paid up capital as cash dividend amounting Rs. 58,697,554 vide Board meeting dated Ashad 22, 2076 for the year ended Ashad 32, 2075. The proposed distribution is subject to the approval by Annual General Meeting to be held on Bhadra 23, 2076. After the bonus distribution, the share capital of the Bank shall be Rs. 8,133,840,822.**

7. Corresponding /previous quarter end figures have been restated/regrouped/rearranged wherever necessary.

8.Detail interim report is also available in the Bank's website.(www.nccbank.com.np)

Nepal Credit & Commerce Bank Limited
Condensed Statement of Changes in Equity
For the Quarter ended Ashad end 2076

	Bank											
	Attributable to Equity-Holders of the Bank											
Particulars	**Share Capital**	**Share Premium**	**General Reserve**	**Exchange Equalisation**	**Regulatory Reserve**	**Fair Value Reserve**	**Revaluation Reserve**	**Retained Earning**	**Other Reserve**	**Total**	**Non-Controlling Interest**	**Total Equity**
Balance at Shrawan 01, 2074	4,679,058	2,585	1,183,566	5,218	-	35,524	-	345,810	885,681	7,137,443	-	7,137,443
Profit for the period								1,341,516		1,341,516	-	1,341,516
Other Comprehensive Income, Net of Tax						(14,042)			20,780	6,738	-	6,738
Total Comprehensive Income	-	-	-	-	-	**(14,042)**	-	**1,341,516**	**20,780**	**1,348,255**	-	**1,348,255**
Transfer to Reserves during the year			268,303	550	1,220,136	-	-	(1,505,466)	16,477	(0)	-	(0)
Transfer from Reserves during the year								4,086	(4,086)	-	-	-
Contributions from and distributions to owners										-	-	-
Share Issued	795									795	-	795
Share Based Payments										-	-	-
Dividend to Equity-Holders										-	-	-
Bonus Shares Issued										-	-	-
Cash Dividend Paid										-	-	-
Other										-	-	-
Total Contributions by and Distributions	795	-	268,303	550	1,220,136	-	-	(1,501,379)	12,391	795	-	795
Balance at Ashad end 2075	**4,679,853**	**2,585**	**1,451,869**	**5,767**	**1,220,136**	**21,483**	**-**	**185,947**	**918,852**	**8,486,493**	**-**	**8,486,493**
Balance at Shrawan 01, 2075	**4,679,853**	**2,585**	**1,451,869**	**5,767**	**1,220,136**	**21,483**	**-**	**185,947**	**918,852**	**8,486,493**	**-**	**8,486,493**
Profit for the year								1,526,824		1,526,824		1,526,824
Other Comprehensive Income, Net of Tax						(2,158)						-
Total Comprehensive Income for the year	-	-	-	-	-	(2,158)	-	1,526,824	-	1,524,666		1,524,666
Contributions from and distributions to owners										-		-
Share Issued	2,338,734	169,861								2,508,595		2,508,595
Share Based Payments										-		-
Dividend to Equity-Holders										-		-
Bonus Shares Issued										-		-
Cash Dividend Paid										-		-
Other										-		-
Total Contributions by and Distributions	2,338,734	169,861	-	-	-	-	-	-	-	2,508,595		2,508,595
Balance at Ashad end 2076	**7,018,587**	**172,446**	**1,451,869**	**5,767**	**1,220,136**	**19,325**	**-**	**1,712,771**	**918,852**	**12,519,753**		**12,519,753**

Nepal Credit & Commerce Bank Limited
Condensed Statement of Cash Flows
For the Quarter ended Ashad end 2076

Rs. in 000

Particulars	Bank	
	Upto This Quarter	**Corresponding Previous Year Up to this Quarter**
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest Received	7,689,219	6,377,446
Fee and Other Income Received	593,330	489,566
Dividend Received		
Receipts from Other Operating Activities	195,159	98,686
Interest Paid	(4,775,544)	(5,119,960)
Commissions and Fees Paid	(22,462)	(20,213)
Cash Payment to Employees	(1,183,690)	(919,129)
Other Expenses Paid	(1,154,897)	(430,270)
Operating Cash Flows before Changes in Operating Assets and Liabilities	1,341,115	476,125
(Increase) Decrease in Operating Assets		
Due from Nepal Rastra Bank	(1,977,770)	5,655,445
Placement with Banks and Financial Institutions	(1,198,139)	13,523
Other Trading Assets	-	13,545
Loans and Advances to banks and financial institutions	(392,532)	(451,820)
Loans and Advances to customers	(9,520,927)	(6,573,285)
Other Assets	(668,422)	(33,802)
Increase (Decrease) in Operating Liabilities		
Due to Banks and Financials Institutions	182,630	1,752,456
Due to Nepal Rastra Bank	559,555	(94,322)
Deposit from Customers	9,775,080	2,882,994
Borrowings	-	-
Other Liabilities	64,293	(193,543)
Net Cash Flow from Operating Activities before Tax Paid	(1,835,118)	3,447,318
Income Tax Paid	405,769	(447,900)
Net Cash Flow from Operating Activities	**(1,429,349)**	**2,999,417**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investment Securities	(191,171)	(2,786,611)
Receipts from Sale of Investment Securities		
Purchase of Property and Equipment	(161,171)	(206,411)
Receipts from Sale of Property and Equipment		-
Purchase of Intangible Assets	(10,383)	-
Purchase of Investment Properties	-	(904)
Receipts from Sale of Investment Properties	84,881	(345,569)
Interest Received	330,818	392,425
Dividend Received	9,149	16,426
Net Cash Used in Investing Activities	**62,122**	**(2,930,645)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from Issue of Debt Securities	-	-
Repayments of Debt Securities	-	-
Receipts from Issue of Subordinated Liabilities	-	-
Repayments of Subordinated Liabilities	-	-
Receipt from Issue of Shares	2,508,595	795
Dividends Paid	-	-
Interest Paid	-	-
Other Receipts/Payments	(2,158)	6,738
Net Cash from Financing Activities	**2,506,437**	**7,533**
Net Increase (Decrease) in Cash and Cash Equivalents	1,139,211	76,306
Cash and Cash Equivalents at Shrawan 01	2,913,385	2,834,880
Effect of Exchange Rate fluctuations on Cash and Cash Equivalents Held	(5,709)	2,199
Cash and Cash Equivalents at Chaitra end	**4,046,886**	**2,913,385**

Statement of Distributable Profit or Loss

As on Quarter Ended 31st Ashad 2076 (16 / 07 / 2019)

Rs. in 000

Particulars	Bank Current Year
Net profit or (loss) for the period ended fourth quarter	1,526,824
1. Appropriations:	
1.1 Profit required to be appropriated to statutory reserve	*(347,039)*
a. General reserve	(305,365)
b. Capital redemption reserve	-
c. Exchange fluctuation fund	-
d. Corporate social responsibility fund	(15,268)
e. Employees training fund	(1,475)
f.Others	(24,931)
1.2 Profit required to be transfer to Regulatory Reserve	*20,006*
a. Transfer to Regulatory Reserve	(64,875)
b. Transfer from Regulatory Reserve	84,881
Net Profit for the period ended fourth quarter available for distribution	**1,199,791**

NCC Bank
नेपाल क्रेडिट एण्ड कमर्स बैंक लि.
Nepal Credit & Commerce Bank Ltd.

NOTES TO THE INTERIM FINANCIAL STATEMENTS:

1. Basis of Preparation

The Interim Financial Statements(hereafter referred as financial statements)of the Bank have been prepared in accordance with the Nepal Financial Reporting Standards (NFRS) adopted by the Accounting Standard Board of Nepal), including the carve-outs as issued by the Institute of Chartered Accountants of Nepal(ICAN) on September 20 2018.The disclosures made in the condensed interim financial information have been prepared being based on the format prescribed by Nepal Rastra Bank via NRB Circular 19 dated Falgun 14, 2075.
The interim condensed financial statements of the Bank are presented in Nepalese Rupees (Rs.), which is the currency of the primary economic environment in which the Bank operates. The interim financial information has been presented in thousands ('000) figures, unless otherwise stated.

2. Statement of Compliance

The interim financial statements comprise the Condensed Statement of Financial Position, Condensed Statement of Profit or Loss and Condensed Statement of Other Comprehensive Income, Condensed Statement of Changes in Equity, Condensed Statement of Cash Flows and Notes to the Accounts and Ratios as per NRB Directive which have been prepared in accordance with Nepal Financial Reporting Standards and in compliance with the requirements of all applicable laws and regulations.
The significant accounting policies applied in the preparation of interim financial statements are set out below in Note 5. These policies are consistently applied to all the periods presented, except for the changes in accounting policies disclosed specifically.

3. Use of Estimates, Assumptions and Judgments

The preparation of Interim Financial Statements in conformity with Nepal Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ due to these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect in the Financial Statements are as follows:

3.1 Going Concern

The Directors have made an assessment of Bank's ability to continue as a going concern and satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon Bank's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of it. Therefore, the Financial Statements continue to be prepared on the going concern basis.

3.2 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position can be derived from active markets, they are derived from observable market data. However, if this is not available, judgment is required to establish fair values. The valuation of financial instruments is described in more detail in Notes.

3.3 Impairment of Financial Assets – Loans and Advances

The Bank review individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. The Bank has conducted objective evidence test for individual impairment through different parameters like inability to meet loan agreements, substantial drop in profits/ turnover, significant adverse cash flows, significant adverse net worth situation, problematic borrower financial position, etc. In particular, judgment of the management is required in the estimation of the amount and timing of future cash flows while determining the impairment loss.

These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.

Loans and advances of at least top 25 to 35 % of loan portfolio have been assessed individually and some found to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether impairment charge should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The bank has segregated risk assets into five groups with similar risk characteristics i.e. home loan, auto loan, personal loan, short term loan and term loan for collective impairment assessment. The collective assessment takes in to account data from the loan portfolio such as levels of arrears, credit quality, portfolio size etc. and judgments based on current economic conditions as per Para 63 of NAS 39. Also the collective assessment takes into account the past five years data for PD computation and past five years data for loss given default (LGD) computation. Collective impairment assessment on loans and advances is derived from the product of PD and LGD.

3.4 Impairment of Investments measured through OCI

The Bank reviews its investments classified as available for sale, at each reporting date to assess whether they are impaired. Bank records impairment charges on available for sale equity investments where there is significant or prolonged decline in fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. Bank generally treats 'significant' as 25% and 'prolonged' as longer than six months. In addition, the Bank evaluates, among other factors, historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

3.5 Taxation

Bank is subject to income tax and judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

3.6 Defined Benefit Plans

The cost of the defined benefit obligations and the present value of their obligations are determined using actuarial valuations at the year end. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and possible future liability increases if any. Due to the long term nature of these plans, such estimates are subject to uncertainty. All assumptions are reviewed at each annual reporting date

3.7 Fair Value of Property, Plant and Equipment

The freehold land and buildings of the bank are not reflected at fair value and no revaluation has been carried at the reporting date.

3.8 Useful Life-time of the Property, Plant and Equipment

Bank reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

a) Fixed Assets

Fixed assets except land are stated at acquisition cost less accumulated depreciation. Acquisition cost includes expenditures that are directly attributable to the acquisition of the assets.

Assets with a value less than Rs. 5,000 are charged off as an expense irrespective of its useful life in the year of purchase.

Leasehold improvements are capitalized at cost and amortized over the lease period or five years whichever is earlier. The amount of amortization is charged as expenses.

b) Computer Software

Intangible assets comprise the value of computer application software licensed for use of the Bank. These intangible assets are carried at its cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relates.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. These assets are amortized over their useful life estimated as 5 years from the date of acquisition or over the period of the license, whichever is less.

3.9 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. 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 reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

3.10 Provisions for Liabilities and Contingencies

The Bank receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits.

3.11 Discounting

The fair value of debt securities shall be determined by discounting by the future cash flows by the coupon interest rate. The Bank has a policy to treat share issue expenses up to 1% of share/debentures issue price as immaterial. Considering those expenses as immaterial and impracticable to determine reliably, same has not been considered in computation of effective interest rate as per Carve-out (optional) pronounced on 20th September 2018.

4. Changes in Accounting Policies

The Bank has changed its accounting policies, wherever required, to ensure compliance with NFRS. There are no changes in accounting policies during the reporting period.

5. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and deviations if any have been disclosed accordingly.

5.1 Basis of Measurement

The Financial Statements of Bank have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position:

- Financial assets other than measured at amortized cost are measured at fair value.
- Derivative financial instruments are measured at fair value, if any.
- Inventories are measured at cost or net realizable value whichever is lower
- Net defined benefit liabilities are measured at Present Value of Defined Benefits Obligation less the Plan Assets.

5.2 Basis of consolidation

The Bank does not have control over any other entity for consolidation of financial statements. Investments in associates are accounted for in financial statements as per cost model.

5.3 Cash and cash equivalent

Cash and Cash Equivalents include cash in hand, balances with banks, money at call and at short notice with maturity less than three months.

5.4 Financial Assets and Financial Liabilities

a. Recognition

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

The classification of financial instruments at the initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

b. Classification and Measurement

Financial Assets

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instruments except in the case of such financial assets and liabilities at fair value through profit or loss, as per the Nepal Accounting Standard - NAS 39 (Financial Instruments: Recognition and Measurement). Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with the Statement of Profit or Loss.

At the inception, a financial asset is classified into one of the following:

a. Financial assets at fair value through profit or loss
   i. Financial assets held for trading
   ii. Financial assets designated at fair value through profit or loss
b. Financial Assets at amortized cost
c. Financial assets at fair value through OCI

The subsequent measurement of financial assets depends on their classification.

Financial Assets at Fair Value through Profit or Loss

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

i. ***Financial Assets Held for Trading***

Financial assets are classified as held for trading if they are acquired 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. This category also includes derivative financial instruments entered into by Bank that are not designated as hedging instruments in hedge relationships as defined by Nepal Accounting Standards NAS 39 (Financial Instruments: Recognition and Measurement).

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net trading income'. Dividend income is recorded in 'Net trading income' when the right to receive the payment has been established.

Bank evaluates its held for trading asset portfolio, other than derivatives, to determine whether the intention to sell them in the near future is still appropriate. When Bank is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, Bank may elect to reclassify these financial assets.

Financial assets held for trading include instruments such as government securities and equity instruments that have been acquired principally for the purpose of selling or repurchasing in the near term.

ii. ***Financial Assets Designated at Fair Value through Profit or Loss***

Bank designates financial assets at fair value through profit or loss in the following circumstances:

- Such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the assets
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The asset contains one or more embedded derivatives that significantly modify the cash flows that would otherwise have been required under the contract.

Financial assets designated at fair value through profit or losses are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial instruments designated at fair value through profit or losses' in the Statement of Profit or Loss. Interest earned is accrued under 'Interest income', using the effective interest rate method, while dividend income is recorded under 'Other operating income' when the right to receive the payment has been established.

The Bank has not designated any financial assets upon initial recognition as designated at fair value through profit or loss.

iii. ***Financial Assets measured at amortized cost***

Held to Maturity Financial Assets are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold to maturity. After the initial measurement, held to maturity financial investments are subsequently measured at amortized cost using the effective interest rate, less impairment. The amortization is included in 'Interest income' in the Statement of Profit or Loss. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss.

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

Loans and Receivables from Customers

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as fair value through profit or loss
- Those that the Bank, upon initial recognition, designates as available for sale
- Those for which the Bank may not recover substantially all of its initial investment through contractual cash flows, other than because of credit deterioration.

After initial measurement, loans and receivables shall be subsequently measured at amortized cost using the effective interest rate, less allowance for impairment. The losses arising from impairment are recognized in 'Impairment charge / reversal for loans and other losses' in the Statement of Profit or Loss.

However, the Bank has a policy to treat loan administration fees up to 1.5% of loan amount as immaterial. Considering those fees as immaterial and impracticable to determine reliably, same has not been considered in computation of effective interest rate as per Carve-out (optional) pronounced on 20th September 2018.

Staff Loans measured at fair value

The Bank has a policy to provide home loan, hire purchase loan and home loan tied up with insurance to employees at subsidized interest rate. The Bank has measured the staff loans at fair value. The bank is considering average yield rate as fair market interest rate for deriving fair value of staff loans though the loans are provided to staffs at interest rate of 4%(Hire Purchase) 6.5% (Staff Consumer loan) and 1.5%(Home loan). Difference of book value with fair value of loans has been shown as prepaid employee benefits.

Financial Assets measured at fair value through OCI

Financial assets measured through OCI include equity and debt securities. Equity Investments classified as 'Fair value through OCI' are those which are neither classified as 'Held for neither Trading 'nor 'Designated. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial investments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity through 'Other comprehensive income / expense' in the 'Fair value reserve'. When the investment is disposed of the cumulative gain or loss previously recognized in equity is recognized in the Statement of Profit or Loss under 'Other operating income'. Where Bank holds more than one investment in the same security, they are deemed to be disposed -off on a first-in-first-out basis. Interest earned whilst holding 'Financial investments at fair value through OCI' is reported as 'Interest income' using the effective interest rate. Dividend earned whilst holding 'Financial investments at fair value through OCI' are recognized in the Statement of Profit or Loss as 'other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss under 'Impairment charge for loans and other losses' and removed from the 'Available for sale reserve'.

Financial Liabilities

At the inception, the Bank determines the classification of its financial liabilities. Accordingly financial liabilities are classified as:

a. Financial liabilities at fair value through profit or loss

  i. Financial liabilities held for trading
  ii. Financial liabilities designated at fair value through profit or loss

b. Financial liabilities at amortized cost

Financial Liabilities at Fair Value through Profit or Loss

Financial Liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss.

(i) Financial Liabilities Held for Trading

Financial liabilities are classified as held for trading if they are acquired 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. This category includes derivative financial instrument entered into by Bank that are not designated as hedging instruments in hedge relationships as defined by Nepal Accounting Standard - NAS 39 (Financial Instruments: Recognition and Measurement).

(ii) Financial Liabilities Designated at Fair Value through Profit or Loss

Bank designates financial liabilities at fair value through profit or loss at following circumstances:

- Such designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the liabilities.

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

Financial Liabilities at Amortized Cost

Financial instruments issued by Bank that are not classified as fair value through profit or loss are classified as financial liabilities at amortized cost, where the substance of the contractual arrangement results in Bank having an obligation either to deliver cash or another financial asset to another Bank, or to exchange financial assets or financial liabilities with another Bank under conditions that are potentially unfavorable to the Bank or settling the obligation by delivering variable number of Bank's own equity instruments.
After initial recognition, such financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the Statement of Profit or Loss when the liabilities are derecognized.

Reclassification

(i) *Reclassification of Financial Instruments 'At fair value through profit or loss',*

Bank does not reclassify derivative financial instruments out of the fair value through profit or loss category when it is held or issued.

Non-derivative financial instruments designated at fair value through profit or loss upon initial recognition is not reclassified subsequently out of fair value through profit or loss category.
Bank may, in rare circumstances reclassify financial instruments out of fair value through profit or loss category if such instruments are no longer held for the purpose of selling or repurchasing in the near term notwithstanding that such financial instruments may have been acquired principally for the purpose of selling or repurchasing in the near term. Financial assets classified as fair value through profit or loss at the initial recognition which would have also met the definition of 'Loans and Receivables' as at that date is reclassified out of the fair value through profit or loss category only if Bank has the intention and ability to hold such asset for the foreseeable future or until maturity.

The fair value of financial instruments at the date of reclassification is treated as the new cost or amortized cost of the financial instrument after reclassification. Any gain or loss already recognized in respect of the reclassified financial instrument until the date of reclassification is not reversed to the Statement of Profit or Loss.

If a financial asset is reclassified, and if Bank subsequently increases its estimates of the future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than an adjustment to the carrying amount of the asset at the date of change in estimate.

(ii) Reclassification of 'Financial Assets measured at fair value through OCI'

Bank may reclassify financial assets out of available for sale category as a result of change in intention or ability or in rare circumstances that a reliable measure of fair value is no longer available.

The fair value of financial instruments at the date of reclassification is treated as the new cost or amortized cost of the financial instrument after reclassification. Difference between the new amortized cost and the maturity value is amortized over the remaining life of the asset using the effective interest rate. Any gain or loss already recognized in Other Comprehensive Income in respect of the reclassified financial instrument is accounted as follows:

1. **Financial assets with fixed maturity :**

   Gain or loss recognized up to the date of reclassification is amortized to profit or loss over the remaining life of the investment using the effective interest rate. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

2. **Financial assets without fixed maturity :**

   Gain or loss recognized up to the date of reclassification is recognized in profit or loss only when the financial asset is sold or otherwise disposed of. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

If a financial asset is reclassified, and if Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than an adjustment to the carrying amount of the asset at the date of change in estimate.

(iii) Reclassification of 'Financial Instruments amortized at cost'

As a result of a change in intention or ability, if it is no longer appropriate to classify an investment as amortized at cost, Bank may reclassify such financial assets as at fair value through OCI and re- measured at fair value. Any difference between the carrying value of the financial asset before reclassification and fair value is recognized in equity through other comprehensive income.

However, if Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity [other than in certain specific circumstances permitted in Nepal Accounting Standard - NAS 39 (Financial Instruments: Recognition and Measurement)], the entire category would be tainted and would have to be reclassified as 'Investment measured at fair value through OCI'. Furthermore, Bank would be prohibited from classifying any financial assets as 'Held to Maturity' during the following two years. These reclassifications are at the election of management and determined on an instrument by instrument basis.

c. De-recognition

De-recognition of Financial Assets

Bank derecognizes a financial asset (or where applicable a part of financial asset or part of a group of similar financial assets) when:

- The rights to receive cash flows from the asset have expired; or
- Bank has transferred its rights to receive cash flows from the asset or
- Bank has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either Bank has transferred substantially all the risks and rewards of the asset or it has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

When Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Bank has retained.

When Bank's continuing involvement that takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received by Bank that Bank could be required to repay.

De-recognition of Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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 profit or loss.

Offsetting of Financial Instruments

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

d. Determination of fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of principal market, in the most advantageous market for asset or liability.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **Level 1 - Valuation technique using quoted market price:** financial instruments with quoted prices for identical instruments in active markets.
- **Level 2 - Valuation technique using observable inputs:** financial instruments 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 – Valuation technique with significant unobservable inputs:** financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Level 1
When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument or dealer price quotations (assets and long positions are measured at a bid price, liabilities and short positions are measured at an asking price), without any deduction for transaction costs.

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.

Level 2
If a market for a financial instrument is not active, then 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 analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

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, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Level 3

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (day 1 profit or loss) is deferred and recognized only when the inputs become observable or on de- recognition of the instrument.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

e. Impairment

At each reporting date, Bank assesses whether there is any objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss is impaired. A financial asset or group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events, that have occurred after the initial recognition of the asset (an 'incurred 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.

Objective evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganization; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment of Financial Assets carried at Amortized Cost

For financial assets carried at amortized cost, such as amounts due from banks, held to maturity investments etc., Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. In the event Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, financial assets in a group with similar credit risk characteristics are collectively assesses for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Impairment of loans and advances (financial assets measured at amortized cost) has been determined as per the directive of Nepal Rastra Bank.

Reversal of Impairment

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

Write-off of Financial Assets measured at Amortized Cost

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

Impairment of Rescheduled Loans and Advances

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated as per the central bank's directive.

Collateral Valuation

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

Impairment of Financial Assets measured at fair value through OCI

For financial investments measured at fair value through OCI, Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments, Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the Income Statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the

future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized, the impairment loss is reversed through the Income Statement.
In the case of equity investments classified as fair value through OCI, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss is removed from equity and recognized in the Statement of profit or loss. However, any subsequent increase in the fair value of an impaired available for sale equity security is recognized in other comprehensive income.

Bank writes-off certain financial investments measured at fair value through OCI when they are determined to be uncollectible.

Impairment of Non-Financial Assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the fair value of the Cash Generating Units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

5.5 Trading Assets

Financial assets such as government securities, equity etc. held for short term with an intention to trade have been classified as trading assets. Trading assets are measured at fair value with any changes in fair value being recognized in Profit or Loss.

5.6 Derivative assets and derivative liabilities

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 and indices. Derivatives are categorized as trading unless they are designated as hedging instruments.

Derivatives are initially recognized and subsequently measured at fair value, with revaluation gains recognized in profit and loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognized within other comprehensive income).

Fair value may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognized fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities.

5.7 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 Nepal Accounting Standard - NAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably measured.

Measurement

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

Cost Model

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

Revaluation Model

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

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

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

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.

De-recognition

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. The gain or losses 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. The gain or losses arising from de-recognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized.

Depreciation

Depreciation is calculated by using written down value method.
The depreciable amount of an item of property, plant and equipment is allocated on systematic basis over its useful life and is depreciated as follows:

Nature of Asset	Depreciation Rate
Building	5%
Office Equipment, Computer & Accessories and Furniture & Fixtures	25%
Vehicles	20%
Leasehold Assets	Lease term or a 5 year's period, whichever is earlier

Depreciation on assets acquired during the year is computed on a proportionate basis from date of available for use, whichever is earlier.

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.

5.8 Intangible Assets

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. Goodwill is measured at initial recognition in accordance with Note.

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.

Acquired computer software licenses are capitalized on the basis of cost incurred to acquire and bring to use the specific software and are amortized over their useful life estimated as 5 years from the date of acquisition or over the period of the license, whichever is less.

De-recognition of Intangible Assets

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

5.9 Investment Property and Noncurrent Assets held for sale

5.9.1 Investment property

Investment property is the land or building or both held either for rental income or for capital appreciation or for both, but not sold in ordinary course of business and owner-occupied property.

Investment property is initially measured at cost and subsequently at Cost Model. Accordingly, such properties are subsequently measured at cost less accumulated depreciation and impairment loss if any.
Any gain or loss on disposal of an investment property is recognized is Statement of Profit or Loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent reporting.

5.9.2 Non-Current Assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and carried at lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The assets are not depreciated or amortized while they are classified as held for sale. Any impairment loss on initial classification and subsequent measurement is recognized as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognized) is recognized in the statement of Profit or Loss.

5.10 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.

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.

Deferred Tax

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

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

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

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

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

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

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

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

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

5.11 Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities have been measured at amortized cost. Bank has a policy to treat debt securities issue expenses up to 1% of debt securities issue price as immaterial thus the same has not been considered in computation of fair value of debt securities.

5.12 Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking in to account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows. A provision for onerous contracts is recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

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

5.13 Revenue Recognition

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.

Interest Income

For all financial instruments measured at amortized cost, interest bearing financial assets classified as measured at fair value through OCI and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income' for financial assets and 'Interest and similar expense' for financial liabilities. However, for a reclassified financial asset for which the bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

The Bank has a policy to treat loan administration fees up to 1.5% of loan amount as immaterial. Considering loan administration and other fees as immaterial and impracticable to determine reliably, same has not been included in computation of effective interest rate as per Carve-out (optional) pronounced on 20th September 2018.

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.

Further, as per Nepal Accounting Standard (NAS)-18, revenue shall be measured at the fair value of the consideration received or receivable. Revenue is the gross inflow of economic benefits during the period arising in the course of ordinary activities of an entity when those inflows result in increase in equity, other than increases relating to contributions from equity participants.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. As per the conceptual framework, the concept of probability is used in the recognition criteria to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the entity. The concept is in keeping with the uncertainty that characterizes the environment in which an entity operates. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence available when the financial statements are prepared.

Accordingly , the Bank shall not recognize accrued interest of Bad Loan on its income statement on the ground that degree of certainty regarding realization of interest income from Bad Loan is very much low. Further, if interest suspense of Bad Loan is realized on later on, the same shall be recognized in Income Statement in the period of interest realization.

Fee and Commission Income

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

Dividend Income

Dividend income is recognized when the right to receive payment is established.

Net Trading Income

Gain and losses arising in changes in fair value of financial instrument held at fair value through profit or loss are included in Statement of Profit or Loss in the period in which they arise.

These includes the net gain / (loss) on translation of period and balances carried in foreign exchange to the Nepalese Rupee.

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

Gains and losses arising from changes in the fair value of other financial instruments held at fair value through profit or loss are included in the Statement of Profit or Loss in the period in which they arise.

5.14 Interest expense

For all financial liabilities measured at amortized cost, interest expense is recognized using the EIR. EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liabilities or a shorter period, where appropriate, to the net carrying amount of the financial liability.

5.15 Leases

Minimum lease payments made under finance lease are apportioned between the finance expense and reduction of outstanding liabilities. The finance expense is allocated to each period during the lease term so as to produce the constant periodic rate of interest on the remaining balance of liabilities.

The leases entered into by the Bank are primarily operating leases. When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognized as an expense in the period of termination.

Actual Lease payments as per the contract with lessor for the reporting period under operating lease are recognized as an expense in Statement of Profit or Loss since the payment to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

5.16 Foreign currency translation

All foreign currency transactions are translated into the functional currency, which is Nepalese Rupees, using the exchange rates 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 and all differences arising on non-trading activities are taken to 'Other Operating Income' in the Statement of Profit or Loss. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the rates of exchange prevailing at the end of the reporting period.

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 available-for-sale equity instruments are recognized in other comprehensive income.

5.17 Financial guarantee and loan commitments

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflow of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognized in financial statements but are disclosed unless they are remote.

Contingent assets are not recognized in the financial statements. 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. Details of financial guarantee and commitments provided by the bank on the reporting date are given as note 4.28.

5.18 Share capital and reserves

Share capital and reserves have been treated as equity instrument as per NAS 32 representing the net assets of the entity. Bank has a policy to treat share/debenture issue expenses up to 1% of issue amount as immaterial. Thus, same has not been deducted from capital/debenture and has been charged to profit or loss of relevant period.

5.19 Earnings per share including diluted

The 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 of the Bank and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares (e.g. convertible debentures, convertible preference shares), if any. Basic EPS for comparative period is restated for effect of bonus shares and/or bonus element of right issue, where applicable.

Segment Information

An operating segment is a component of the bank that engages in business activities from which it earns revenues and incurs expenses, including revenues and expenses that relating to transactions with any of the bank's other components, whose operating results are reviewed by the management to make decision about resource allocation to each segment and assess its performance.

Segment results that are reported to the CEO (being the Chief Operating Decision Maker) include items directly attributable to a segment as well as those that can be allocated on reasonable/ appropriate basis. Unallocated items comprise mainly common un-allocable assets / liabilities / expenses and tax assets / liabilities / expenses.

The Bank has presented segments reporting on the basis of each geographical business presence in seven Provinces of the country: Province 1, Province 2, Province 3, Gandaki Province, Province 5, Karnali Province and Sudurpaschhim Province. The Bank evaluates the performance of its segment on the basis of segment result before tax. Investments, Balance with NRB and others banks, Borrowings, Investment Income , Foreign Exchange Income and Unallocated Expenses and Income are accounted in Corporate Office; and all the assets, liabilities, income and expenses of Corporate Office are reported under Province no. 3 .The following table summarizes revenue, profit, asset and liability information for the Bank's segments(restated/rearranged/regrouped whenever necessary).

Rs. In Million

Particulars	Province-1		Province-2		Province-3		Gandaki Province		Province-5		Karnali Province		Sudurpaschhim Province		Total	
	Current Quarter	Corresponding Previous Year Quarter	Current Quarter	Corresponding Previous Year Quarter	Current Quarter	Corresponding Previous Year Quarter	Current Quarter	Corresponding Previous Year Quarter	Current Quarter	Corresponding Previous Year Quarter	Current Quarter	Corresponding Previous Year Quarter	Current Quarter	Corresponding Previous Year Quarter	Current Quarter	Corresponding Previous Year Quarter
Revenues from external customers	790	766	988	717	5,537	5,407	349	351	643	582	100	86	584	581	8,991	8,489
Intersegment revenues	6	0.2	5	1.5	1,537	1,767	63	52	138	143	41	54	15	-	1,805	2,018
Segment profit(loss) before tax	199	194	235	140	1,233	937	105	129	194	206	31	25	161	158	2,160	1,789

Segment assets	3,613	2,588	5,005	3,751	67,117	56,971	3,468	2,786	5,387	4,095	1,223	1,250	2,675	2,020	88,487	73,461
Segment liabilities	3,446	2,529	4,773	3,605	55,584	48,976	3,308	2,686	5,139	3,991	1,167	1,211	2,551	1,976	75,968	64,975

6. Related Parties 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

As per NAS 24 – Related Party Disclosures, Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Accordingly, the Board of Directors of the Bank and Executive Committee members are identified as KMP of the Bank.

Name	Relationship
Upendra Keshari Neupane, Chairman	Director
Iman Singh Lama, Director	Director
Chandra Prasad Bastola, Director	Director
Madhav Prasad Bhatta, Director	Director
Krishna Shrestha, Director	Director
Kailash Patindra Amatya, Director	Director
Ramesh Raj Aryal, Chief Executive Officer	Key Management Personnel (KMP)
Bandana Pathak, Deputy Chief Executive Officer	Key Management Personnel (KMP)
Rewanta Kumar Dahal, Deputy Chief Executive Officer	Key Management Personnel (KMP)
Sandip P. Pandey, Deputy Chief Executive Officer	Key Management Personnel (KMP)
Binod Kumar Sharma, Deputy General Manager	Key Management Personnel (KMP)
Mukunda Subedi, Deputy General Manager	Key Management Personnel (KMP)

The Chairperson and other members of the Board are paid NPR 8,000 and NPR 6,000 per meeting respectively for Board and Board Level Committees meeting. Each Board member has been provided with a monthly allowance of NPR 6,000 for telephone, newspaper and mobile expenses.

Employee benefits are provided to Chief Executive Officer and other members of Key Management Personnel (KMP). Employee benefits to the Chief Executive Officer are based on the contract entered by the Bank and him. Employee benefits to other members of KMP are governed by Employees Byelaws and other relevant rules/regulations of the Bank and amendment thereon from time to time in this regard.

Transaction with Associates

Following associates have been identified as related parties:

Sadhana Laghubitta Bittiya Sanstha Limited	Associates
Sarathi Laghubitta Bittiya Sanstha Limited	Associates

The Bank has following outstanding balances (Rs'000) as on Ashad, end 2076:

Associates	Loan	Deposit
Sadhana Laghubitta Bittiya Sanstha Limited	74,377.30	172.63
Sarathi Laghubitta Bittiya Sanstha Limited	90,000.00	54,276.71

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

The Bank has not paid any interim/final dividend on ordinary shares during the reporting period. The Board of Directors of the bank has proposed the distribution of 15.89% of paid up capital as Bonus shares amounting to Rs. 1,115,253,522 and 0.83% (tax on bonus share) of paid up capital as cash dividend amounting to Rs. 58,697,554 vide Board Meeting dated Ashad 22, 2076 for the year ended on Ashad 32, 2075. The proposed distribution is subject to the approval by the Annual General Meeting of Shareholders.

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

The Bank has not issued any debt/ debenture and equity securities during this Financial Year.

10. Events after interim period

There is no any material events occurred since the reporting date which requires disclosures or adjustments to the financial statements.

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

There is no any merger or acquisition effecting the changes in the composition of the entity during the interim period as on Ashad end, 2076.