Mahalaxmi Bikas Bank Ltd.

Condensed Statement of Financial Position

As on Quarter ended 31st Ashwin 2083

	Bank	
Assets	**This Quarter Ending**	**Immediate Previous Year Ending**
Cash and cash equivalent	1,378,142,455	1,540,468,558
Due from Nepal Rastra Bank	2,296,473,307	2,038,085,775
Placement with Bank and Financial Institutions	-	-
Derivative financial instruments	-	-
Other trading assets	-	-
Loan and advances to B/FIs	2,206,908,552	2,792,871,923
Loans and advances to customers	43,955,193,766	43,341,360,666
Investment securities	13,336,630,245	13,152,928,333
Current tax assets	91,449,175	68,278,220
Investment in subsidiaries	-	-
Investment in associates	6,466,400	6,466,400
Investment property	520,838,524	520,838,524
Property and equipment	548,113,052	602,336,552
Goodwill and Intangible assets	10,392,645	10,985,185
Deferred tax assets	145,542,836	120,104,504
Other assets	1,002,780,457	862,290,782
Total Assets	**65,498,931,414**	**65,057,015,421**
Liabilities		
Due to Bank and Financial Institutions	694,421,967	641,403,520
Due to Nepal Rastra Bank	-	-
Derivative financial instruments	-	-
Deposits from customers	55,171,952,391	55,009,924,544
Borrowing	-	-
Current Tax Liabilities	-	-
Provisions	-	-
Deferred tax liabilities	-	-
Other liabilities	1,114,958,399	947,200,180
Debt securities issued	995,843,833	995,843,833
Subordinated Liabilities	694,421,967	-
Total liabilities	**57,977,176,591**	**57,594,372,078**
Equity		
Share capital	4,511,281,066	4,511,281,066
Share premium	-	-
Retained earnings	476,260,865	465,198,925
Reserves	2,534,212,892	2,486,163,352
Total equity	7,521,754,823	**7,462,643,343**
Non-Controlling Interest	**-**	
Total liabilities and equity	**65,498,931,414**	**65,057,015,421**
Net assets value per share	166.73	165.42

Mahalaxmi Bikas Bank Ltd.

Condensed Statement of Profit or Loss
As on Quarter ended 31st Ashwin 2083

Amount in NPR

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Interest income	1,028,006,815	1,028,006,815	1,132,788,952.00	1,132,788,952.00
Interest expense	517,515,462	517,515,462	630,817,701.87	630,817,701.87
Net interest income	510,491,353	510,491,353	501,971,250.13	501,971,250.13
Fee and commission income	56,280,390	56,280,390	33,246,661.25	33,246,661.25
Fee and commission expense	5,350,461	5,350,461	3,698,990.72	3,698,990.72
Net fee and commission income	50,929,930	50,929,930	29,547,670.53	29,547,670.53
Net interest, fee and commission income	561,421,282	561,421,282	531,518,920.66	531,518,920.66
Net trading income	67,269	67,269	71,159.91	71,159.91
Other operating income	24,410,745	24,410,745	74,828,459.38	74,828,459.38
Total operating income	585,899,295	585,899,295	606,418,539.95	606,418,539.95
Impairment charge/(reversal) for loans and other losses	106,784,632	106,784,632	157,886,686.03	157,886,686.03
Net operating income	479,114,663	479,114,663	448,531,853.92	448,531,853.92
Operating expense	309,077,063	309,077,063	267,688,714.56	267,688,714.56
Personnel expenses	200,431,670	200,431,670	171,949,721.89	171,949,721.89
Other operating expenses	73,909,464	73,909,464	58,476,454.25	58,476,454.25
Depreciation & Amortization	34,735,928	34,735,928	37,262,538.41	37,262,538.41
Operating Profit	170,037,600	170,037,600	180,843,139.36	180,843,139.36
Non-operating income	297,496	297,496	149,738.61	149,738.61
Non-operating expense	1,095,682	1,095,682	41,689,397.39	41,689,397.39
Profit before income tax	169,239,414	169,239,414	139,303,480.58	139,303,480.58
Income tax expense	50,771,824	50,771,824	41,791,044.18	41,791,044.18
Current Tax	50,771,824	50,771,824	41,791,044.18	41,791,044.18
Deferred Tax Income / Expenses	-	-	-	
Profit for the year	118,467,590	118,467,590	97,512,436.41	97,512,436.41
Condensed Consolidated Statement of Comprehensive Income				
Profit/(Loss) for the Period	118,467,590	118,467,590	**97,512,436**	**97,512,436**
Other Comprehensive Income	(59,356,109)	(59,356,109)	(49,174,418)	(49,174,418)
Total Comprehensive Income	59,111,480	59,111,480	**48,338,019**	**48,338,019**
Earnings per Share				
Basic earnings per share		10.50		9.08
Diluted earnings per share		10.50		9.08

Profit attributable to:				
Equity holders of the Bank	59,111,480	59,111,480	48,338,019	48,338,019
Non-controlling interest	-	-	-	-
Total income	59,111,480	59,111,480	**48,338,019**	**48,338,019**

Regulatory Ratios as per NRB Unified Directive

Particulars	Current Year			Previous Year Corresponding	
	This Quarter	Up to This Quarter (YTD)		This Quarter	Up to This Quarter (YTD)
Capital Fund to RWA (%)		16.92%			17.60%
Tier 1 Capital to RWA (%)		13.57%			13.86%
CET 1 Capital to RWA (%)		13.57%			13.86%
Non-Performing Loan (NPL) to Total Loan (%)		6.49%			5.50%
Net Non-Performing Loan (NPL) to Total Loan (%)		1.61%			0.93%
Total Loan Loss Provision to Total NPL (%)		98.20%			112.21%
Cost of Funds (%)		3.58%			4.30%
Credit to Deposit Ratio (CD Ratio as per NRB) (%)		86.45%			82.98%
Base Rate (%)		5.71%			6.45%
Interest Rate Spread (%)		4.14%			4.36%
Return on Equity		6.32%			5.48%
Return on Assets		0.73%			0.60%

Mahalaxmi Bikas Bank Ltd.

Condensed Consolidated Statement of changes in equity

As on Quarter ended 31st Ashwin, 2083

Attributable to equity holders of the Bank

Particulars	Share Capital	Share Premium	General Reserve	Exchange Equalisation Reserve	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Other Reserves	Total equity
Balance at Shrawan 1, 2082	**4,296,458,158**	**-**	**1,579,395,704**	**3,313,315**	**653,315,815**	**66,920,729**	**-**	**445,596,833**	**7,122,691,631**	**7,083,846,093**
Adjustment/Restatement	-	-	-	-	-	-		-	**-**	**-**
Adjusted/Restated balance at Shrawan 1, 2082	**4,296,458,158**	**-**	**1,579,395,704**	**3,313,315**	**653,315,815**	**66,920,729**	**-**	**445,596,833**	**7,122,691,631**	**7,083,846,093**
Profit for the period	-	-	-	-	-	-	-	629,951,628	**629,951,628**	**629,951,628**
Other comprehensive income	-	-				(23,490,327)		2,444,602	**(21,045,726)**	**(21,045,726)**
Total Comprehensive Income	**-**	**-**						**-**	**-**	
Transfer to reserve during the year	**-**	**-**							**-**	
Transfer to General Reserve	-	-	126,601,476					(125,990,326)	**611,150**	**611,150**
Provision on Non Banking Assets	-	-	-		19,114,666			(19,114,666)	**-**	**-**
Interest Receivable	-	-	-		276,437,691			(276,437,691)	**-**	**-**
Exchange Fluctuation Fund	-	-	-	1,202,114				(1,202,114)	**-**	**-**
Corporate Social Responsibility Fund	-	-	-					(6,299,516)	**6,299,516**	**-**
Employee Capability Enhancement Fund	-	-	-					3,264,555	**(3,264,555)**	**-**
Investment Adjustment Reserve	-	-	-					-	**-**	**-**
Debenture Redemption Reserve	-	-	-					-	**-**	**-**
Interest Capitalized Reserve					5,183,402			(5,183,402)	**-**	**-**
Deffered Tax Reserve		-	-	-	26,921,840	-	-	(26,921,840)	**-**	-
Transfer from reserve during the year	**-**							**-**	**-**	
Provision on Non Banking Assets	-	-	-		(32,463,715)			32,463,715	**-**	
Interest Receivable	-	-	-		(253,834,844)			253,834,844	**-**	**-**
Acturial Loss Reserve	-	-	-		-			-	**-**	**-**
Deferred Tax Reserve	-	-	-					-	**-**	**-**
Investment Adjustment Reserve	-	-	-					-	**-**	**-**

Utilization of Institution CSR Fund	-	-	-					4,335,015	**(4,335,015)**	**-**
Transactions with owners, directly recognised in equity	-								**-**	
Share issued	-	-	-					**-**	**-**	**-**
Share based payments	-	-	-					**-**	**-**	**-**
Dividends to equity holders	**-**								**-**	
Bonus shares issued	214,822,908	-	-	-	-	-	-	(214,822,908)	**-**	**-**
Cash dividend paid	-	-	-	-	-	-	-	(230,719,803)	**(230,719,803)**	**(230,719,803)**
Balance at 32nd Ashadh 2083	**4,511,281,066**	**-**	**1,705,997,180**	**4,515,429**	**694,674,855**	**43,430,402**	**-**	**465,198,925**	**7,500,188,827**	**7,462,643,343**

Particulars	Share Capital	Share Premium	General Reserve	Exchange Equalisation Reserve	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Other Reserves	Total equity
Balance at Shrawan 1, 2083	**4,511,281,066**	**-**	**1,705,997,180**	**4,515,429**	**694,674,855**	**43,430,402**	**-**	**465,198,925**	**7,500,188,827**	**7,462,643,343**
Adjustment/Restatement	**-**	**-**	-	**-**	**-**	-		-	**-**	-
Adjusted/Restated balance at Shrawan 1, 2083	**4,511,281,066**	**-**	**1,705,997,180**	**4,515,429**	**694,674,855**	**43,430,402**	**-**	**465,198,925**	**7,500,188,827**	**7,462,643,343**
Profit for the period	-	-	-	-	-	-	-	118,467,590	**118,467,590**	118,467,590
Other Comprehensive Income	-	-				(59,356,109)		-	**(59,356,109)**	(59,356,109)
Total Comprehensive Income	-	-						**-**	**-**	
Transfer to reserve during the year	-	-							**-**	
Transfer to General Reserve	-	-	23,886,492			(964,868)		(22,921,624)	**-**	-
Provision on Non Banking Assets	-	-	-		-			-	**-**	-
Interest Receivable	-	-	-		293,709,977			(293,709,977)	**-**	-
Exchange Fluctuation Fund	-	-	-	8,995				(8,995)	**-**	-
Corporate Social Responsibility Fund	-	-	-					(1,184,676)	**1,184,676**	-
Employee Capability Enhancement Fund	-	-	-					(1,999,034)	**1,999,034**	-
Investment Adjustment Reserve	-	-	-					-	**-**	-
Debenture Redemption Reserve	-	-	-					(50,000,000)	**50,000,000**	-
Fair Value Reserve						16,890,575		(16,890,575)	**-**	-
Interest Capitalized Reserve					1,471,393			(1,471,393)	**-**	-
Deffered Tax Reserve		-	-	-		-	-	-	**-**	-
Transfer from reserve during the year	-							**-**	**-**	
Provision on Non Banking Assets	-	-	-		-			-	**-**	

Interest Receivable	-	-	-	(276,437,691)			276,437,691	-	-	
Acturial Loss Reserve	-	-	-	-			-	-	-	
Deferred Tax Reserve	-	-	-			-		-	-	
Investment Adjustment Reserve	-	-	-				-	-	-	
Utilization of Institution CSR Fund	-	-	-				4,342,933	**(4,342,933)**	-	
Transactions with owners, directly recognised in equity	-							-		
Share issued	-	-	-				-	-	-	
Share based payments	-	-	-				-	-	-	
Dividends to equity holders	-							-		
Bonus shares issued		-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-		-	-
Balance at 31st Ashwin 2083	**4,511,281,066**	-	**1,729,883,672**	**4,524,425**	**713,418,534**	**-**	**-**	**476,260,865**	**7,608,141,085**	**7,521,754,823**

Mahalaxmi Bikas Bank Ltd.

Condensed Statement of cash flows

As on Quarter ended Ashwin 2083

	Up to This Quarter	Corresponding Previous Year Ending
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	930,511,047.89	3,913,729,211
Fees and other income received	56,280,390.35	252,896,320
Dividend received	-	-
Receipts from other operating activities	2,397,842.39	20,425,582
Interest paid	(489,488,065.13)	(2,078,828,550)
Commission and fees paid	(5,350,460.62)	(22,418,383)
Cash payment to employees	(198,462,464.10)	(795,252,562)
Other expense paid	(181,789,779.02)	(718,536,129)
Operating cash flows before changes in operating assets and liabilities	114,098,511.75	**572,015,489**
(Increase)/Decrease in operating assets		
Due from Nepal Rastra Bank	(258,387,531.72)	177,717,649
Placement with bank and financial institutions	-	-
Other trading assets	-	-
Loan and advances to bank and financial institutions	585,963,371.42	1,040,537,899
Loans and advances to customers	(613,833,100.20)	(1,830,956,143)
Other assets	(145,534,206.67)	15,150,176
	(431,791,467.18)	**(597,550,419)**
Increase/(Decrease) in operating liabilities		
Due to bank and financial institutions	53,018,446.25	(460,211,765)
Due to Nepal Rastra Bank		
Deposit from customers	162,027,846.99	(105,546,113)
Borrowings		
Other liabilities	167,758,219.38	114,372,318
	382,804,512.62	**(451,385,559)**
Net cash flow from operating activities before tax paid	65,111,557.20	**(476,920,490)**
Income taxes paid	(50,771,824.17)	(269,979,269)
Net cash flow from operating activities	14,339,733.03	**(746,899,759)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(268,496,354.26)	(719,657,801)
Receipts from sale of investment securities	382,720.94	826,727
Purchase of property and equipment	-	(135,694,513)
Receipt from the sale of property and equipment	1,953,688.67	-
Purchase of intangible assets		

	-	(7,938,248)
Receipt from the sale of intangible assets	-	-
Purchase of investment properties	-	29,075,392
Receipt from the sale of investment properties	-	-
Interest received	95,526,560.80	420,441,833
Dividend received	21,958,965.61	83,355,536
Net cash used in investing activities	(148,674,418.24)	**(329,591,074)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt from issue of debt securities	-	-
Repayment of debt securities	-	-
Receipt from issue of subordinated liabilities	-	-
Repayment of subordinated liabilities	-	-
Receipt from issue of shares	-	-
Dividends paid	-	(230,719,803)
Interest paid	(28,027,397.25)	(110,000,000)
Other receipt/payment	-	-
Net cash from financing activities	(28,027,397.25)	**(340,719,803)**
Net increase (decrease) in cash and cash equivalents	(162,362,082.46)	(1,417,210,637)
Cash and cash equivalents at Asahd 2082	1,540,468,557.67	2,952,870,738
Effect of exchange rate fluctuations on cash and cash equivalents held	35,980.24	4,808,456
Cash and cash equivalents at 32nd Ashad End 2083	1,378,142,455.45	**1,540,468,557**

Mahalaxmi Bikas Bank Ltd.

Statement of Distributable Profit or Loss

As on Quarter ended 31st Ashwin 2083

(As per NRB Regulation)

Particulars	Current Year	Previous Year Corresponding
	Up to This Quarter	Up to This Quarter
Net profit or (loss) for the period end Ashwin, 2083	118,467,590	**97,512,436**
Appropriations:		
a. General reserve	(23,693,518)	(19,502,487)
b. Capital redemption reserve	(50,000,000)	(41,666,667)
c. Exchange fluctuation fund	(8,995)	(359,912)
d. Corporate social responsibility fund	(1,184,676)	(975,124)
e. Employees' training fund	(1,999,034)	(3,482,806)
f. Other-		
Investment Adjustment Reserve	-	-
Fair value reserve	(16,118,681)	-
CSR expense reversal	4,342,933	953,880
Profit or (loss) before regulatory adjustment	29,805,618	**32,479,320**
Regulatory adjustment:		
a. Interest receivable (-)/previous accrued interest received (+)	(17,272,286)	(44,477,328)
b. short loan loss provision in accounts (-)/reversal (+)	-	-
c. short provision for possible losses on investment (-)/reversal (+)	-	-
d. short loan loss provision on Non-Banking Assets (-)/reversal (+)	-	(17,472,256)
e. Deferred tax assets recognized (-)/ reversal (+)	-	-
f. Goodwill recognized (-)/ impairment of Goodwill (+)	-	-
g. Bargain purchase gain recognized (-)/reversal (+)	-	-
h. Actuarial loss recognized (-)/reversal (+)	-	-
i. Other (+/-)		-
Fair Value Gain On Investment	-	2,444,602
Interest Capitalized Reserve	(1,471,393)	-
Net profit for the period end Ashwin 2083 available for distribution	**11,061,940**	**(27,025,662)**

Opening Retained Earning	465,198,925	418,214,217
Adjustment (+/-)		-
Distribution:		
Bonus Share issued	-	-
Cash Dividend Paid	-	-
Total Distributable Profit or (Loss) as on Ashwin Quarter End, 2083	**476,260,865**	**391,188,555**
Annualized Distributable Profit/Loss per Share	11.29	7.22

MAHALAXMI BIKAS BANK LTD.

Notes to the Interim Financial Statements

For the quarter ended Ashwin, 2083

1. Basis of Preparation

The interim financial statements of the Bank have been prepared in accordance with Nepal Financial Reporting Standards (NFRS), including the carve-outs issued by the Institute of Chartered Accountants of Nepal on 20th September 2018. The disclosures made in the condensed interim financial information have been limited based on the format prescribed by Nepal Rastra Bank through NRB Directive 2081 and circulars issued thereon. The corresponding previous year figures are audited.

2. Statement of Compliance

The interim financial statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) and carve-outs issued by the Institute of Chartered Accountants of Nepal on 20th September 2018 on NFRS requirement, which allowed alternative treatments and the bank adopted following carve outs:

NAS 39: Financial Instruments: Recognition and measurement,

- Impairment accounting,
- Calculation of interest income on amortized cost

Financial information has been recorded in compliance with directives of Nepal Rastra Bank and relevant business practices followed by the bank unless as adjusted for compliance with NFRS.

3. Use of Estimates, Assumptions and Judgments

The preparation of Financial Statements in conformity with Nepal Financial Reporting Standards (NFRS) 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 from these estimates.

4. Changes in Accounting Policies

There are no changes in accounting policies and methods of computation since the publication of annual accounts for the year end Ashad 2078.

5. Significant Accounting Policies

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

5.1 Basis of Measurement

The interim financial statements have been prepared on a historical cost basis, except for available for sale investments, assets held for sale and discontinued operations, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss (FVTPL), all of which have been measured at fair value.

5.2 Basis of Consolidation

The Bank does not have control over any other entity for consolidation of Financial Statements.

5.3 Cash and Cash equivalent

Cash and cash equivalents include cash in hand, balances with B/FIs, money at call and short

notice and highly liquid financial assets with original maturities of three months or less from the acquisition dates that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are presented in the carrying value in the statement of financial position.

5.4 Financial Assets and Financial Liabilities

A. Recognition

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

B. Classification

I. Financial Assets

The Bank classifies the financial assets 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:

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 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 are classified as fair value through profit or loss (FVTPL) if they are held for trading or are designated at fair value through profit or loss. Upon initial recognition, transaction cost is directly attributable to the acquisition are recognized in 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.

✓ **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 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.

- ✓ **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 rate method.

C. Measurement

i. Initial Measurement

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue except on the case of financial assets and liabilities recorded at fair value through profit or loss. Transaction cost in relation to financial assets and liabilities at fair value through profit or loss are recognized in Statement of Profit or Loss.

ii. 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.

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.

5.4.1 De-recognition

De-recognition of Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or 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.

De-recognition of Financial Liabilities

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.

5.4.2 Determination of Fair Value

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values. Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Bank recognizes transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

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.

5.4.3 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 investment securities measured at amortized cost 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 investment securities measured at amortized cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortized cost 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.

a) ***Impairment losses on assets measured at amortized cost***

As per NAS 39

Financial assets carried at amortized cost (such as amounts due from Banks, loans and advances to customers as well as held–to–maturity investments are 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.

Loans and advances to customers with significant value i.e. NPR 25 million individually 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. 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 twelve broad products as follows:

a. Agriculture Loan
b. Business Overdraft Loan
c. Business Term Loan
d. Deprive Sector Individual Loan
e. Education Loan (Term)

f. Gold & Silver Loan
g. Hire Purchase Loan
h. Housing Loan (Term)
i. Loan against Fixed deposit
j. Margin Lending Loan
k. Personal Loan (Overdraft)
l. Personal Loan (Term)

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 statement of other comprehensive income and statement of changes in equity. If a write–off is later recovered, the recovery is credited to the 'Statement of Profit or Loss.

Loan Loss Provision as per Nepal Rastra Bank Directive

Loan loss provisions in respect of loans and advances are based on minimum provisioning level prescribed in relevant NRB guidelines and amount determined as per ECL provision of NFRS 9 and NFRS 9- Expected Credit Loss Related Guidelines, 2024 issued by NRB.

5.5 Trading Assets

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 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 and loss account.

5.6 Derivatives Assets and Derivative Liabilities

The Bank does not deal with any derivative financial instruments.

5.7 Property and Equipment

a. Recognition and Measurement

The cost of an item of property and equipment shall be recognized as an asset, initially recognized at cost, if, and only if:

- ✓ it is probable that future economic benefits associated with the item will flow to the entity; and
- ✓ The cost of the item can be measured reliably.

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.

The cost of self-constructed assets includes the following:

- ✓ the cost of materials and direct labor.
- ✓ any other costs directly attributable to bringing the assets to a working condition for their intended use.

- ✓ when the Bank has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- ✓ Capitalized borrowing costs for qualifying assets
- ✓ The Bank adopts cost model for entire class of property and equipment. Neither class of the property and equipment are measured at revaluation model nor is their fair value measured at the reporting date. The items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Subsequent expenditure is capitalized if it is probable that the future economic benefits from the expenditure will flow to the Bank. Ongoing repairs and maintenance to keep the assets in working condition are expensed as incurred. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized within other income in profit or loss.

Assets with a value of less than NPR 5,000 are charged off to revenue irrespective of their useful life in the year of purchase.

b. Capital Work in Progress (CWIP)

The Bank does not have any CWIP as on the reporting date.

c. Depreciation

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful life as per management judgment as follows:

S. No.	Asset	Estimated Useful Life
1.	Building	50 Years
2.	Vehicle Office	7 Years
3.	Machinery	8 Years
4.	Furniture	8 Years
6.	Office Equipment	7 Years
7.	Computer Hardware	5 Years
8.	Leasehold Expenditure	Over the leasehold period
9.	Computer Software	5 Years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. The value of the assets fully depreciated but continued to being use is considered not material.

At each reporting date, assets are also assessed for indicators of impairment. If an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately to the recoverable amount.

d. De-recognition

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