

PRABHU BANK LIMITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**SECOND QUARTER END,
F/Y 2079-80**



Prabhu Bank Ltd.
Condensed Consolidated Statement of Financial Position
As on Quarter ended 2nd Quarter 2079/80

NPR in '000

Assets	Group		Bank	
	This Quarter Ending	Immediate Previous Year Ending	This Quarter Ending	Immediate Previous Year Ending
Cash and cash equivalent	11,177,541	8,107,422	10,494,917	7,664,020
Due from Nepal Rastra Bank	14,422,588	13,514,389	14,422,588	13,514,389
Placement with Bank and Financial Institutions	-	12,796	-	12,796
Derivative Financial Instruments	24,789	1,523,799	24,789	1,523,799
Other Trading Assets	845,070	895,181	183,794	124,284
Loan and advances to B/FIs	7,691,062	6,411,863	7,691,062	6,411,863
Loan and advances to Customers	245,385,577	145,381,571	245,385,577	145,381,571
Investment Securities	51,003,883	49,700,752	51,003,883	49,700,752
Current Tax Assets	315,068	56,669	317,526	109,057
Investment in Subsidiaries	-	-	695,729	524,229
Investment in Associates	27,500	-	27,500	-
Investment Property	472,041	458,750	472,041	458,750
Property & Equipment	5,078,679	3,608,467	5,032,345	3,545,392
Goodwill and Intangible Assets	110,124	142,729	109,080	115,160
Deferred Tax Assets	724,845	497,083	701,307	458,986
Other Assets	7,192,295	3,282,868	6,942,801	3,207,953
Total Assets	344,471,063	233,594,340	343,504,939	232,753,001
Liabilities				
Due to Bank and Financial Institutions	15,346,374	4,333,710	15,346,374	4,308,715
Due to Nepal Rastra Bank	5,973,163	16,083,276	5,973,163	16,083,276
Derivative Financial Instruments	23,876	1,516,657	23,876	1,516,657
Deposit from customer	270,475,665	178,637,997	270,923,379	178,652,185
Borrowing	-	-	-	-
Current Tax Liabilities	-	-	-	-
Provisions	93,879	23,325	93,879	23,325
Deferred Tax Liabilities	-	-	-	-
Other Liabilities	11,053,238	7,529,501	10,318,392	7,383,320
Debt Securities Issued	7,838,025	5,637,773	7,838,025	5,637,773
Subordinated Liabilities	-	-	-	-
Total Liabilities	310,804,219	213,762,239	310,517,087	213,605,250
Equity				
Share Capital	23,542,490	12,708,704	23,542,490	12,708,704
Share Premium	-	-	-	-
Retained Earnings	504,062	1,183,399	364,224	1,032,974
Reserves	9,079,770	5,404,705	9,081,138	5,406,072
Total Equity Attributable to equity holders	33,126,322	19,296,807	32,987,852	19,147,750
Non-controlling interest	540,523	535,293	-	-
Total Equity	33,666,844	19,832,100	32,987,852	19,147,750
Total Liabilities and equity	344,471,063	233,594,340	343,504,939	232,753,001

Prabhu Bank Ltd.
Condensed Consolidated Statement of Profit or Loss
As on Quarter ended 2nd Quarter 2079/80

NPR in '000

Particulars	Group				Bank			
	Current year		Previous Year corresponding		Current year		Previous Year corresponding	
	This Quarter Ending	Upto this quarter(YTD)	This Quarter Ending	Upto this quarter(YTD)	This Quarter Ending	Upto this quarter(YTD)	This Quarter Ending	Upto this quarter(YTD)
Interest income	5,441,444	11,197,802	3,999,790	7,676,142	5,410,122	11,153,981	3,993,377	7,661,267
Interest Expense	(3,992,673)	(7,763,098)	(2,590,610)	(4,835,971)	(3,992,172)	(7,763,098)	(2,590,737)	(4,836,266)
Net Interest income	1,448,771	3,434,704	1,409,179	2,840,171	1,417,950	3,390,882	1,402,640	2,825,002
Fees and commission income	328,911	831,489	329,972	775,902	314,697	783,761	307,123	700,273
Fees and commission expense	(15,297)	(50,346)	(31,198)	(51,219)	(17,547)	(36,302)	(16,498)	(30,698)
Net Fees and commission income	313,614	781,143	298,774	724,683	297,150	747,458	290,625	669,575
Net Interest, fee and commission income	1,762,384	4,215,847	1,707,954	3,564,854	1,715,100	4,138,341	1,693,265	3,494,577
Net trading income	125,401	121,804	122,220	101,984	81,947	105,206	89,767	143,554
Other operating income	85,063	148,199	48,716	135,721	61,203	115,899	42,006	128,839
Total operating income	1,972,848	4,485,850	1,878,890	3,802,559	1,858,250	4,359,446	1,825,038	3,766,971
Impairment charge/(reversal) f0r loans and other losses	(189,441)	(426,749)	119,645	213,938	(189,441)	(426,749)	119,645	213,938
Net operating income	1,783,407	4,059,101	1,998,535	4,016,498	1,668,810	3,932,696	1,944,683	3,980,909
Operating expense								
Personnel expense	(716,745)	(1,568,438)	(613,147)	(1,477,662)	(698,990)	(1,542,491)	(607,186)	(1,465,049)
Other operating expense	(264,894)	(550,656)	(280,003)	(522,640)	(246,711)	(526,689)	(279,802)	(507,158)
Depreciation & Amortization	(108,460)	(230,090)	(72,091)	(140,582)	(107,691)	(229,322)	(72,091)	(140,582)
Operating profit	693,309	1,709,916	1,033,294	1,875,613	615,417	1,634,194	985,604	1,868,120
Non-operating income	22,137	22,827	13,775	14,082	22,137	22,827	13,775	14,082
Non-operating expense	(41,633)	(44,988)	(40,942)	(40,942)	(41,633)	(44,988)	(40,942)	(40,942)
Profit before income tax	673,812	1,687,755	1,006,128	1,848,753	595,921	1,612,033	958,438	1,841,261
Income tax expense								
Current tax	(105,226)	(505,138)	(332,759)	(578,066)	(99,814)	(499,727)	(332,246)	(577,553)
Deferred tax	(14,623)	67,528	(15,263)	11,747	(1,152)	87,655	(503)	(1,697)
Profit/(loss) for the period	553,964	1,250,144	658,106	1,282,434	494,955	1,199,961	625,689	1,262,010

Prabhu Bank Ltd.
Condensed Consolidated Statement of Comprehensive Income
As on Quarter ended 2nd Quarter 2079/80

NPR in '000

Particulars	Group				Bank			
	Current year		Previous Year corresponding		Current year		Previous Year corresponding	
	This Quarter Ending	Upto this quarter(YTD)	This Quarter Ending	Upto this quarter(YTD)	This Quarter Ending	Upto this quarter(YTD)	This Quarter Ending	Upto this quarter(YTD)
Profit for the period	553,964	1,250,144	658,106	1,282,434	494,955	1,199,961	625,689	1,262,010
Other comprehensive income	(147,979)	(80,083)	20,987	(37,868)	(147,979)	(80,083)	20,987	(37,868)
a) Items that will not be reclassified to profit or loss	(147,979)	(80,083)	20,987	(37,868)	(147,979)	(80,083)	20,987	(37,868)
Gains/(losses) from investments in equity instruments measured at fair value	(211,399)	(114,404)	29,981	(54,097)	(211,399)	(114,404)	29,981	(54,097)
Gain/(loss) on revaluation	-	-	-	-	-	-	-	-
Actuarial gain/loss on defined benefit plans	-	-	-	-	-	-	-	-
Income tax relating to above items	63,420	34,321	(8,994)	16,229	63,420	34,321	(8,994)	16,229
Net other compressive income that will not be reclassified to profit or loss								
b) Items that are or may be reclassified to profit or loss								
Gains/(losses) on cash flow hedge								
Exchange gains/(losses) (arising from translating financial assets of foreign operation)								
Income tax relating to above items								
Net other compressive income that are or may be reclassified to profit or loss								
c) Share of other comprehensive income of associate accounted as per equity method								
Other comprehensive income for the period, net of income tax								
Total Comprehensive Income for the period	405,985	1,170,062	679,093	1,244,567	346,976	1,119,878	646,676	1,224,142
Profit attributable to:								
Equity holders of the Bank	381,864	1,151,025	664,083	1,236,356	346,976	1,119,878	646,676	1,224,142
Non-controlling interest	24,121	19,037	15,010	8,211	-	-	-	-
Total	405,985	1,170,062	679,093	1,244,567	346,976	1,119,878	646,676	1,224,142

Earnings per share

Basic earnings per share	10.62	20.18	10.19	19.86
Annualized Basic Earnings Per Share	10.62	20.18	10.19	19.86
Diluted earnings per share	10.62	20.18	10.19	19.86

Ratios as per NRB Directive

Particulars	Group				Bank			
	Current year		Previous Year corresponding		Current year		Previous Year corresponding	
	This Quarter Ending	Upto this quarter(YTD)	This Quarter Ending	Upto this quarter(YTD)	This Quarter Ending	Upto this quarter(YTD)	This Quarter Ending	Upto this quarter(YTD)
Capital fund to RWA		12.84%		12.89%		12.84%		12.89%
Non-performing loan (NPL) to total loan		1.98%		1.23%		1.98%		1.23%
Total loan loss provision to Total NPL		153.53%		189.84%		153.53%		189.84%
Cost of Funds		8.60%		6.16%		8.60%		6.16%
Credit to Deposit Ratio		88.30%		81.90%		88.30%		81.90%
Base Rate		11.44%		8.68%		11.44%		8.68%
Average Base Rate (three months)		11.14%		8.45%		11.14%		8.45%
Interest Rate Spread		4.34%		3.27%		4.34%		3.27%

Prabhu Bank Ltd.
Condensed Consolidated Statement of Change in Equity
As on Quarter ended 2nd Quarter 2079/80

NPR in '000

Group													
Attributable to equity holders of the bank													
	Share capital	share premium	General reserve	exchange equalization reserve	Regulatory Reserve	fair value reserve	revaluation reserve	retained earning	other reserve	Total	Non-controlling interest	total equity	
Balance at Shrawan 1 2078	11,347,057	-	2,376,761	9,312	1,792,690	416,396	-	1,723,135	(377,157)	17,288,194	650,585	17,938,779	
Profit for the period	-	-	-	-	-	-	-	1,788,332	-	1,788,332	(44,788)	1,743,544	
other comprehensive income	-	-	-	-	-	284,748	-	-	34,383	319,132	-	319,132	
Total comprehensive income	-	-	-	-	-	284,748	-	1,788,332	34,383	2,107,464	(44,788)	2,062,675	
Transfer to Reserve during the year			331,556	3,242	547,939	-	-	(937,058)	54,321	(0)	-	-	
Transfer from Reserve during the year			9,493		-	(47,467)		37,973					
Contribution from and distribution to owner													
Share issued										-		-	
Share based payment													
Dividend to equity holders													
Bonus share issued	1,361,647	-	-	-	-	-	-	(1,361,647)					
Cash dividend paid	-	-	-	-	-	-	-	(71,666)		(71,666)	(70,504)	(142,170)	
other								4,329	(31,513)	(27,184)		(27,184)	
Total contributions by and distributions	1,361,647	-	-	-	-	-	-	(1,428,984)	(31,513)	(98,850)	(70,504)	(169,354)	
Balance at Ashadh 31 2079	12,708,704	-	2,717,810	12,554	2,340,629	653,678	-	1,183,399	(319,965)	19,296,807	535,293	19,832,100	
Balance at Shrawan 1 2079	12,708,704	-	2,717,810	12,554	2,340,629	653,678	-	1,183,399	(319,965)	19,296,807	535,293	19,832,100	
Transfer from merger	10,007,720	-	1,441,201	13,497	2,204,208	-	-	(707,115)	(38,604)	12,920,907	30,292	12,951,199	
Balance at Shrawan 1 2079 after adjustment	22,716,424	-	4,159,011	26,051	4,544,837	653,678	-	476,283	(358,569)	32,217,714	565,585	32,783,300	
Profit for the period								1,231,107	-	1,231,107	19,037	1,250,144	
other comprehensive income						(80,083)			-	(80,083)		(80,083)	
Total comprehensive income	-	-	-	-	-	(80,083)	-	1,231,107	-	1,151,025	19,037	1,170,062	
Transfer to Reserve during the year			239,992	601	(111,860)	-	-	(140,733)	12,000	0		0	
Transfer from Reserve during the year			-		-			-					
Contribution from and distribution to owner													
Share issued	-									-		-	
Share based payment													
Dividend to equity holders													
Bonus share issued	826,066	-	-	-	-	-	-	(826,066)	-	-	-	-	

Cash dividend paid	-	-	-	-	-	-	-	(236,531)	-	(236,531)	(44,100)	(280,631)
other									(5,886)	(5,886)		(5,886)
Total contributions by and distributions	826,066	-	-	-	-	-	-	(1,062,596)	(5,886)	(242,417)	(44,100)	(286,517)
Balance at Poush 30 2079	23,542,490	-	4,399,003	26,652	4,432,976	573,595	-	504,062	(352,456)	33,126,322	540,523	33,666,844

Share issued										-
Share based payment										-
Dividend to equity holders										-
Bonus share issued	826,066							(826,066)		-
Cash dividend paid								(190,631)	(190,631)	
other									(5,886)	(5,886)
Total contributions by and distributions	826,066	-	-	-	-	-	-	(1,016,696)	(5,886)	(196,517)
Balance at Poush 30 2079	23,542,490	-	4,399,003	26,652	4,432,976	573,595	-	364,224	(351,089)	32,987,852

Prabhu Bank Ltd.
Condensed Consolidated Statement of Cash flow
As on Quarter ended 2nd Quarter 2079/80

NPR in '000

Particulars	Group		Bank	
	Upto this quarter	Immediate Previous Year Ending	Upto this quarter	Immediate Previous Year Ending
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	9,762,357	12,372,690	9,745,314	12,337,377
Fees and other income received	829,363	1,534,842	783,761	1,376,884
Divided received	-	-	-	-
Receipts from other operating activities	288,077	312,141	241,527	485,382
Interest paid	(7,763,098)	(11,337,512)	(7,763,098)	(11,333,119)
Commission and fees paid	(48,177)	(156,671)	(36,302)	(83,638)
Cash payment to employees	(1,016,651)	(2,048,857)	(995,381)	(2,021,434)
Other expense paid	(591,223)	(1,066,943)	(571,678)	(1,033,478)
Operating cash flows before changes in operating	1,460,648	(390,310)	1,404,142	(272,026)
(Increase)/Decrease in operating assets				
Due from Nepal Rastra Bank	2,605,336	(2,449,738)	2,605,336	(2,449,738)
Placement with bank and financial institutions	454,299	582,954	211,799	582,954
Other trading assets	180,510	593,532	(59,510)	26,502
Loan and advances to bank and financial institutions	844,612	950,587	844,612	950,587
Loans and advances to customers	(14,480,691)	(8,319,359)	(14,480,691)	(8,319,359)
Other assets	815,764	5,293,739	1,033,526	5,293,376
	(9,580,170)	(3,348,286)	(9,844,927)	(3,915,679)
Increase/(Decrease) in operating liabilities				
Due to bank and financial institutions	8,992,542	(1,257,477)	9,017,537	(1,282,472)
Due to Nepal Rastra Bank	(10,783,276)	10,294,291	(10,783,276)	10,294,291
Deposit from customers	(725,457)	13,859,756	(839,640)	13,801,684
Borrowings	(1,300,000)	-	(1,300,000)	-
Other liabilities	(1,749,627)	(3,077,999)	(2,096,177)	(2,734,083)
Net cash flow from operating activities before tax paid	(13,685,340)	16,079,976	(14,442,342)	15,891,716
Income taxes paid	(778,402)	(989,588)	(688,746)	(963,118)
Net cash flow from operating activities	(14,463,743)	15,090,388	(15,131,088)	14,928,598
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities	11,758,069	(16,545,604)	11,758,069	(16,545,604)
Receipts from sale of investment securities	-	520,948	-	520,948
Purchase of property and equipment	(165,219)	(1,831,086)	(139,700)	(1,773,434)
Receipt from the sale of property and equipment	-	23,878	-	23,878
Purchase of intangible assets	44,986	27,349	17,417	28,550
Receipt from the sale of intangible assets	-	-	-	-
Purchase of investment properties	-	-	-	-
Receipt from the sale of investment properties	17,656	61,231	17,656	61,231
Interest received	1,408,666	2,038,075	1,408,666	2,038,075
Dividend received	(73,382)	95,756	-	95,756
Net cash used in investing activities	12,990,776	(15,609,453)	13,062,109	(15,550,599)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipt from issue of debt securities	252	-	252	-
Repayment of debt securities	-	-	-	-
Receipt from issue of subordinated liabilities	-	-	-	-
Repayment of subordinated liabilities	-	-	-	-
Receipt from issue of shares	-	-	-	-
Dividends paid	(280,631)	(215,552)	(190,631)	(71,666)

Interest paid	-	-	-	-
Other receipt/payment	67,496	(27,184)	(5,886)	(27,184)
Net cash from financing activities	(212,883)	(242,736)	(196,265)	(98,850)
Net increase (decrease) in cash and cash equivalents	(1,685,850)	(761,801)	(2,265,244)	(720,851)
Cash and cash equivalents at Sawan 1,2078	8,107,422	8,856,254	7,664,020	8,371,903
Effect of exchange rate fluctuations on cash and cash equivalents Held	2,405	12,969	2,405	12,969
Transferred from merged entities	4,753,564	-	5,093,736	-
Cash and cash equivalents at Ashadh end 2079	11,177,541	8,107,422	10,494,917	7,664,020

Prabhu Bank Limited

Notes to the Consolidated Interim Financial Statements For the period ended 30th Poush, 2079

1. Reporting Entity

Prabhu Bank Ltd. ("the Bank") formerly known as KIST Bank Ltd. is a limited liability company incorporated and operating in Nepal. The address of its registered office is G.P.O. Box 8975, Babarmahal, Kathmandu, Nepal. The Bank carries out commercial banking business in Nepal as class "A" financial institution under the Bank and Financial Institution Act, 2063. The Bank is listed in Nepal Stock Exchange Limited.

Subsidiary:

Prabhu Capital Limited (the Subsidiary) is the subsidiary company of the Bank. It was incorporated on October 27, 2008 (Kartik 11, 2065) as public company. The Bank made an equity investment in Prabhu Capital on May 31, 2017 (Jestha 17, 2074). The principal activities of the Subsidiary are to provide Merchant Banking Services. The Bank as on date holds 51% controlling interest in the Subsidiary.

Century Capital Markets Limited (the subsidiary) also deals in Merchant Banking Services. The Bank as on date holds 85.75% controlling interest in the Subsidiary.

Besides, 100% subsidiary of the Bank has been registered for the brokerage services in the name of "Prabhu Stock Market Limited", on June 12, 2019 (Jestha 29, 2076).

The Bank and the Subsidiary are collectively referred to as "the Group".

2. Basis of Preparation

Statement of Compliance

The Financial Statements of the entity which comprises components mentioned above have been prepared in compliance with Nepal Financial Reporting Standards and Nepal Accounting Standards (hereafter referred as NFRS), laid down by the Institute of Chartered Accountants of Nepal and in compliance with the requirements of the Companies Act, 2006.

Reporting Period

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

Relevant Statement	Financial	Nepalese Calendar Date / Period	English Calendar Date / Period
Statement of Financial Position		30 th Poush, 2079	14 th January, 2023
Statement of Profit/Loss		1 st Shrawan, 2079 to 30 th Poush, 2079	17 th July 2022 to 14 th January, 2023

Functional and Presentation Currency

The Financial Statements of Entity are presented in Nepalese Rupees (Rs.), which is the currency of the primary economic environment in which the Entity operates. There was no change in Entity's presentation and functional currency during the year under review.

3. Use of Estimates, Assumptions and Judgments

The Bank, in order to comply with the financial reporting standards has made accounting judgements as having potentially material impact on the financial statement. Those judgements and their impact on the financial statement have been described herein. The management believes that the estimates used in the preparation of the financial statement are prudent and reasonable. Actual results may differ from the estimates. Any revision to the accounting estimate is recognized prospectively in the current and future period.

4. Changes in Accounting Policies

The Bank applies its accounting policies consistently from year to year except where deviations have been explicitly mandated by the applicable accounting standards.

New Standards in Issue but Not Yet Effective

There are no standards which have been issued but not yet effective up to the date of issuance of the financial statements.

New Standards and Interpretation not adapted

NFRS 1 First- time adoption of Nepal Accounting Standards allows first time adopters certain exemptions from the retrospective application of certain NFRS. The Bank thus has taken the following exemptions on Business Combinations.

- Not applied for subsidiaries, which are considered business for NFRS, or
- In interest in associates and joint ventures that occurred before 17th July 2016.

Use of this exemption means that the NAS carrying amounts of assets and liabilities, which are required to be recognized under NFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with NFRS. Assets and liabilities that do not qualify for recognition under NFRS are excluded from the opening NFRS statement of financial position.

Discounting

When the realization of assets and settlement of obligation is for more than one year, the Bank considers the discounting of such assets and liabilities where the impact is material.

Discounting has been applied in case of measurement of prepaid expenses of staff loan. Employee benefits has been determined by considering discount rate as the average yield on government bonds issued during the period having maturity of five years or more. For the calculation of prepaid employee expenditure on subsidized loans discount rate as the average yield on government bonds issued during the period having maturity of five years or more plus premium of one percent has been used.

5. Significant Accounting Policies

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

5.1 Basis of Measurement

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

- Financial assets, held for trading are recorded in the statement of financial position at fair value and the changes in the value have been routed through profit or loss statement.
- Available for sale investments (quoted) are measured at fair value.
- Liabilities for defined benefit obligations and staff loans provided at subsidized interest rates as per Employee Bylaws of the Bank are recognized at the present value of the defined benefit obligation less the fair value of the plan assets.

5.2 Basis of Consolidation

a. Business Combinations

For the purpose of business combination, acquisition method has been adopted as prescribed by the NFRS 3 -"Business Combination". The cost of an acquisition has been measured as the difference between the fair value of the assets obtained and the fair value of purchase consideration paid. The excess of the purchase consideration paid over the fair value of the asset has been recognized as goodwill. The excess of the fair value of the asset obtained and the purchase consideration paid has been recognized as gain on business purchase and credit to profit and loss immediately.

b. Non-Controlling Interest (NCI)

Non-controlling interests are measured at fair value of the proportionate share of the asset of the subsidiary at the date of acquisition. After the date of acquisition, the share of the income has been appropriately adjusted to the NCI.

c. Subsidiaries

The bank recognizes an entity in which it has a controlling power as its subsidiary. Control is defined as the ability to affect the returns over the investee, has rights to variable returns from its involvement in the entity. The bank consolidates such entity in the preparation of the financial statement from the date when it starts exercising power over the entity and ceases the consolidation from the date the power over the investee ceases.

d. Loss of Control

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

e. Special Purpose Entity (SPE)

Special purpose entity is a legal entity (usually a limited company of some type or, sometimes, a limited partnership) created to fulfil narrow, specific or temporary objectives. SPEs are typically used by companies to isolate the firm from financial risk.

The Bank does not have any special purpose entity as of now.

f. Transaction Elimination on Consolidation

Bank eliminates all the intercompany transactions, income and expenses while preparing consolidated financial statements as per NFRS 10 "Consolidated Financial Statement".

5.3 Cash and Cash Equivalent

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less and bank overdrafts.

5.4 Financial Assets and Financial Liabilities

Recognition

The entity recognizes financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognizes changes in fair value of the financial assets or financial liabilities from that date.

Classification & Measurement

Financial Assets are classified mainly under amortized cost, fair value through profit or loss and fair value through OCI. Financial Liabilities are classified at amortized cost or fair value through profit or loss.

The basic concept for the categorization of these assets depends upon their characteristics of business model and contractual cash flow model. Business model characteristics are whether the asset has been held to gain trading benefits or it has been held to collect contractual cash flow. Similarly, contractual cash flow characteristics determine whether the cash flow from the asset is solely the repayment of principal and interest or not. Principal represents the fair value of the instrument at the time of initial recognition while interest represents the time value of money and credit risk associated with the compensation.

1. Fair Value Through Profit or Loss:

Assets are categorized as fair through profit or loss if the asset has been held in-order to obtain trading gain rather than to obtain contractual cash flows.

An asset can be recognized under this category if the bank has made an irrevocable decision to categorize an asset under this category in order to avoid accounting mismatch.

2. At amortized Cost:

Assets are categorized under this category if the business model is to obtain the contractual cash flow from the assets and the contractual cash flow is the solely repayment of principal and interest

3. Fair Value Through OCI:

Assets are categorized under this category if the business model is to obtain the contractual cash flow from the assets, but the contractual cash flow isn't solely repayment of principal and interest.

Financial Liabilities:

Classification of financial liabilities

1. Financial liabilities at fair value through profit or loss:

These include financial liabilities that the entity either has incurred for trading purposes or otherwise has elected to classify into this category. Derivative liabilities are always treated as held for trading unless they are designated and effective hedging instruments. The designation of hedging instruments is discussed later in this chapter.

2. Financial Liabilities at Amortized cost:

It is the default category for financial liabilities that do not meet the definition of financial liabilities at fair value through profit or loss. All financial liabilities will fall into this category. Examples of financial liabilities that generally would be classified in this category are account payables, note payables, issued debt instruments, and deposits from customers.

De-recognition

Financial Assets are derecognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Financial liabilities at fair value through profit or loss are derecognized when the obligation specified in the contract is discharged or expired.

Realized gains and realized losses on de-recognition are determined using the weighted average method and are included in the profit or loss in the period in which they arise as gain on sale of securities. The realized gain is the difference between an instrument's weighted average cost and disposal amount.

Determination of Fair Value

'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 in the principal or, in its absence, the most advantageous market to which the Entity has access at that date. The fair value of a liability reflects its non-performance risk. Fair value also represents the value of a company's assets and liabilities when a subsidiary company's financial statements are consolidated with a parent company.

Valuation hierarchy

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Bank uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

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.

Impairment

At each reporting date, the Entity assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective

evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer.
- default or delinquency by a borrower.
- the restructuring of a loan or advance by the Entity on terms that the Entity would not consider otherwise.
- indications that a borrower or issuer will enter bankruptcy.
- the disappearance of an active market for a security; or
- Observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Entity considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and receivables and held-to-maturity investment securities are assessed for specific impairment.

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and the new financial asset is recognized at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in de-recognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognized through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognized in OCI.

5.5 Trading Assets

Trading Assets are those assets which are held for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. It includes non-derivative financial assets.

The bank currently doesn't hold any asset to be classified as trading assets.

5.6 Derivative Assets and Derivative Liabilities

Derivative assets and liabilities (herein referred to as instrument) is a contract whose value changes to the change in agreed-upon underlying financial asset/liability which requires no initial net investment and is settled at future date. Derivative instruments include transactions like interest rate swap, currency swap, forward foreign exchange contract etc. held for trading as well as risk management purposes. Derivative financial instruments are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date.

5.7 Property & Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used during more than one period.

Recognition and Measurement

As per NAS 16 – “Property plant and equipment”, Items of property, plant 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.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment as mentioned in NAS 16.

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 recognised within other income in profit or loss

Subsequent Costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Entity. On-going repairs and maintenance are expensed as incurred.

Assets with a value of less than NPR 10,000 are charged off to revenue in the year of purchase irrespective of their useful life.

Depreciation is charged to Profit & Loss Account on a Written-down-Value method over the estimated useful life of the relevant assets. For calculation of depreciation, assets used for more than six months in a F/Y are considered full value, three to six months at two third of the cost and less than three months at one third of the cost. The rates of depreciation are determined based on the estimated useful life are as follows:

Nature of Assets	Depreciation Rate (%)
Buildings	5
Vehicles	20
Office Equipment	25
Computers and Accessories	25
Furniture and Fixtures	25
Machinery Items (ATM, Generator)	15

Leased assets and leasehold improvement are amortized on a straight-line basis using the rates determined with reference to the lease period or 10% whichever is higher.

Software applications purchased by the Bank and system development expenses are capitalized at acquisition cost and amortized over a period of five years from the date of acquisition.

De-recognition

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

5.8 Goodwill and Intangible Assets

Goodwill

“Goodwill” denotes the value of certain non-monetary, non-physical resources of the business that are not identifiable. Goodwill is more of a miscellaneous category for intangible assets that are harder to parse out individually or measured directly. Customer loyalty, brand equity, name/brand recognition and company reputation all the things that make a company worth more than its book value, or quantifiable assets count as goodwill. Goodwill has a useful life which is indefinite, unlike most of the other intangible assets. Goodwill only shows up on a balance sheet when two companies complete a merger or acquisition. When a company buys another firm, anything it pays above and beyond the net value of the target's identifiable assets becomes goodwill on the balance sheet. Goodwill is a premium paid over the fair

value of assets during the purchase of a company. Hence, it is tagged to a company or business and cannot be sold or purchased independently

Intangible Assets

Software has been categorized under Intangible Assets. Software acquired by the Group is measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is five years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

5.9 Investment Property

Investment property is the non-current asset held by the entity for capital appreciation or rental rather than owner-occupied. It is not held for the consumption of business. The bank doesn't intentionally purchase any property for the capital appreciation or rental.

As per the Directive of NRB, this heading shall include land, land and building acquired as non-banking asset but not sold.

The bank has adopted cost model for the recognition and measurement of investment property. According to which the bank has initially recognized the assets at cost and subsequently depreciated such asset as per NAS 40 "Investment Property".

5.10 Income Tax Current Tax

Provision for current income tax is made in accordance with the provisions of the prevailing Income Tax Act, 2058 and Rules including amendments thereon. Current tax payable (or recoverable) is based on the taxable profit for the year. Taxable profit differs from the profit reported in the statement of profit or loss, because some item of income or expense are taxable or deductible in different years or may never be taxable or deductible.

Net of Current tax assets and current tax liabilities have been shown on the face of statement of financial position.

Deferred Tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted on the reporting date. The existing tax rate 30% has been taken for the computation of deferred tax for the current year.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

5.11 Deposits, Debt Securities Issued and Subordinated Liabilities

The estimated fair value of deposits with no stated maturity period is the amount repayable on demand.

Deposits by banks

Deposits by banks comprise amounts owed to other domestic or foreign banks.

Customer accounts

Customer accounts comprise amounts owed to creditors that are not banks.

However, liabilities in the form of debt securities and any liabilities for which transferable certificates have been issued are excluded (as they form part of debt securities in issue).

Deposits by banks & customers are financial liabilities - as there is an obligation to deliver cash or financial assets back to the depositing bank or customer – and are initially recognised at fair value, plus for those financial liabilities not at fair value through profit and loss, transaction costs directly attributable to the acquisition. Fair value is usually the transaction price.

The bank borrows money by issuing debt securities and subordinated debt. The borrowing is acknowledged or evidenced by issue of a negotiable instrument. The negotiable instrument can be certificate of deposit, commercial paper or debt note.

Subordinated debt is issued to meet the capital requirements at bank level and to supply the capital to various operations. This debt generally consists of negotiable instruments and is usually listed on exchanges providing an active secondary market for the debt.

Debt Securities Issued

The Group presents debenture issued by the Bank under this line item. These are classified as financial liabilities measured at amortized cost.

Subordinated Liabilities

These comprise of liabilities subordinated, at the event of winding up, to the claims of depositors, debt securities issued and other creditors. Items eligible for presentation under this line item include redeemable preference share, subordinated notes issued, borrowings etc. These are subject to the same accounting policies applied to financial liabilities measured at amortized cost. The Group does not have any subordinated liabilities at the reporting date other than debt securities reported elsewhere.

5.12 Provisions

A provision is recognized if, as a result of a past event, the Entity 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. A provision for onerous contracts is recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Provision is not recognized for future operating losses.

5.13 Revenue Recognition**Interest Income**

Interest Income is recognized on accrual basis using the effective interest rate method for all financial assets measured at amortized cost, interest bearing financial asset designated at fair value through profit or loss or classified as available for sale. 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.

In-case a financial asset has been impaired the bank reduces the carrying amount of the asset to its estimated recoverable amount using the effective interest rate of the instrument and continues unwinding of the discount rate as interest income.

Fee and Commission Income

Fee income is earned for diverse ranges of services provided by the bank to its customers. Fee income arises on the execution of a significant act completed or from provision of services like asset management, portfolio management,

management advisory and service fees etc. The fees and commission income that are integral to the effective interest rate on the financial assets are included in the measurement of the effective interest rate and shall not be recognized as income, however immaterial amount can be recognized in profit or loss account as income.

Dividend Income

Dividend income is recognized in profit or loss on an accrual basis when the Entity's right to receive the dividend is established.

Dividends are presented in net trading income or other operating income based on the underlying classification of the equity investment.

Net Trading Income

Trading income comprises gains less losses relating to trading assets and liabilities and includes all realized interest; dividend and foreign exchange differences as well as unrealized changes in fair value of trading assets and liabilities shall be presented under this account head. The term 'Trading', in

context of financial instruments, is defined as active and frequent buying and selling of financial instruments with the objective of generating a profit from short-term fluctuations in price or dealer's margin. Gains and losses on trading instruments are recognised in the income statement on a mark-to-market basis and not on a cash basis.

Net Income from Other Financial Instrument at Fair Value through Profit or Loss

At initial recognition, the bank may choose to designate certain financial assets and liabilities as being held at fair value through profit or loss (the fair value option). Realised and unrealised gains and losses on these instruments are reported through net trading income.

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

5.14 Interest Expense

Interest expense has been recognized in the accrual basis using the effective interest rate for financial liabilities measured at amortized cost. EIR is the rate that exactly discounts estimated future payment or receipts through the expected life of the financial instrument or a shorter period where appropriated to the net carrying amount of the financial asset or the financial liability.

5.15 Employee Benefits

Employee benefits include all forms of consideration given by an entity in exchange for service rendered by employees of for the termination of employment.

Defined Contribution Plan

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in the profit or loss as and when they are due.

The Bank operates a defined contribution plans as provident fund contribution of its employees and defined benefit plans for the Gratuity and leave payment requirement under its staff rules.

Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

Gratuity is a Defined Benefit Plan. The Entity annually measures the value of the promised retirement benefits for gratuity, which is a Defined Benefit Plan. Actuarial Valuation of Defined Benefit Plan has been carried out as per the requirement of NAS 19 – Employee Benefits.

Gain or loss arising as a result of changes in assumptions is recognized in other comprehensive income (OCI) in the period in which it arises.

In case of staff home loans provided under Staff Bylaws of the Bank under Insurance-Tied up Scheme, revenue has been calculated based on the estimated bonus rates (compounded by savings interest rate) provided by the insurance

companies, which is 6.5% simple interest return for the Bank after reimbursing the half of the return to the respective staff. Bank has the policy to reimburse the half of the bonus received from insurance company at the end of the insurance term to the respective staff.

5.16 Leases

Lease is a contract in which one party provides an asset to the other party for some consideration usually a periodic payment. Lease can be either financial lease or operating lease. In Financial lease the lessee not only has the operating control over the asset but assumes the economic risk and return from the asset. While in operating lease the contract only allows the use of the asset.

As per the ICAN decision on carve out certain provision has been published related with lease i.e., Lease payment under operating lease shall be recognized on straight line basis over the lease term unless either: Another systematic basis is more representative of the time pattern of the user's benefit even if the payment to the lessor is not on that basis; or

The payment to the lessor structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payment to the lessor vary because of factors others than general inflation, then this condition is not met.

The bank doesn't hold any financial lease.

Operating leases are not recognised on the balance sheet. Bank has recognized accrued lease for the period as an expense on incremental basis (as per lease term) considering the general inflation as per carve-out (optional) pronounced on 20th September 2018.

5.17 Foreign Currency Translation

Foreign currency transactions are those conducted in a currency other than the functional currency of the bank. The functional currency is the currency of the primary economic environment in which an entity operates. Transactions in foreign currencies are translated into the respective functional currency of Entity at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate (Closing rate) at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognised in profit or loss.

5.18 Financial Guarantee and Loan Commitment

Financial guarantee is bond undertaken by the bank that requires the bank to reimburse the beneficiary of the bond in case the applicant of the bond fails to fulfil their commitments. Loan commitments are commitments by the bank to provide credit under pre-specified terms and conditions in the future. Financial guarantees are recognized as contingent liability and are continuously assessed if any actual financial obligation exists.

5.19 Share Capital and Reserves

Financial Instrument issued are classified as equity if that interest gives the holder evidence of residual asset in the entity after deducting all its liabilities and there exists no contractual obligation to transfer cash or other financial instrument.

General reserve

This is a statutory reserve and is a compliance requirement of NRB directive no. 4/75 and stipulations of BAFIA. The Bank is required to appropriate a minimum 20% of current year's net profit into this heading each year until it becomes double of paid-up capital and then after a minimum 10% of profit each year. This reserve is not available for distribution to shareholders in any form and requires specific approval of the central bank for

any transfers from this heading. The Bank has consistently appropriated the required amount from each year's profit into this heading. There is no such statutory requirement for the Subsidiary.

Exchange equalization reserve

This is a statutory reserve and is a compliance requirement of NRB directive no. 4/75 and stipulations of BAFIA. The Bank is required to appropriate 25% of current year's total revaluation gain (except gain from revaluation of Indian Currency) into this heading. The Bank has consistently appropriated the required amount from each year's profit into this heading. There is no such statutory requirement for the Subsidiary. Details of movement in the Exchange equalization reserves are provided in 3.17 above.

Fair value reserve

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

Asset revaluation reserve

This is a non-statutory reserve and is a requirement in the application of accounting policy for non-financial assets such as property, equipment, investment property and intangible assets that are measured following a revaluation model. Revaluation reserves often serve as a cushion against unexpected losses but may not be fully available to absorb unexpected losses due to the subsequent deterioration in market values and tax consequences of revaluation. The Group does not have any amount to present under asset revaluation reserve.

Capital reserve

This is a non-statutory reserve and represents the amount of all capital nature reserves such as the amounts arising from share forfeiture, capital grants and capital reserve arising out of business combinations. Funds in this reserve are not available for distribution of cash dividend but can be capitalized by issuing bonus shares upon obtaining prior approval from the central bank.

Corporate social responsibility fund

This is a statutory reserve and is a compliance requirement of NRB circular 11/073/74. The Bank is required to appropriate an amount equivalent to 1% of net profit into this fund annually. The fund is created towards funding the Bank's corporate social responsibility expenditure during the subsequent year. Balance in this fund is directly reclassified to retained earnings in the subsequent year to the extent of payments made under corporate social responsibility activities. There is no such statutory requirement for the Subsidiary.

Investment adjustment reserve

This is a statutory reserve heading and is a compliance requirement of NRB directive no. 4/075 and 8/075. The Bank is required to maintain balance in this reserve heading which is calculated at fixed percentages of the cost of equity investments that are not held for trading. Changes in this reserve requirement are reclassified to retained earnings. The Bank has consistently appropriated the required amount from each year's profit into this heading. There is no such statutory requirement for the Subsidiary.

Actuarial gain / loss reserve

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

Regulatory reserve

This is a statutory reserve and is a requirement in the application of accounting policy as prescribed in NRB directive no. 4/075. In the transition to NFRS from previous GAAP the Bank is required to reclassify all

amounts that are resultant of re-measurement adjustments and that are recognized in retained earnings into this reserve heading. The amount reclassified to this reserve includes re-measurement adjustments such as interest income recognized against interest receivables, difference in loan loss provision as per NRB directive and impairment on loan and advance as per NFRS, amount equals to deferred tax assets, actual loss recognized in other comprehensive income, amount of goodwill recognized under NFRS, etc. Balance in this reserve is not regarded as free for distribution of dividend. The Bank has complied with this regulatory requirement. There is no such statutory requirement for the Subsidiary.

Other reserve fund

Employees training and capacity development fund

This is a statutory reserve and is a compliance requirement of NRB circular 6/075. The Bank is required to incur expenses towards employee training and development for an amount that is equivalent to at least 3% of the preceding year's total personnel expenses. Any shortfall amount in meeting this mandatory expense requirement in the current year will have to be transferred to this reserve fund through appropriation of net profit and the amount shall accumulate in the fund available for related expenses in the subsequent year. Balance in this fund is directly reclassified to retained earnings in the subsequent year to the extent of expenses made for employees training related activities.

5.20 Earnings per Share including Diluted

Earnings per share (EPS) is the portion of the company profit allocated to each outstanding share of the common stock. Diluted earnings per share is the calculation of the EPS if all convertible securities were exercised. Bank has fully followed NAS 33 Earnings per Share for the calculation of EPS.

Basic earnings per share is calculated by dividing the net profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, as per the NAS 33 - Earnings per Share.

The calculation of Diluted Earnings Per Share as at reporting date was based on the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year, after adjustment for the effects of all potentially dilutive weighted average number of ordinary shares.

6. Segment Reporting

Segment Reporting is the reporting of the operating segment of the entity. A segment is reportable if:

- It has at least 10% of the revenues, 10% of the profit or loss, or 10% of the combined assets of the entity.

Segment can be categorized either based on geographic segment or business segment. The bank has categorized its segment based on functions and services provided to the customers. Segment assets, segment liabilities, total revenue, total expenses and operating profit are disclosed. Branches of the bank are classified under the regional operating structure for monitoring and supervision. The transaction between the branches is charged at transfer price decided by Asset Liability Management Committee of the bank. The disclosure has been prepared in accordance with the requirements of NFRS however, interim segment results for the period has not been prepared except for the fourth quarter of the reporting period.

NPR in ‘000

A. information about reportable segments

Particulars	Treasury & Remittance		Alternate Delivery Channel (Card & Internet Banking)		Banking		Trade Operations		Total	
	current quarter	corresponding previous year quarter	current quarter	corresponding previous year quarter	current quarter	corresponding previous year quarter	current quarter	corresponding previous year quarter	current quarter	corresponding previous year quarter
Revenues from external customers	1,648,241	1,195,747	223,125	156,464	9,960,503	6,982,783	349,803	313,023	12,181,673	8,648,016
Intersegment revenue	(644,445)	(589,281)	(25,115)	(16,556)	554,521	528,764	115,039	77,072	0.00	0.00
segment profit (loss) before tax	14,647	104,645	126,863	95,287	1,012,561	1,255,451	457,962	385,877	1,612,033	1,841,261
segment assets	86,666,844	60,204,065	1,055,337	544,640	255,628,516	158,235,228	154,243	72,467	343,504,939	219,056,399
segment liabilities	22,567,856	20,985,832	427,473	130,749	284,491,539	177,698,903	3,030,220	1,999,266	310,517,087	200,814,749

B. Reconciliation of reportable segment profit or loss

Particulars	Current quarter (NPR in '000)	corresponding previous year quarter (NPR in '000)
Total profit before tax for reportable segments	1,612,033	1,841,261
Profit before tax for other segments		
Elimination of inter segment profit		
Elimination of discontinued operation		
Unallocated amounts:		
other corporate expenses		
Profit before tax	1,612,033	1,841,261

7. Related parties' disclosures

The Bank has carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties as per Nepal Accounting Standard – NAS 24- "Related Party Disclosures", except for the transactions that Key Management Personnel (KMPs) have availed under schemes uniformly applicable to all staff at concessionary rates.

Parent and Ultimate Controlling Party:

The Bank does not have an identifiable parent of its own.

Transactions with Key Management Personnel (KMPs):

As per NAS -24- Related Party Disclosures, KMP are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity.

Board of Directors and the members of top-level Management are considered as KMP of the Bank.

Compensations of KMP:**Compensation to Board of Directors:**

	Amount in '000
Meeting Fees Paid	2,413
Telephone/ Internet/ Newspaper Expenses Paid	426

Compensation to CEO and Top-Level Management:

	Amount in '000
Short term employee benefits	40,051
Employee Bonus	15,105
Festival Allowance and payment against annual leave	6,173

Transaction with subsidiary M/s Prabhu Capital Ltd.

	Amount in '000
Interest Expenses	958
Deposit Held	106,396

Transaction with subsidiary M/s Century Capital Markets Ltd.

	Amount in '000
Interest Expenses	11,352
Deposit Held	341,312

Transaction with subsidiary M/s Prabhu Stock Market Ltd.

	Amount in '000
Interest Expenses	-
Deposit Held	6

8. Dividends Paid

Bank has paid 6.50% stock dividend and 1.50% cash dividend out of profits of F/Y 2078-79 during the current period.

9. Issues, Purchase and repayments of debt and equity shares

No such events have occurred during the reporting period.

10. Events after Interim Period

No events have occurred after the reporting period, which is material and reportable, except reported elsewhere in this report.

11. Effect of changes in the composition of the entity during the interim period
Merger and Acquisition

Bank has acquired Century Commercial Bank Ltd., an “A” class financial institution licensed by NRB, for which Bank has issued the shares in the swap ratio of 1:1. The joint transaction was started on 26th Poush, 2079.

12. Concentration of Deposit and Loan

A Concentration of Borrowings			<i>Amount in '000</i>
	Particulars	Current Period	Previous Year Corresponding Quarter
	Total Deposit from 10 largest lenders	8,400,000	11,353,306
	% Of Deposit from 10 largest lenders to total depositors	3.04%	6.78%
B Concentration of Credit Exposures			

	Particulars	Current Period	Previous Year Corresponding Quarter
	Total exposures to 20 largest borrowers		
a	As per Group (related party)	37,032,674	31,754,873
b	As per Individual customer	25,821,507	22,720,731
	% Of exposures to 20 largest borrowers to Total Loans & Advances		
a	As per Group (related party)	14.80%	21.40%
b	As per Individual customer	10.32%	15.31%
C Concentration of Deposits			
	Particulars	Current Period	Previous Year Corresponding Quarter
	Total deposits from 20 largest depositors		
a	Group-wise (Institutional)	66,630,191	40,257,733
b	As per Individual customer	1,863,124	1,491,776
	% Of deposits from 20 largest depositors to Total Deposits		
a	Group-wise (Institutional)	24.10%	24.04%
b	As per Individual customer	0.67%	0.89%

13. Statement of Distributable Profit

Particulars	Amount in '000
Opening Balance of Retained Earnings (1st Shrawan 2079)	1,032,974
Less: Bonus Shares issued	826,066
Less: Cash Dividend Paid	190,631
Net Opening Balance	16,278
Net Profit for the period up to 2nd Quarter	1,199,961
1. Appropriations	
<u>1.1 Profit required to be appropriated to statutory reserve</u>	
a. General Reserve	(239,992)
b. Exchange Fluctuation Fund	(601)
c. Corporate Social Responsibility Fund	(12,000)
d. Employee Training Fund	-
<u>1.2 Profit required to be transfer to Regulatory Reserve</u>	-
a. Transfer to Regulatory Reserve	-
b. Transfer from Regulatory Reserve	111,860
<u>Transferred from merged entities</u>	(711,282)
Net Profit for the period upto 2nd Quarter available for distribution	364,224



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Annex-14 of Securities Registration and Issue Regulations, 2073
(Related to sub-rule (1) of Rule 26)

Second Quarter Report of F/Y 2079/80

1. Financial Statements

- a) Statements related to Balance Sheet and Profit and Loss has been published along with this.

Transactions with related parties:

- i. Group comprises of Prabhu Bank Ltd. (The Bank), Prabhu Capital Ltd. (Subsidiary), Century Capital Markets Ltd. (Subsidiary) and Prabhu Stock Market Ltd. (Subsidiary).
- ii. Following are the details of intra-group transactions:

Particulars	Prabhu Capital Ltd.	Century Capital Markets Ltd.	Prabhu Stock Market Ltd.
Deposits held by Bank (NPR in mio)	106.40	341.31	0.01
Interest Paid (NPR in mio)	0.96	11.35	-

- b) Key Financial Indicators:

Earnings per Share Rs.	10.19	Market Price per Share Rs.	211
Price Earnings Ratio	20.70	Return on Total Assets	0.70%
Net Worth per Share Rs.	140.12	Liquidity Ratio	21.64%

2. Managerial Analysis

- a) **Details relating to the change in the Bank's reserve, income and liquidity in the quarter and its main reason:**

Bank has been able to earn Operating Profits of Rs. 1,634 mio and net profit of Rs. 1,200 mio. NPA management continues to be the top priority of the management.

b) **Management's analytical details regarding future business plan:**

Besides NPA management, Bank has adopted the strategy to expand Small and Medium Enterprises (SMEs) Loans, Productive Loans as Agriculture, Energy sectors with effective management of assets and liabilities.

c) **Analytical details of the incidents that may have major impact on reserves, profit or cash flow (if any), based on previous experience:**

Adverse situation caused by Covid-19 pandemic and lock-down has had adverse effect on interest income and fee-based income in the previous fiscal year which has slowly beginning to improve in the current period.

3. Statement related to legal proceedings:

a) **Case filed by or against the Bank in this quarter**

There have been no legal cases except the cases which are related to recovery of loans in the ordinary business course.

b) **Case relating to disobedience of prevailing law or commission of criminal offence filed by or against the promoter or director of the Bank**

No such information has been received.

c) **Case relating to commission of financial crime filed against any promoter or director of the Bank**

No such information has been received.

4. Statements related to Share Transactions:

a) **Management view on the transactions of the shares of the Bank in the share market**

Movements in the share price are determined by the open market principles. Hence, management has neutral opinion regarding the share price movements.

b) **Maximum, minimum and closing share price, total transaction days and total transacted number of shares in the quarter**

Maximum Price (Rs.)	228	Minimum Price (Rs.)	185
Closing Price (Rs.)	211	Total Transaction Days	52
No. of Transactions	14,772		

5. Problems and Challenges:

Internal Problems and Challenges:

- Challenge to manage Operational Risk with the increase in business volume.
- Challenge to manage Interest Spread
- Reduction in Operating Expenses
- Management of personnel

External Problems and Challenges:

- Challenges from the Political and Social Environments
- Competition in the Banking Industry specially pricing
- Effect on the overall business and profitability due to Covid-19 pandemic.

Bank's Strategy to mitigate problems and challenges:

- Expanding business activities with caution observing the changes in internal and external environment
- Providing trainings to staff to enhance skills and abilities.
- Introducing new products and services considering the interest of the customers
- Effective risk management, monitoring and controlling on operational risk, market risk and credit risk.
- Detailed analysis of the effect from Covid-19 pandemic to the overall business and formulation of strategies to overcome the same after return to normalcy. Among others, Bank's strategy is to continue safe banking practices with social distancing and use of protective measures and curtail operating cost to manage huge adverse impact on the profitability.

6. Corporate Governance

Bank has been meticulously following the laws in force, directions issued by regulatory authorities like Nepal Rastra Bank, Securities Board. Bank has created environment for Compliance Department, Internal Audit Department and Risk Management Department to perform their responsibilities in an independent manner. Risk Management Department and Internal Audit Department have also been working to mitigate the risks arising from the business activities of the Bank. Risk Management Sub-Committee and Audit Committee of Board review the work of Risk Management Department and Internal Audit Department respectively and provide guidelines.

7. CEO's declaration regarding truth and fairness

I am responsible for the truth and fairness of the information and statements in this report till date. Besides, I declare that, to the extent of my knowledge, the statements are true and fair and any information necessary for investors to take decisions has not been suppressed.