

PRABHU BANK LIMITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**THIRD QUARTER ENDED ON 31 CHAITRA, 2081 (MID APRIL 2025)
OF
FY 2081-82 (2024-25)**



Prabhu Bank Ltd.
Condensed Consolidated Statement of Financial Position
As on Quarter ended 31 Chaitra, 2081 (As on 13 April 2025)

Assets	Group		Bank	
	This Quarter Ending	Immediate Previous Year Ending	This Quarter Ending	Immediate Previous Year Ending
Cash and cash equivalent	7,126,820	8,124,586	7,124,516	8,089,835
Due from Nepal Rastra Bank	13,146,752	15,285,132	13,146,752	15,285,132
Placement with Bank and Financial Institutions	6,450,445	606,130	6,360,445	346,130
Derivative Financial Instruments	7,257,481	261,463	7,257,481	261,463
Other Trading Assets	886,708	820,300	195,812	202,231
Loan and advances to B/FIs	7,857,320	8,660,301	7,857,320	8,660,301
Loan and advances to Customers	223,342,080	221,045,599	223,342,080	221,045,599
Investment Securities	104,397,246	93,685,208	103,771,685	93,329,981
Current Tax Assets	-	-	-	-
Investment in Subsidiaries	-	-	795,729	795,729
Investment in Associates	-	-	-	-
Investment Property	1,324,906	789,752	1,324,906	789,752
Property & Equipment	4,686,312	4,701,915	4,593,836	4,603,367
Goodwill and Intangible Assets	347,774	353,488	318,307	323,272
Deferred Tax Assets	422,923	327,358	423,020	324,463
Other Assets	8,659,671	7,609,461	7,810,988	7,061,458
Total Assets	385,906,439	362,270,695	384,322,878	361,118,713
Liabilities				
Due to Bank and Financial Institutions	4,958,868	7,216,236	4,958,868	7,216,236
Due to Nepal Rastra Bank	-	950	-	950
Derivative Financial Instruments	7,180,763	259,963	7,180,763	259,963
Deposit from customer	320,378,043	304,924,571	320,520,512	305,012,852
Borrowing	688,250	668,250	688,250	668,250
Current Tax Liabilities	94,700	45,296	110,854	60,163
Provisions	105,679	105,679	105,679	105,679
Deferred Tax Liabilities	-	-	-	-
Other Liabilities	9,258,262	7,828,781	8,241,931	7,314,658
Debt Securities Issued	7,841,302	7,840,248	7,841,302	7,840,248
Subordinated Liabilities	-	-	-	-
Total Liabilities	350,505,869	328,889,975	349,648,160	328,479,001
Equity				
Share Capital	23,542,490	23,542,490	23,542,490	23,542,490
Share Premium	-	-	-	-
Retained Earnings	(3,220,496)	(2,831,236)	(3,398,403)	(3,025,526)
Reserves	14,548,613	12,131,215	14,530,631	12,122,749
Total Equity Attributable to equity holders	34,870,606	32,842,469	34,674,717	32,639,713
Non-controlling interest	529,964	538,251	-	-
Total Equity	35,400,570	33,380,720	34,674,717	32,639,713
Total Liabilities and equity	385,906,439	362,270,695	384,322,878	361,118,713

Prabhu Bank Ltd.
Condensed Consolidated Statement of Profit or Loss
For the quarter ended on 31 Chaitra, 2081 (13 April 2025)

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	5,947,794	19,129,237	8,358,460	23,913,543	5,945,824	19,119,067	8,337,841	23,849,628
Interest Expense	(3,731,407)	(12,038,632)	(4,668,876)	(15,415,121)	(3,728,053)	(12,033,390)	(4,664,969)	(15,409,945)
Net Interest income	2,216,386	7,090,605	3,689,585	8,498,422	2,217,772	7,085,677	3,672,871	8,439,684
Fees and commission income	596,820	1,823,318	431,106	1,505,059	550,066	1,710,470	421,805	1,453,467
Fees and commission expense	(26,342)	(73,497)	(45,522)	(126,985)	(19,347)	(57,502)	(41,061)	(114,992)
Net Fees and commission income	570,478	1,749,821	385,584	1,378,074	530,719	1,652,968	380,744	1,338,474
Net Interest, fee and commission income	2,786,864	8,840,427	4,075,169	9,876,496	2,748,490	8,738,645	4,053,616	9,778,158
Net trading income	177,328	505,237	90,542	276,798	142,004	413,691	79,433	274,346
Other operating income	61,442	470,965	67,119	172,219	61,030	466,713	56,827	138,882
Total operating income	3,025,635	9,816,629	4,232,829	10,325,513	2,951,525	9,619,049	4,189,876	10,191,386
Impairment charge/(reversal) for loans and other losses	(423,788)	(1,238,012)	(500,878)	(1,758,645)	(423,788)	(1,238,012)	(500,878)	(1,758,645)
Net operating income	2,601,846	8,578,616	3,731,952	8,566,868	2,527,736	8,381,037	3,688,998	8,432,741
Operating expense								
Personnel expense	(1,037,390)	(3,226,652)	(1,301,205)	(3,255,228)	(1,021,139)	(3,177,454)	(1,289,036)	(3,219,993)
Other operating expense	(503,457)	(1,506,414)	(448,082)	(1,335,231)	(491,669)	(1,468,559)	(442,549)	(1,312,817)
Depreciation & Amortisation	(103,921)	(307,894)	(115,610)	(335,124)	(102,495)	(299,754)	(113,176)	(327,175)
Operating profit	957,078	3,537,656	1,867,054	3,641,286	912,434	3,435,270	1,844,238	3,572,755
Non-operating income	22,183	24,592	1,570	1,958	22,183	24,592	1,570	1,958
Non-operating expense	(236)	(1,908)	76,835	(204,922)	(236)	(1,908)	76,835	(204,922)
Profit before income tax	979,026	3,560,340	1,945,459	3,438,322	934,381	3,457,954	1,922,643	3,369,791
Income tax expense								
Current tax	(444,208)	(1,774,691)	(765,647)	(1,587,423)	(437,518)	(1,748,570)	(763,706)	(1,575,180)
Deferred tax	36,791	163,683	(72,425)	2,297	43,058	166,676	(66,820)	17,848
Profit/(loss) for the period	571,609	1,949,332	1,107,387	1,853,195	539,922	1,876,060	1,092,117	1,812,458

Prabhu Bank Ltd.
Condensed Consolidated Statement of Comprehensive Income
For the Quarter ended 31 Chaitra 2081 (13 April 2025)

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	571,609	1,949,332	1,107,387	1,853,195	539,922	1,876,060	1,092,117	1,812,458
Other comprehensive income	47,395	158,945	299,806	407,119	47,395	158,945	299,806	407,119
a) Items that will not be reclassified to profit or loss	47,395	158,945	299,806	407,119	47,395	158,945	299,806	407,119
Gains/(losses) from investments in equity instruments measured at fair value	67,709	227,064	428,294	581,598	67,709	227,064	428,294	581,598
Gain/(loss) on revaluation	-	-	-	-	-	-	-	-
Actuarial gain/loss on defined benefit plans	-	-	-	-	-	-	-	-
Income tax relating to above items	(20,313)	(68,119)	(128,488)	(174,480)	(20,313)	(68,119)	(128,488)	(174,480)
Net other compressive income that will not be reclassified to profit or loss	47,396	158,945	299,806	407,119	47,396	158,945	299,806	407,119
b) Items that are or may be reclassified to profit or loss								
Gains/(losses) on cash flow hedge	-	-	-	-	-	-	0	0
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	47,396	158,945	299,806	407,119	47,396	158,945	299,806	407,119
Total Comprehensive Income for the period	619,005	2,108,277	1,407,193	2,260,314	587,318	2,035,005	1,391,923	2,219,577
Profit attributable to:								
Equity holders of the Bank	606,559	2,078,353	1,377,144	2,221,367	587,318	2,035,005	1,391,923	2,219,577
Non-controlling interest	12,446	29,924	30,049	38,947	-	-	-	-
Total	619,005	2,108,277	1,407,193	2,260,314	587,318	2,035,005	1,391,923	2,219,577

Earnings per share

Basic earnings per share	11.04	10.50	10.63	10.26
Annualized Basic Earnings Per Share	11.04	10.50	10.63	10.26
Diluted earnings per share	11.04	10.50	10.63	10.26

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%		12.54%		12.84%		12.54%
Tier 1 Capital to RWA		8.67%		8.85%		8.67%		8.85%
CET 1 Capital to RWA		8.67%		8.85%		8.67%		8.85%
Non-performing loan (NPL) to Total Loan		5.09%		4.81%		5.09%		4.81%
Total Loan loss provision to Total NPL		158.57%		127.88%		158.57%		127.88%
Cost of Funds		4.62%		6.15%		4.62%		6.15%
Credit to Deposit Ratio		73.33%		83.70%		73.33%		83.70%
Base Rate		6.73%		8.48%		6.73%		8.48%
Average Base Rate (three months)		6.82%		8.75%		6.82%		8.75%
Interest Rate Spread		3.95%		4.95%		3.90%		3.96%
Average Return on Equity (Annualized)		7.43%		7.44%		7.43%		7.44%
Average Return on Assets (Annualized)		0.67%		0.70%		0.67%		0.70%

Prabhu Bank Ltd.
Condensed Consolidated Statement of Change in Equity
For the quarter ended on 31 Chaitra, 2081 (13 April 2025)

Group Attributable to equity holders of the bank	NPR in '000											
	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, 2080	23,542,490	-	4,132,383	27,326	5,676,150	523,934	-	(2,034,773)	(305,174)	31,562,335	531,639	32,093,974
Profit for the period	-	-	-	-	-	-	-	562,808	-	562,808	39,359	602,168
Other comprehensive income	-	-	-	-	-	490,970	-	-	278,728	769,697	-	769,697
Total comprehensive income	-	-	-	-	-	490,970	-	562,808	278,728	1,332,506	39,359	1,371,865
Transfer to Reserve during the year			111,300	277	(906,265)	-	-	(1,316,229)	2,110,916	-	-	-
Transfer from Reserve during the year	-	-	-	-	-	-	-	-	-	-	-	-
Contribution from and distribution to owner												
Share issued	-	-	-	-	-	-	-	-	-	-	-	-
Share based payment	-	-	-	-	-	-	-	-	-	-	-	-
Dividend to equity holders												
Bonus share issued	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	(43,042)		(43,042)	(32,747)	(75,790)
Other									(9,330)	(9,330)	-	(9,330)
Total contributions by and distributions	-	-	-	-	-	-	-	(43,042)	(9,330)	(52,372)	(32,747)	(85,120)
Balance at Ashad 31, 2081	23,542,490	-	4,243,683	27,603	4,769,885	1,014,904	-	(2,831,236)	2,075,140	32,842,469	538,251	33,380,721
Balance at Shrawan 1, 2081	23,542,490	-	4,243,683	27,603	4,769,885	1,014,904	-	(2,831,236)	2,075,140	32,842,469	538,251	33,380,721
Adjustment	-	-	-	-	-	-	-	-	-	-	(5)	(5)
Adjustment/Restated Balance as at Shrawan 1, 2081	23,542,490	-	4,243,683	27,603	4,769,885	1,014,904	-	(2,831,236)	2,075,140	32,842,469	538,245	33,380,715
Profit for the period	-	-						1,919,408	-	1,919,408	29,924	1,949,332
Other comprehensive income	-	-				158,945			-	158,945		158,945

Total comprehensive income	-	-	-	-	-	158,945	-	1,919,408	-	2,078,353	29,924	2,108,277
Transfer to Reserve during the year	-	-	384,340	2,109	1,069,050	-	-	(2,258,453)	802,954	-	-	-
Transfer from Reserve during the year	-	-	-	-	-	-	-	-	-	-	-	-
Contribution from and distribution to owner	-	-	-	-	-	-	-	-	-	-	-	-
Share issued	-	-	-	-	-	-	-	-	-	-	-	-
Share based payment	-	-	-	-	-	-	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	-	-	-	-	-	-	-
Bonus share issued	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	(50,216)	-	(50,216)	(38,205)	(88,421)
Other	-	-	-	-	-	-	-	-	-	-	0	-
Total contributions by and distributions	-	-	-	-	-	-	-	(50,216)	-	(50,216)	(38,205)	(88,421)
Balance at Chaitra 31, 2081	23,542,490	-	4,628,023	29,712	5,838,935	1,173,849	-	(3,220,496)	2,878,093	34,870,606	529,964	35,400,570

Bank

Attributable to equity holders of the bank

	Share Capital	Share Premium	General Reserve	Exchange Equalization Reserve	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Other Reserve	Total
Balance at Shrawan 1, 2080	23,542,490	-	4,123,369	27,326	5,676,150	523,934	-	(2,229,669)	(304,697)	31,358,903
Profit for the period	-	-	-	-	-	-	-	510,856	-	510,856
other comprehensive income	-	-	-	-	-	490,970	-	-	278,984	769,954
Total comprehensive income	-	-	-	-	-	490,970	-	510,856	278,984	1,280,810
Transfer to Reserve during the year	-	-	102,171	277	(906,265)	-	-	(1,306,713)	2,110,529	-
Transfer from Reserve during the year	-	-	-	-	-	-	-	-	-	-
Contribution from and distribution to owner	-	-	-	-	-	-	-	-	-	-
Share issued	-	-	-	-	-	-	-	-	-	-
Share based payment	-	-	-	-	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	-	-	-	-	-
Bonus share issued	-	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total contributions by and distributions	-	-	-	-	-	-	-	-	-	-
Balance at Ashad 31, 2081	23,542,490	-	4,225,540	27,603	4,769,885	1,014,904	-	(3,025,526)	2,084,816	32,639,713
Balance at Shrawan 1, 2081	23,542,490	-	4,225,540	27,603	4,769,885	1,014,904	-	(3,025,526)	2,084,816	32,639,713
Adjustment	-	-	-	-	-	-	-	-	-	-
Adjustment/Restated Balance as at Shrawan 1, 2081	23,542,490	-	4,225,540	27,603	4,769,885	1,014,904	-	(3,025,526)	2,084,816	32,639,713
Profit for the period	-	-	-	-	-	-	-	1,876,060	-	1,876,060
Other comprehensive income	-	-	-	-	-	158,945	-	-	-	158,945
Total comprehensive income	-	-	-	-	-	158,945	-	1,876,060	-	2,035,005
Transfer to Reserve during the year	-	-	375,212	2,109	1,069,050	-	-	(2,248,937)	802,566	-
Transfer from Reserve during the year	-	-	-	-	-	-	-	-	-	-
Contribution from and distribution to owner	-	-	-	-	-	-	-	-	-	-
Share issued	-	-	-	-	-	-	-	-	-	-
Share based payment	-	-	-	-	-	-	-	-	-	-

Dividend to equity holders	-	-	-	-	-	-	-	-	-	-
Bonus share issued	-	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total contributions by and distributions	-	-	-	-	-	-	-	-	-	-
Balance at Chaitra 31, 2081	23,542,490	-	4,600,752	29,712	5,838,935	1,173,849	-	(3,398,403)	2,887,382	34,674,717

Prabhu Bank Ltd.
Condensed Consolidated Statement of Cash flow
For the quarter ended on 31 Chaitra, 2081 (13 April 2025)

NPR in '000

Particulars	Group		Bank	
	Current Year Quarter YTD	Previous Year's Corresponding Quarter YTD	Current Year Quarter YTD	Previous Year's Corresponding Quarter YTD
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	14,569,347	21,706,194	14,185,288	21,642,279
Fees and other income received	2,328,555	1,781,187	2,124,161	1,727,143
Dividend received	-	-	-	-
Receipts from other operating activities	305,340	53,026	304,708	19,689
Interest paid	(12,064,557)	(15,415,121)	(12,052,977)	(15,409,945)
Commission and fees paid	(73,497)	(126,985)	(57,502)	(114,992)
Cash payment to employees	(3,482,830)	(2,873,652)	(3,593,176)	(2,845,572)
Other expense paid	(1,506,414)	(1,540,153)	(1,468,559)	(1,517,739)
Operating cash flows before changes in operating	75,946	3,584,497	(558,058)	3,500,863
(Increase)/Decrease in operating assets				
Due from Nepal Rastra Bank	2,138,381	(283,597)	2,138,381	(283,597)
Placement with bank and financial institutions	(5,844,316)	(5,708,936)	(6,014,316)	(5,913,936)
Other trading assets	(50,427)	(211,728)	18,781	13,530
Loan and advances to bank and financial institutions	802,981	(1,175,575)	802,981	(1,175,575)
Loans and advances to customers	(2,180,733)	2,460,786	(1,806,844)	2,496,786
Other assets	(8,046,228)	157,037	(7,745,548)	58,426
	(13,180,342)	(4,762,013)	(12,606,565)	(4,804,365)
Increase/(Decrease) in operating liabilities				
Due to bank and financial institutions	(2,257,368)	(3,293,861)	(2,257,368)	(3,293,861)
Due to Nepal Rastra Bank	(950)	(158,785)	(950)	(158,785)
Deposit from customers	15,453,472	(10,717,048)	15,507,660	(10,756,098)
Borrowings	20,000	9,750	20,000	9,750
Other liabilities	8,633,437	2,303,709	8,284,435	2,526,420
Net cash flow from operating activities before tax paid	8,744,195	(13,033,752)	8,389,154	(12,976,076)
Income tax paid	(1,657,168)	(1,131,282)	(1,629,760)	(1,112,547)
Net cash flow from operating activities	7,087,028	(14,165,034)	6,759,394	(14,088,624)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities	(10,553,128)	9,500,831	(10,282,794)	9,530,831
Receipts from sale of investment securities	34	-	34	-
Purchase of property and equipment	(326,454)	(203,510)	(325,588)	(193,835)
Receipt from the sale of property and equipment	77,545	-	77,545	-
Purchase of intangible assets	(37,668)	-	(37,215)	-
Receipt from the sale of intangible assets	-	-	-	(210,154)
Purchase of investment properties	-	(210,154)	-	-
Receipt from the sale of investment properties	62,427	-	62,427	-
Interest received	2,606,642	2,207,349	2,606,642	2,207,349
Dividend received	165,799	120,154	165,799	120,154
Net cash used in investing activities	(8,004,803)	11,414,669	(7,733,149)	11,454,344

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	(50,216)	(75,790)	-	-
Interest paid	-	-	-	-
Other receipt/payment	(38,211)	-	-	-
Net cash from financing activities	(88,426)	(75,790)	-	-
Net increase (decrease) in cash and cash equivalents	(1,006,202)	(2,826,155)	(973,755)	(2,634,280)
Cash and cash equivalents at Shrawan 1,2081	8,124,586	10,286,340	8,089,835	10,033,578
Effect of exchange rate fluctuations on cash and cash equivalents held	8,436	670	8,436	670
Cash and cash equivalents at Chaitra 31, 2081	7,126,820	7,460,855	7,124,516	7,399,968

Prabhu Bank Limited
Statement of distributable profit or loss
For the quarter ended on 31 Chaitra, 2081 (13 April 2025)
(As per NRB Regulations)

NPR in '000

Particulars	Bank	
	Current Year Quarter YTD	Previous Year's Corresponding Quarter YTD
Net Profit or (Loss) as per statement of profit or loss	1,876,060	1,812,458
<u>Appropriations</u>		
a. General reserve	(375,212)	(362,492)
b. Foreign exchange fluctuation fund	(2,109)	(167)
c. Capital redemption reserve	(788,914)	-
d. Corporate social responsibility fund	(18,761)	(18,125)
e. Employees' training fund	-	-
f. Investment adjustment reserves	-	-
g. Others	5,109	-
Profit or (loss) before regulatory adjustment	696,173	1,431,674
<u>Regulatory adjustment:</u>		
a. Interest receivable (-)/previous accrued interest received (+)	(808,631)	947,013
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 (+)	(161,862)	(132,396)
e. Deferred tax assets recognised (-)/ reversal (+)	(98,557)	156,632
f. Goodwill recognised (-)/ impairment of Goodwill (+)	-	-
g. Bargain purchase gain recognised (-)/reversal (+)	-	-
h. Actuarial loss recognised (-)/reversal (+)	-	-
i. Other (+/-)	-	-
Net Profit for the Quarter end Chaitra 31, 2081 available for distribution	(372,877)	2,402,923
Opening Retained Earnings as on Shrawan 1, 2081	(3,025,526)	(2,236,376)
Adjustment (+/-): Transferred from acquired Entity	-	-
<u>Distributions:</u>		
Bonus Share Issued	-	-
Cash Dividend Issued	-	-
Total Distributable Profit or (Loss) as on Quarter end date	(3,398,403)	166,547
Annualised Distributable Profit/Loss per Share	-	-

Prabhu Bank Limited

Notes to the Consolidated Interim Financial Statements For the period ended 31 Chaitra, 2081

1. Basis of Preparation

1.1 Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) developed by the Accounting Standards Board (ASB), Nepal and pronounced for application by the Institute of Chartered Accountants of Nepal (ICAN). These in compliance with the requirements of the Companies Act, 2063, BAFIA 2073, Unified Directive 2081 and all other applicable laws and regulation.

1.2 Reporting Period and Approval of Financial Statements

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

Relevant Financial Statement	Nepalese Calendar Date / Period	English Calendar Date / Period
NFRS SOFP* Date	31 Chaitra, 2081	13 April, 2025
NFRS reporting period	1 Shrawan, 2081– 31 Chaitra, 2081	16 July, 2024 – 13 April, 2025

* SOFP = Statement of financial position

1.3 Functional and Presentation Currency

The Financial Statements of the Group are presented in Nepalese Rupees (NPR.), which is the currency of the primary economic environment in which the Group operates. There was no change in the Group's presentation and functional currency during the year under review. The amounts in the financial statements are rounded off to the nearest Rupees, except where otherwise indicated as permitted by NAS 1 – "Presentation of Financial Statements".

1.4 Use of Estimates, Assumptions and Judgments

The Group, 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.

1.4.1 Going Concern

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

1.4.2 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position can be derived from active markets, they are derived from observable market data. However, if this is not available, judgment is required to establish fair values. The valuation of financial instruments is described in more details in Note 3.4 under "Fair Value of financial assets and liabilities". As per NFRS 13, Fair valuation of assets and liabilities require significant management judgments when observable market data are not available.

1.4.3 Defined Benefit Plans

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

In determining the appropriate discount rate, management considers the interest rates of Nepal government bonds with maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increment and pension increment are based on expected future salary increment rates of the Bank.

1.5 Changes in Accounting Policies

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

1.6 New standards issued but not yet effective

The Institute of Chartered Accountants of Nepal, (ICAN) has issued a new version of NFRS on 11th Ashad 2077, (NFRS 2018) which covers NFRS 17 Insurance Contract. However, the effective date of such new NFRSs is 1st Shrawan 2081 onwards and this NFRS does not expected to have a significant impact on the financial information. Further, NFRS 14 Regulatory Deferral Accounts is not yet effective.

1.7 New standards and interpretations not adopted

All Accounting standards along with carve outs, issued by the Institute of Chartered Accountants of Nepal (ICAN) have been incorporated.

1.8 Discounting

When the realization of assets and settlement of obligations is for more than one year, the Group considers the discounting of such assets and liabilities where the impact is material. Various internal and external factors have been considered for determining the discount rate to be applied to the cash flow of the Group. Discounting has been applied in case of measurement of prepaid expenses of staff loan. Employee benefits have been determined by considering discount rate as the average yield on government bonds issued during the period having maturity of five years or more.

2. Statement of Compliance with NFRSs

These financial statements are prepared in accordance with NFRSs.

3. Significant Accounting Policies

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

3.1 Basis of Measurement

The Financial Statements of Group 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 fair value have been routed through Statement of Profit or Loss.
- Available for sale investments (quoted) are measured at fair value and the changes in the fair value have been routed through Statement of Other Comprehensive Income.
- Liabilities for defined benefit obligations as per Employee Bylaws of the Group and are recognized at the present value of the defined benefit obligation less the fair value of the plan assets. Staff loans provided at subsidized interest rates are recognized at the present value considering all future cash inflows till maturity and discounting them to present value with appropriate discount rate.

- Financial assets, Investment in Government Bonds are recorded in Statement of Financial Position at amortized cost.

3.2 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”. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of income from the date on which control is obtained. The cost of an acquisition has been measured as the difference between the fair value of the net assets obtained and the fair value of purchase consideration paid. The excess of the purchase consideration paid over the fair value of the net asset has been recognized as goodwill. The excess of the fair value of the net asset obtained and the purchase consideration paid has been recognized as gain on bargain purchase and credit to Statement of Profit or Loss immediately. The bank has held investment on Prabhu Capital Limited from 31st May 2017 and Prabhu Stock Market Ltd. from 12th June 2019.

b. Non-Controlling Interest (NCI)

The Group presents non-controlling interests in its consolidated statement of financial position within equity, separately from the equity of the owners of the parent. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The proportion allocated to the Bank and non-controlling interests are determined based on present ownership interests. The Group also attributes total comprehensive income to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Non-controlling interests (NCI) are measured at non-controlling interest's proportionate share of the subsidiary's net assets at the date of acquisition. After the date of acquisition, the share of the income has been appropriately adjusted to the NCI.

c. Subsidiaries

Subsidiaries are entities that are controlled by the Bank. The Bank is presumed to control an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. At each reporting date the Bank reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more elements of control mentioned above.

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 entities' financial statements 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. SPE are typically used by companies to isolate the firm from financial risk. There are no special purpose entities within the Group's holding structure.

f. Transaction Elimination on Consolidation

The effect of all intra-group transactions and outstanding balances, including realized and unrealized income and expenses are eliminated in the preparation of the Consolidated Financial Statements as per NFRS 10 "Consolidated Financial Statement".

3.3 Cash and Cash Equivalent

Cash and cash equivalent comprises total amount of cash-in-hand, balances with other bank and financial institutions, money at call and short notice, and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the group in the management of its short-term commitments.

3.4 Financial Assets and Financial Liabilities

Financial assets refer to assets that arise from contractual agreements that result in future cash inflow or from owning equity instruments of another entity. Since financial assets derive their value from a contractual claim, these are non-physical in form and are usually regarded as being more liquid than other tangible assets. Common examples of financial assets are cash, cash equivalent, bank balances, placements, investments in debt and equity instruments, derivative assets and loans and advances.

Financial liabilities are obligations that arise from contractual agreements and that require settlement by way of delivering cash or another financial asset. Settlement could also require exchanging other financial assets or financial liabilities under potentially unfavourable conditions. Settlement may also be made by issuing own equity instruments. Common examples of financial liabilities are due to banks, derivative liabilities, deposit accounts, money market borrowings and debt capital instruments.

Date of Recognition of Financial Instruments

All financial assets and financial liabilities are initially recognized in the Statement of Financial Position on the trade date i.e., when the Group becomes a party to the contractual provisions of the instrument. A regular way of purchase or sale of financial assets is recognized on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the financial asset. Regular way trade means purchases or sales of financial assets that required delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Initial recognition and measurement of financial instruments

All financial assets and financial liabilities are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial Assets:

Classification of Financial Assets

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

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.

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flow.
- 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.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets
- 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.

All other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Group may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below)
- The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

1. Financial Assets measured at Amortized Cost

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

Loans and Advances from Customers

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

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as fair value through Statement of Profit or Loss.
- Those that the Group, upon initial recognition, designates as financial assets at fair value through OCI.
- Those for which the Group may not recover substantially all of its initial investment through contractual cash flow, other than because of credit deterioration.

Loans and Advances mainly represent loans and advances to customers and Banking and Financial Institutions. After initial measurement, loans and advances are subsequently measured at amortized cost using a rate that closely approximates effective interest rate, less allowance for impairment. Within this category, loans and advances to the customers have been recognized at amortized cost using the method that very closely approximates effective interest rate method. The amortization is included in 'Interest Income' in the Statement of Profit or Loss. The losses arising from impairment are recognized in 'Impairment charge / reversal for loans and other losses' in the Statement of Profit or Loss.

2. Financial Assets designated at Fair Value Through Other Comprehensive Income (OCI)

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

After initial measurement, financial assets at fair value through OCI are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity through 'Other comprehensive income / expense' in the 'Fair value reserve'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding financial assets at fair value through OCI is reported as 'Interest income' using the effective interest rate. Dividend earned whilst holding financial assets at fair value through OCI are recognized in the Statement of Profit or Loss as 'other operating income' when the dividend is realized. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss under 'Impairment charge for loans and other losses' and removed from the 'Fair value reserve'.

Financial assets at fair value through OCI that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security and other changes in the carrying amount are recognized in other comprehensive income. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received) in certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield, option volatilities and currency rates. When such evidence exists, the Group recognizes a trading gain or loss on inception of the financial instrument, being the difference between the transaction price and fair value.

The Group has irrevocably elected at initial recognition to measure certain investments in equity instruments at Fair Value through OCI. The election is made in respect of equity investments that are not held for trading. Only dividend income arising on such investment is recognized in Statement of Profit or Loss. Details on financial investments measured at Fair Value through OCI are presented in Note 4.8.2.

3. Financial Assets designated at Fair Value Through Profit or Loss

For financial assets that are designated at Fair Value through Profit or Loss, all related fair value changes (realized and unrealized gains or losses) are recognized in the profit or loss except in the case of a financial asset held as part of a hedging relationship. Fair Value through Profit or Loss classification is determined based on the investment motive where the related asset is acquired principally for the purpose of selling or repurchasing in the near term or is held as part of a portfolio that is managed together for short-term profit or position taking.

Financial Assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value and changes in fair value are recorded in "Changes in Fair Value of Trading Assets" in the Statement of Profit or Loss.

Financial Liabilities:

Classification of Financial Liabilities

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

These include financial liabilities that the Group 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 of the Group 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 flow 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 Group 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 Group 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.

3.5 NFRS 9 'Financial Instruments'-Impairment losses on financial assets

The measurement of impairment losses across the categories of financial assets under Nepal Accounting Standard - NFRS 9 on "Financial Instruments" (NFRS 9) requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

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

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

- Early payment behaviour of the exposures for the reporting period has not been assumed.

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

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

Interest income

Pursuant to adoption of ECL model, recognition of interest income has been based upon NRB NFRS 9 ECL Related Guidelines, 2024.

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

Identification and measurement of impairment of financial assets

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

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

- **Stage 1:** A financial asset that is not originally credit impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months.
- **Stage 2:** If a significant increase in credit risk (SICR) since origination is identified, the financial asset is moved to Stage 2 and the Bank records an allowance for LTECL.
- **Stage 3:** If a financial asset is credit- impaired, it is moved to Stage 3 and the Bank recognises an allowance for LTECL, with probability of default at 100%.

Purchased or originated credit impaired (POCI) financial assets:

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

Movement between the stages

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

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

Transfer from Stage 2 to Stage 1:

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

Transfer Out of Stage 3:

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

For Restructured/Rescheduled Exposures:

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

Banking financial assets measured on collective basis

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

The calculation of ECLs

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

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

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

ECLs are measured as follows:

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

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

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

Financial assets that are not credit-impaired at the reporting date

As described above, the Bank calculates 12m ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to EAD and multiplied by the economic factor adjustment expected LGD and discounted by an approximation to the original EIR, if necessary. When the financial asset has shown a SICR since origination, the Bank records an allowance for LTECLs based on PDs estimated over the lifetime of the instrument.

Financial assets that are credit-impaired at the reporting date

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

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

Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, Government Securities, Letters of Credit/Guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements, etc. While determining loss rate or recovery rate for the purpose of calculation of loss allowance, expected cash flows from collateral realization have been considered based on latest reliable internal/external valuations.

Write-off of financial assets

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

Scenario probability weighting (Bank)

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

Impairment Charge as per Expected Credit Loss (ECL) method

Particulars	As on Chaitra end 2081
Loans and advances to customers (A)	11,969,653,321
Other financial assets (B)	-
Off-balance sheet credit exposures (C)	79,376,545
Total impairment charges (D = A+B+C)	12,049,029,866
Investments in subsidiaries (E)	-
Direct write-offs (F)	-
Total charge to Impairment Charge to Income Statements	12,049,029,866

Particulars	As on Chaitra end 2081			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers (A)	964,663,582	2,721,114,630	8,283,875,109	11,969,653,321
Other Financial Assets (B)	-	-	-	-
<i>Cash and cash equivalents</i>	-	-	-	-
<i>Due from Nepal Rastra Bank</i>	-	-	-	-
<i>Placement with Bank and Financial Institutions</i>	-	-	-	-
<i>Other Trading Assets</i>	-	-	-	-
<i>Other assets</i>	-	-	-	-
Off-balance sheet credit exposures (C)	75,033,553	441,322	3,901,671	79,376,545
Total impairment charges (D = A+B+C)	1,039,697,135	2,721,555,951	8,287,776,780	12,049,029,866

Impairment Charge recognized in Income Statements

The Bank, following regulatory backstop as mentioned Clause 16 of “NFRS 9 - Expected Credit Loss (ECL) Related Guidelines, 2024” has recognize impairment on credit exposures as the **higher of total ECL calculated as per NFRS 9 and existing regulatory provisions as mentioned in Unified NRB Directives no 02** where impairment charges as per NRB directive no. 2 amounting NPR is 18,907,580,509 is found to be higher than the total impairment charges of NPR 12,049,029,866 as per NFRS 9 - ECL.

3.6 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.

3.7 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.

3.8 Property & Equipment

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

Recognition and Measurement

As per NAS 16 – “Property, Plant and Equipment”, the cost of item of property, plant and equipment is recognized if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably measured. An item of property and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to replace part of an item of property and equipment. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly

attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of computer equipment.

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 Statement of Profit or Loss.

Cost Model

The Group applies the cost model to all property and equipment and records these at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

Revaluation Model

The Group does not apply revaluation model for any class of property and equipment. On revaluation model, on revaluation of an asset, any increase in the carrying amount is recognized in 'Other comprehensive income' and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Profit or Loss. In this circumstance, the increase is recognized as income to the extent of previous write down. Any decrease in the carrying amount is recognized as an expense in the Statement of Profit or Loss or debited to the Other Comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset.

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

Subsequent 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 Statement of Profit or Loss on a Straight-Line method over the estimated useful life of the relevant assets. The estimates and associated assumptions for life of assets are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Fixed Assets are depreciated applying the following life of the assets:

Class	Useful Life (Years)
Building	70
Computer Hardware	7
Furniture And Fixture	10
Machinery Equipment	15
Metal Furniture	10
Office Equipment	7
Other Fixed Assets	10
Vehicle	7
Wooden Furniture	10

In case of newly acquired fixed assets full month depreciation will be charged for the months on which assets is put to use and in case of disposal depreciation till previous months shall be considered. For income tax purpose depreciation shall be separately calculated as per method and rates prescribed in Income Tax Act.

Changes in Estimates

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

Capital Work in Progress

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

Borrowing Costs

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

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 Statement of Profit or Loss when the item is derecognised.

3.9 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

Intangible assets are identifiable non-monetary asset without physical substance, which are held for and used in the provision of services, for rental to others or for administrative purposes. An intangible asset appearing in the Group's books is computer software. The Group applies NAS 38 – “Intangible Assets” in accounting for its 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.

The Group recognizes an intangible asset when:

- the cost of the asset can be measured reliably;
- there is control over the asset as a result of past events (for example, purchase or self-creation); and
- future economic benefits (inflow of cash or other assets) are expected from the asset.

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 and when incurred.

Intangible assets, except for goodwill, are amortized on a straight-line basis in Statement of 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.

Asset Category	Current Year	Previous Year
Computer Software	Lower of 5 years or License period	Lower of 5 years or License period

De-recognition of Intangible Assets

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

3.10 Investment Property

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both but not for sale in the ordinary course of business.

Investment properties are land or building or both other than those classified as property and equipment under NAS 16 – “Property, Plant and Equipment”; and assets classified as non-current assets held for sale under NFRS 5 – “Non-Current Assets Held for Sale & Discontinued Operations”. The Group has recognized as investment property such land or land and building acquired by the Bank as non-banking assets in course of recovery of loans and advances to borrowers that have turned into chronic defaulters.

Measurement

As per the Directive of NRB, this heading shall include land, land and building acquired as non-banking assets but not sold. Non-banking assets (land or a building or part of a building or both) are initially recognized at cost. Subsequent to initial recognition, the Group has chosen to apply the cost model allowed by NAS 40 – “Investment Property”. Accordingly, after recognition as an asset, the property is carried at its cost, less accumulated depreciation and impairment losses.

De-recognition

Investment properties are derecognized when they are disposed of or permanently withdrawn from use since no future economic benefits are expected. Transfers are made to and from investment property only when there is a change in use. When the use of a property changes such that it is reclassified as Property, Plant and Equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.11 Income Tax

As per NAS-12: Income Taxes, tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income Tax expense is recognized in the Statement of Profit or Loss, except to the extent it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or in other comprehensive income. The Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to tax authorities.

Current Tax

The Group has determined provision for current income tax in accordance with the provisions of the prevailing Income Tax Act, 2058 and Income Tax Rules, 2059 including amendments thereon, using a corporate tax rate of 30%. 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.

Deferred Tax

Deferred tax is recognized at the reporting date in respect of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and the corresponding amounts used for taxation purposes (i.e., tax base). 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 liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Similarly, deferred tax assets are the amounts of income taxes incurred due to temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized. 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 of 30% has been taken for the computation of deferred tax for the current year.

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.

3.12 Deposits, Debt Securities Issued and Subordinated Liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's sources of funding. Deposits include non-interest-bearing deposits, saving deposits, term deposits, call deposits and margin deposits. The estimated fair value of deposits with no stated maturity period is the amount repayable on demand. The fair value of fixed interest-bearing deposits is considered as the interest payable on these deposits plus carrying amount of these deposits. The fair value of debt securities issued is also considered as the carrying amount of these debt securities issued. Sub-ordinated liabilities are liabilities subordinated, at the event of winding up, to the claims of depositors, debt securities issued and other creditors. Deposits by banks comprise amounts owed to other domestic or foreign banks. 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. These are classified as financial liabilities measured at amortized cost.

Debt Securities Issued

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. The Group classify these financial liabilities as financial liabilities measured at amortized cost.

This 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.

3.13 Provisions

A provision is recognized if, as a result of a past event, the Group 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 into 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 Group 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.

The Group applies NAS 37; “Provisions, Contingent Liabilities & Contingent Assets” in the accounting of provisions.

3.14 Revenue Recognition

The Group applies NFRS -15 Revenue from Contracts with Customers while recognizing the revenues in its financial statements.

Interest Income

Interest Income is recognized on an accrual basis using the effective interest rate method for all financial assets measured at amortized cost and in any financial assets designated at Fair Value Through OCI. Interest income is earned on bank balances, investments in the money market and capital market instruments, loans and advances, etc. 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.

Moreover, Bank has followed guidelines issued by Nepal Rastra Bank for suspension and/or cessation to accrue of interest income, wherever applicable.

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 has been recognized in Statement of Profit or Loss account as income as per carve-outs for Banks and Financial Institutions issued by The Institute of Chartered Accountants of Nepal (ICAN).

Dividend Income

Dividend income is recognized in Statement of 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 the 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 (FVTPL)

At initial recognition, the Group 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.

3.15 Interest Expense

Interest expense has been recognized in an 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.

3.16 Employee Benefits

Employee benefits include all forms of consideration given by the Group in exchange for service rendered by employees or for the termination of employment. The Group's remuneration package includes both short term and long-term benefits and comprise of items such as salary, allowances, paid leave, accumulated leave, gratuity, provident fund and annual statutory bonus.

The Group applies NAS 19 – "Employee Benefits" in accounting of all employee benefits and recognizes the followings in its financial statements:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- An expense when the Group consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

a. Short term employee benefits

These are employee benefits, which fall due wholly within twelve months after the end of the period in which the employees render the related service. This includes salary, allowances, medical insurance, statutory bonus to employees, etc. These are measured on an undiscounted basis and are charged to profit or loss in the period the services are received. Prepaid benefits on loans advanced to employees at below-market interest rate are amortized over the full period of the loan.

b. Post-employment benefits

These are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

i. Defined Contribution Plan (DCP)

A defined contribution plan is a post-employment plan under which the Group 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 Group has a defined contribution plans as provident fund contribution of its employees.

Contributions by the Group to a DCP in proportion to the services rendered by its employees are recognized as incurred in profit or loss in the same period. If there stands any payable to the DCP at the reporting date,

a corresponding liability is also recognized in the consolidated SoFP.

ii. Defined Benefit Plan (DBP)

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

The Group has recognized gratuity obligations towards gratuity entitlement of individual employees. Gratuity is a Defined Benefit Plan. The Group 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.

In case of the Group, an actuarial valuation is carried out every year using the Projected Unit Credit Method to ascertain the full liability under gratuity. The Projected Unit Credit Method involves estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting the benefit amount to determine its present value. Actuarial Gain or loss arising as a result of changes in assumptions is recognized in Statement of Other Comprehensive Income (OCI) in the period in which it arises.

c. Other long term employee benefits

Other long-term employee benefits are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

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

d. Termination Benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted. The Group does not have any terminal benefit plan for the reporting period.

3.17 Leases

Lease is a contract in which one party provides an asset to the other party for some consideration usually a periodic payment. The Group assesses whether a contract is or contains a lease, at inception of the contract. In accordance with NFRS-16 "Leases"; the Group recognises a right-of-use asset and a corresponding lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets as the group is lessee in all lease arrangements.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. Since the Group apply NFRS-16; "Leases" to its leases in accordance with Para C5 (b), retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application, it uses incremental borrowing rate which is the cost of fund of the Group.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the

commencement date.

- The amount expected to be payable by the lessee under residual value guarantees
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented within other Liabilities in the Consolidated Statement of Financial Position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used)
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of use asset. If a lease transfer ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Group depreciates Right-of-use assets from the commencement date on a straight-line basis over the shorter of the lease term and useful life of the underlying asset.

The right-of-use assets are presented within Property, Plant and Equipment in the Consolidated Statement of Financial Position.

The Group applies NAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy. Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, NFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not any non-lease component associated with the lease.

3.18 Foreign Currency Transaction

Foreign currency transactions are those conducted in a currency other than the functional currency of the Group. 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 Statement of Profit or Loss. Foreign currency translation gain/loss is presented under Note 4.34 under other operating income. 25% of such revaluation gain, if any, is transferred to foreign exchange fluctuation fund as per the requirement of NRB directive/ BAFIA, 2073.

3.19 Financial Guarantee and Loan Commitment

Financial guarantee is bond undertaken by the Group that requires the Group 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 Group to provide credit under pre-specified terms and conditions in the future. Financial guarantee is recognized as contingent liability and are continuously assessed if any actual financial obligation exists.

3.20 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 of its liabilities and there exists no contractual obligation to transfer cash or other financial instrument.

a. General reserve

This is a statutory reserve and is a compliance requirement of NRB directive no. 4/80 and stipulations of BAFIA, 2073. 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.

b. Exchange equalization reserve

This is a statutory reserve and is a compliance requirement of NRB directive no. 4/80 and stipulations of BAFIA, 2073. 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 Subsidiaries.

c. 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.

d. 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 re-valuation 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.

e. 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.

f. Corporate social responsibility fund

This is a statutory reserve and is a compliance requirement of NRB Directive No. 6/80 and BAFIA, 2073. 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.

g. Investment adjustment reserve

This is a statutory reserve heading and is a compliance requirement of NRB directive no. 4/080 and 8/080. 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.

h. 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.

i. Regulatory Reserve

This is a statutory reserve and is a requirement in the application of accounting policy as prescribed in NRB directive no. 4/080. 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.

j. Other Reserve fund

Employees training and capacity development fund

This is a statutory reserve and is a compliance requirement of NRB Directives 6/080. 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.

3.21 Earnings per Share

Earnings Per Share (EPS) is the portion of the company's 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 ordinary 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".

4. 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.

Segments 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 the transfer price decided by the Asset Liability Management Committee of the bank. The disclosure has been prepared in accordance with the requirements of NFRS.

A. Information about reportable segments

Fig. in Mio

Particulars	Treasury & Remittance		Alternate Delivery Channel (Card & Internet Banking)		Banking		Trade Operations		Total	
	Current Quarter YTD	Previous Year's Corresponding Quarter YTD	Current Quarter YTD	Previous Year's Corresponding Quarter YTD	Current Quarter YTD	Previous Year's Corresponding Quarter YTD	Current Quarter YTD	Previous Year's Corresponding Quarter YTD	Current Quarter YTD	Previous Year's Corresponding Quarter YTD
Revenues from external customers	3,944	3,413	556	413	17,991	21,155	655	592	23,145	25,573
Intersegment revenue	(947)	(819)	(195)	(144)	150	901	(420)	208	(1,411)	146
segment profit (loss) before tax	2,501	1,719	196	63	501	813	260	774	3,458	3,370
segment assets	138,509	99,829	1,345	1,499	244,410	269,683	59	153	384,323	371,164
segment liabilities	16,714	10,505	269	458	330,313	353,949	2,352	2,257	349,648	367,168

Particulars	Current Year Quarter YTD	Previous Year's Corresponding Quarter YTD
Total profit before tax for reportable segments	4,869	3,370
Profit before tax for other segments	-	-
Elimination of inter segment profit	(1,411)	-
Elimination of discontinued operation	-	-
Unallocated amounts:	-	-
Other corporate expenses	-	-
Profit before tax	3,458	3,370

5. Concentration of Borrowings, Credits and Deposits

A Concentration of Borrowings

Fig. in '000

	Particulars	Current Year Quarter	Previous Year's Corresponding Quarter
a	Total Borrowings from 10 largest lenders	688,250	667,250
b	% of Borrowings from 10 largest lenders to total depositors	0.21%	0.24%

B Concentration of Credit Exposures

	Particulars	Current Year Quarter	Previous Year's Corresponding Quarter
	<i>Total exposures to 20 largest borrowers</i>		
a	As per Group (related party)	49,913,565	49,978,486
b	As per Individual customer	29,567,629	29,113,477
	<i>% of exposures to 20 largest borrowers to Total Loans & Advances</i>		
a	As per Group (related party)	21.32%	20.90%
b	As per Individual customer	12.63%	12.17%

C Concentration of Deposits

	Particulars	Current Year Quarter	Previous Year's Corresponding Quarter
	<i>Total deposits from 20 largest depositors</i>		
a	Group-wise (Institutional)	73,114,623	60,601,306
b	As per Individual customer	2,717,682	2,355,141
	<i>% of deposits from 20 largest depositors to Total Deposits</i>		
a	Group-wise (Institutional)	22.46%	21.41%
b	As per Individual customer	0.83%	0.83%

6. 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:

Fig. in '000

Compensation to the Board of Directors:

Particulars	Current Year Quarter YTD	Previous Year's Corresponding Quarter YTD
Meeting Fees Paid	3,141	4,329
Telephone/ Internet/ Newspaper Expenses Paid	707	709

Compensation to CEO and Top-Level Management:

Particulars	Current Year Quarter YTD	Previous Year's Corresponding Quarter YTD
Short-term employee benefits	61,402	57,986
Employee Bonus	11,614	-
Festival Allowance and payment against annual leave	3,700	9,768

Transaction with subsidiary M/s Prabhu Capital Ltd.

Particulars	Current Year Quarter YTD	Previous Year's Corresponding Quarter YTD
Interest Expenses	470	770
Deposit Held	141,930	46,230

Transaction with subsidiary M/s Prabhu Stock Market Ltd.

Particulars	Current Year Quarter YTD	Previous Year's Corresponding Quarter YTD
Interest Expenses	0	0
Deposit Held	20	1,420

7. Dividends Paid

No dividend has been paid during the reporting period.

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

No such events have occurred during the reporting period.

9. Events after Interim Period

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

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

There is no merger or acquisition during the reporting period.

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

Third Quarter Report of F/Y 2081/82

1. Financial Statements

- a) Statements related to Financial Position and Profit or Loss have been published along with this.

Transactions with related parties:

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

Particulars	Prabhu Capital Ltd.	Prabhu Stock Market Ltd.
Deposits held by Bank (NPR in mio)	141.93	0.02
Interest Paid (NPR in mio)	0.47	-

Above intra-group transactions have been eliminated in the financial statements of the group.

- b) Key Financial Indicators:

Earnings per Share Rs.	10.63	Market Price per Share Rs.	207.45
Price Earnings Ratio	19.52	Return on Total Assets	0.67%
Net Worth per Share Rs.	147.29	Liquidity Ratio	36.84%

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 Profit of Rs. 3,435 million and Net Profit of Rs. 1,876 million. 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. Further, bank will continue to focus on recovery of impaired loans and expansion of networks and enhancing the service excellence.

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

Current adverse economic situation has had adverse effect on recovery of interest and impaired loans which has impacted the profitability of the Bank.

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 and income tax cases 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.)	241.00	Minimum Price (Rs.)	203.00
Closing Price (Rs.)	207.45	Total Transaction Days	56
No. of Transactions	28,091		

5. Problems and Challenges:

Internal Problems and Challenges:

- Challenge to manage Operational Risk with the increase in business volume.
- Challenge to manage Interest Spread
- Recovery of Impaired Loans
- 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 current adverse economic situation.

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 current adverse economic situation to the overall business and formulation of strategies to overcome the same. Among others, Bank's strategy is to continue safe banking practices with special focus on recovery of interest and impaired loan.

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