Interim Financial Report

Ashwin End 2081

1st Quarter of FY 2081/82

Machhapuchchhre Bank Limited

22 October 2024

Machhapuchchhre Bank Ltd.

Condensed Consolidated Statement of Financial Position (Unaudited)

As on Quarter ended 30 Ashwin 2081 (16 October,2024)

Fig In "NPR"

	Group		Bank	
Assets	**This Quarter Ending**	**Immediate Previous Year Ending (Unaudited)**	**This Quarter Ending**	**Immediate Previous Year Ending (Unaudited)**
Cash and cash equivalent	8,206,242,856	7,840,648,391	8,203,447,820	7,838,318,696
Due from Nepal Rastra Bank	5,956,798,741	12,340,167,398	5,956,798,741	12,340,167,398
Placement with Bank and Financial Institutions	417,167,545	404,770,066	417,167,545	404,770,066
Derivative financial instruments	3,902,688	-	3,902,688	-
Other trading assets	439,314,225	12,304,900	439,314,225	12,304,900
Loan and advances to B/FIs	5,295,770,977	5,101,443,477	5,295,770,977	5,101,443,477
Loans and advances to customers	133,522,900,870	126,957,773,688	133,522,900,870	127,106,705,172
Investment securities	38,391,409,523	29,743,482,933	38,282,258,113	29,473,961,215
Current tax assets	816,953,057	882,561,395	652,673,590	866,599,831
Investment in subsidiaries	-	-	400,000,000	400,000,000
Investment in associates	-	-	-	-
Investment property	1,043,897,408	1,201,902,408	1,043,897,408	1,201,902,408
Property and equipment	1,605,382,976	1,601,249,152	1,577,695,802	1,585,982,262
Goodwill and Intangible assets	123,494,267	129,466,781	121,085,018	128,014,808
Deferred tax assets	142,740,566	132,891,635	140,293,398	129,739,258
Other assets	3,137,251,890	3,201,180,925	3,005,227,211	3,032,656,746
Total Assets	**199,103,227,589**	**189,549,843,150**	**199,062,433,405**	**189,622,566,237**
Liabilities				
Due to Bank and Financial Institutions	1,898,523,408	3,833,581,133	1,898,523,408	3,833,581,133
Due to Nepal Rastra Bank	-	-	-	-
Derivative financial instruments	-	244,356,165	-	244,356,165
Deposits from customers	167,683,922,776	157,730,943,381	167,784,625,895	157,941,820,247
Borrowing	2,058,846,953	2,091,129,011	2,058,846,953	2,091,129,011
Current Tax Liabilities	-	-		-
Provisions	-	-	-	-
Deferred tax liabilities	-	-		-
Other liabilities	4,184,432,985	2,763,903,768	4,148,544,446	2,721,807,970
Debt securities issued	5,372,774,207	5,495,481,482	5,372,774,207	5,495,481,482
Subordinated Liabilities	-	-	-	-
Total liabilities	**181,198,500,329**	**172,159,394,940**	**181,263,314,909**	**172,328,176,008**
Equity				
Share capital	11,621,357,273	11,621,357,273	11,621,357,273	11,621,357,273
Share premium	31,652,042	30,881,765	30,881,765	30,881,765
Retained earnings	1,075,603,170	469,469,260	1,065,681,695	466,454,363
Reserves	5,082,664,628	5,178,657,089	5,081,197,764	5,175,696,828
Total equity attributable to equity holders	**17,811,277,113**	**17,300,365,386**	**17,799,118,497**	**17,294,390,229**
Non-controlling interest	**93,450,147**	**90,082,824**	**-**	**-**
Total equity	**17,904,727,260**	**17,390,448,211**	**17,799,118,497**	**17,294,390,229**
Total liabilities and equity	**199,103,227,589**	**189,549,843,150**	**199,062,433,405**	**189,622,566,237**

Machhapuchchhre Bank Ltd.

Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the Quarter ended 30 Ashwin 2081 (16 October,2024)

Fig In "NPR"

Particulars	Group				Bank			
	Current Year		Previous Year Corresponding		Current Year		Previous Year Corresponding	
	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Interest income	3,905,810,879	3,905,810,879	4,693,850,570	4,693,850,570	3,901,944,321	3,901,944,321	4,692,594,631	4,692,594,631
Interest expense	2,420,628,525	2,420,628,525	3,275,259,594	3,275,259,594	2,419,250,013	2,419,250,013	3,280,362,923	3,280,362,923
Net interest income	1,485,182,354	1,485,182,354	1,418,590,976	1,418,590,976	1,482,694,308	1,482,694,308	1,412,231,708	1,412,231,708
Fee and commission income	437,701,976	437,701,976	363,758,661	363,758,661	410,331,593	410,331,593	342,215,342	342,215,342
Fee and commission expense	39,688,902	39,688,902	39,680,032	39,680,032	39,688,902	39,688,902	39,680,032	39,680,032
Net fee and commission income	398,013,074	398,013,074	324,078,629	324,078,629	370,642,691	370,642,691	302,535,310	302,535,310
Net interest, fee and commission income	1,883,195,428	1,883,195,428	1,742,669,605	1,742,669,605	1,853,336,999	1,853,336,999	1,714,767,018	1,714,767,018
Net trading income	48,812,534	48,812,534	68,132,509	68,132,509	48,812,534	48,812,534	68,132,509	68,132,509
Other operating income	47,745,513	47,745,513	19,840,656	19,840,656	28,730,448	28,730,448	19,376,206	19,376,206
Total operating income	**1,979,753,475**	**1,979,753,475**	**1,830,642,770**	**1,830,642,770**	**1,930,879,981**	**1,930,879,981**	**1,802,275,733**	**1,802,275,733**
Impairment charge/(reversal) for loans and other losses	(43,416,378)	(43,416,378)	12,289,813	12,289,813	(43,416,378)	(43,416,378)	12,289,813	12,289,813
Net operating income	**2,023,169,853**	**2,023,169,853**	**1,818,352,956**	**1,818,352,957**	**1,974,296,359**	**1,974,296,359**	**1,789,985,920**	**1,789,985,920**
Operating expense								
Personnel expenses	691,535,144	691,535,144	749,010,960	749,010,960	681,302,788	681,302,788	742,015,432	742,015,432
Other operating expenses	248,632,798	248,632,798	210,233,365	210,233,365	227,705,554	227,705,554	200,051,649	200,051,649
Depreciation & Amortization	66,443,225	66,443,225	65,119,625	65,119,625	65,402,227	65,402,227	64,407,738	64,407,738
Operating Profit	1,016,558,686	1,016,558,686	793,989,007	793,989,007	999,885,791	999,885,791	783,511,101	783,511,101
Non operating income	145,073	145,073	1,186,000	1,186,000	145,073	145,073	1,186,000	1,186,000
Non operating expense	282,346,367	282,346,367	19,370,541	19,370,541	281,083,297	281,083,297	10,069,228	10,069,228
Profit before income tax	734,357,392	734,357,392	775,804,466	775,804,466	718,947,567	718,947,567	774,627,873	774,627,873
Income tax expense	220,307,218	220,307,218	232,741,340	232,741,340	215,684,270	215,684,270	232,388,362	232,388,362
Current Tax	231,489,204	########### ####	248,460,253	248,460,253	226,866,256	226,866,256	248,107,276	248,107,276
Deferred Tax	(11,181,986)	(11,181,986)	(15,718,914)	(15,718,914)	(11,181,986)	(11,181,986)	(15,718,914)	(15,718,914)
Profit/(loss) for the period	514,050,174	514,050,174	543,063,126	543,063,126	503,263,297	503,263,297	542,239,511	542,239,511

Condensed Consolidated Statement of Comprehensive Income

Profit/(loss) for the period	514,050,174	514,050,174	543,063,126	543,063,126	503,263,297	503,263,297	542,239,511	542,239,511
Other Comprehensive Income	(20,663,653)	(20,663,653)	(30,151,641)	(30,151,641)	(20,663,653)	(20,663,653)	(30,151,641)	(30,151,641)
Total Comprehensive Income	**493,386,521**	**493,386,521**	**512,911,486**	**512,911,485**	**482,599,644**	**482,599,644**	**512,087,870**	**512,087,870**
Basic earnings per share	17.69	17.69	18.69	18.69	17.32	17.32	18.66	18.66
Diluted earnings per share	17.69	17.69	18.69	18.69	17.32	17.32	18.66	18.66
Profit attributable to:								
Equity holders of the Bank	490,351,725	490,351,725	512,775,608	512,775,608	482,599,644	482,599,644	512,087,870	512,087,870
Non-controlling interest	3,034,796	3,034,796	135,876	135,876	-	-	-	-
Total	493,386,521	493,386,521	512,911,485	512,911,485	482,599,644	482,599,644	512,087,870	512,087,870

Machhapuchchhre Bank Ltd.
Condensed Consolidated Statement of Cash Flows (Unaudited)
For the Period (16 July 2024 to 16 October 2024) ended 30 Ashwin 2081

Particular	Group: Up to This Quarter	Group: Corresponding Previous Year Up to this Quarter	Bank: Up to This Quarter	Bank: Corresponding Previous Year Up to this Quarter
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	3,884,705,636	4,626,352,918	3,880,839,078	4,625,096,978
Fees and other income received	437,701,976	363,758,661	410,331,593	342,215,342
Dividend received	-	-	-	-
Receipts from other operating activities	83,425,570	85,359,165	64,410,505	84,894,715
Interest paid	(2,420,628,525)	(3,275,259,594)	(2,419,250,013)	(3,280,362,923)
Commission and fees paid	(39,688,902)	(39,680,032)	(39,688,902)	(39,680,032)
Cash payment to employees	(691,535,144)	(749,010,960)	(681,302,788)	(742,015,432)
Other expense paid	(530,979,165)	(229,603,905)	(508,788,851)	(210,120,877)
Operating cash flows before changes in operating assets and liabilities	**723,001,446**	**781,916,252**	**706,550,623**	**780,027,772**
(Increase)/Decrease in operating assets				
Due from Nepal Rastra Bank	6,383,368,657	2,904,854,226	6,383,368,657	2,904,854,226
Placement with bank and financial institutions	(12,397,479)	1,430,267,258	(12,397,479)	1,430,267,258
Other trading assets	(430,912,013)	45,892,725	(430,912,013)	45,892,725
Loan and advances to bank and financial institutions	4,757,034,859	268,882,810	4,757,034,859	268,882,810
Loans and advances to customers	(11,473,073,163)	(4,350,532,908)	(11,324,141,679)	(4,350,532,908)
Other assets	62,692,940	32,376,391	27,429,535	129,866,137
	(713,286,200)	**331,740,502**	**(599,618,120)**	**429,230,249**
Increase/(Decrease) in operating liabilities				
Due to bank and financial institutions	(1,935,057,725)	5,961,948,481	(1,935,057,725)	5,961,948,481
Due to Nepal Rastra Bank	-	-	-	-
Deposit from customers	9,952,979,396	(5,313,742,075)	9,842,805,648	(5,321,262,185)
Borrowings	(32,282,058)	7,260,611	(32,282,058)	7,260,611
Other liabilities	1,053,465,777	(87,185,920)	1,059,673,036	(94,206,106)
Net cash flow from operating activities before tax paid	**9,039,105,389**	**568,281,096**	**8,935,138,900**	**553,740,801**
Income taxes paid	(165,175,656)	303,995	(12,940,014)	(1,730,432)
Net cash flow from operating activities	**8,883,644,979**	**1,682,241,846**	**9,029,131,389**	**1,761,268,390**
Cash Flows From Investing Activities				
Purchase of investment securities	(8,645,833,772)	140,741,569	(8,806,204,081)	41,633,227
Receipts from sale of investment securities	-	-		
Purchase of property and equipment	(64,474,788)	(198,671,346)	(51,161,481)	(177,786,843)
Receipt from the sale of property and equipment	76,040	51,660	76,040	51,660
Purchase of intangible assets	(205,787)	(659,439)	899,464	(659,439)
Receipt from the sale of intangible assets	-	-		
Purchase of investment properties	158,005,000	(4,504,932)	158,005,000	(4,504,932)
Receipt from the sale of investment properties	-	-	-	-
Interest received	21,105,243	67,497,653	21,105,243	67,497,653
Dividend received	13,277,550	3,800,000	13,277,550	3,800,000
Net cash used in investing activities	**(8,518,050,514)**	**8,255,164**	**(8,664,002,267)**	**(69,968,673)**
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	-	(71,800,089)		(71,800,089)
Interest paid	-	-	-	-
Other receipt/payment	-	-	-	-
Net cash from financing activities	**-**	**(71,800,089)**	**-**	**(71,800,089)**
Net increase (decrease) in cash and cash equivalents	365,594,464	1,618,696,921	365,129,122	1,619,499,625
Cash and cash equivalents at Sawan 1, 2081	7,840,648,391	10,633,520,357	7,838,318,696	10,632,385,826
Effect of exchange rate fluctuations on cash and cash equivalents held	-	-		
Cash and cash equivalents at 30 Ashwin 2081	**8,206,242,856**	**12,252,217,278**	**8,203,447,820**	**12,251,885,451**

Machhapuchchhre Bank Ltd.

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the Period (16 July 2024 to 16 October 2024) ended 30 Ashwin 2081

	Group											
	Attributable to equity holders of the Bank											
	Share Capital	Share premium	General reserve	Exchange equalization reserve	Regulatory reserve	Fair value reserve	Revaluation reserve	Retained earning	Other reserve	Total	Non-controlling interest	Total equity
Balance at Sawan 1, 2080	10,257,155,581	30,881,765	2,693,585,768	67,114,258	1,329,265,607	(11,282,267)	-	1,454,070,787	322,204,458	16,142,995,956	89,999,677	16,232,995,633
Profit for the period								1,246,563,308		1,246,563,308	83,147	1,246,646,455
Other Comprehensive income						(3,474,181)			(13,919,603)	(17,393,784)		58,679,700
Total comprehensive income						(3,474,181)		1,246,563,308	(13,919,603)	1,229,169,524	83,147	1,229,252,671
Contributions from and distributions to owners								32,137,439		32,137,439		
Share issued	-	-						-		-		-
Share based payments								-		-		-
Dividends to equity holders										-		-
Bonus shares issued	1,364,201,692							(1,364,201,692)		-		-
Cash dividend paid								(71,800,089)		(71,800,089)		(71,800,089)
Other		-	249,681,056	13,322,547	551,793,288	-	-	(827,300,493)	(19,633,837)	(32,137,439)		(32,137,439)
Total contributions by and distributions	1,364,201,692	-	249,681,056	13,322,547	551,793,288	(3,474,181)	-	(984,601,527)	(33,553,440)	1,157,369,435	83,147	1,125,315,143
Balance at 31 Ashad 2081	**11,621,357,273**	**30,881,765**	**2,943,266,823**	**80,436,805**	**1,881,058,895**	**(14,756,448)**	**-**	**469,469,261**	**288,651,017**	**17,300,365,400**	**90,082,824**	**17,390,448,218**
Balance at Sawan 1, 2081	**11,621,357,273**	**30,881,765**	**2,943,266,823**	**80,436,805**	**1,881,058,895**	**(14,756,448)**	**-**	**469,469,261**	**288,651,017**	**17,300,365,400**	**90,082,824**	**17,390,448,218**
Adjustment/ Restatement								**-**				**-**
Adjusted/ Restated Balance	**11,621,357,273**	**30,881,765**	**2,943,266,823**	**80,436,805**	**1,881,058,895**	**(14,756,448)**	**-**	**469,469,261**	**288,651,017**	**17,300,365,400**	**90,082,824**	**17,390,448,218**
Profit for the period										-	0	-
Other Comprehensive income						1,464,972		511,015,382	-	512,480,355	3,367,323	515,847,678
Total comprehensive income						1,464,972		511,015,382	-	512,480,355	3,367,323	515,847,678
Contributions from and distributions to owners										-		-
Share issued								-		-		-
Share based payments								-		-		-
Dividends to equity holders										-		-
Bonus shares issued	-							-		-		-
Cash dividend paid										-		-
Other		770,277	101,427,868	3,909,470	(205,558,796)	-	-	95,118,527	2,764,027	(1,568,628)		(1,568,628)
Total contributions by and distributions	-	770,277	101,427,868	3,909,470	(205,558,796)	1,464,972	-	606,133,909	2,764,027	510,911,727	3,367,323	514,279,050
Balance at 30 Ashwin 2081	11,621,357,273	31,652,042	3,044,694,691	84,346,274	1,675,500,098	(13,291,476)	-	1,075,603,170	291,415,044	17,811,277,128	93,450,147	17,904,727,260

	Bank											
	Attributable to equity holders of the Bank											
	Share Capital	Share premium	General reserve	Exchange equalization reserve	Regulatory reserve	Fair value reserve	Revaluation reserve	Retained earning	Other reserve	Total	Non-controlling interest	Total equity
Adjusted/Restated balance at 1 Sawan 2080	10,257,155,581	30,881,765	2,690,502,342	67,114,258	1,329,265,607	(11,282,267)	-	1,447,802,193	321,977,095	16,133,416,572	-	16,133,416,572
Profit for the period								1,250,167,527		1,250,167,527	-	1,250,167,527
Other Comprehensive income						(3,474,181)			(13,919,603)	(17,393,784)	-	(17,393,784)
Total comprehensive income						(3,474,181)		1,250,167,527	(13,919,603)	1,232,773,743	-	1,232,773,743
Contributions from and distributions to owners										-		-
Share issued								-		-	-	-
Share based payments								-		-		-
Dividends to equity holders										-		-
Bonus shares issued	1,364,201,692							(1,364,201,692)		-		-
Cash dividend paid								(71,800,089)		(71,800,089)	-	(71,800,089)
Other		-	250,033,505	13,322,547	551,793,288	-	-	(795,513,577)	(19,635,764)	0	-	0
Total contributions by and distributions	1,364,201,692	-	250,033,505	13,322,547	551,793,288	(3,474,181)	-	(981,347,831)	(33,555,367)	1,160,973,654	-	1,160,973,654
Balance at 31 Ashad 2081	**11,621,357,273**	**30,881,765**	**2,940,535,847**	**80,436,805**	**1,881,058,895**	**(14,756,448)**	**-**	**466,454,364**	**288,421,728**	**17,294,390,228**	**-**	**17,294,390,228**
Balance at Sawan 1, 2081	**11,621,357,273**	**30,881,765**	**2,940,535,847**	**80,436,805**	**1,881,058,895**	**(14,756,448)**	**-**	**466,454,364**	**288,421,728**	**17,294,390,228**	**-**	**17,294,390,228**
Adjustment/ Restatement					**-**			**-**		**-**		**-**
Adjusted/ Restated Balance	**11,621,357,273**	**30,881,765**	**2,940,535,847**	**80,436,805**	**1,881,058,895**	**(14,756,448)**	**-**	**466,454,364**	**288,421,728**	**17,294,390,228**	**-**	**17,294,390,228**
Profit for the period								503,263,297		503,263,297		503,263,297
Other Comprehensive income						1,464,972		-	-	1,464,972		1,464,972
Total comprehensive income						1,464,972		503,263,297	-	504,728,269		504,728,269
Contributions from and distributions to owners										-		-
Share issued	-	-						-		-		-
Share based payments								-		-		-
Dividends to equity holders										-		-
Bonus shares issued										-		-
Cash dividend paid	.									-		-
Other	-	-	100,652,659	3,909,470	(205,558,796)	-	-	95,964,034	5,032,633	-		-
Total contributions by and distributions	-	-	100,652,659	3,909,470	(205,558,796)	1,464,972	-	599,227,331	5,032,633	504,728,269	-	504,728,269
Balance at 30 Ashwin 2081	**11,621,357,273**	**30,881,765**	**3,041,188,507**	**84,346,274**	**1,675,500,098**	**(13,291,476)**	**-**	**1,065,681,695**	**293,454,361**	**17,799,118,498**	**-**	**17,799,118,497**

Ratios as per NRB Directive

Particulars	Group				Bank			
	Current Year		Previous Year Corresponding		Current Year		Previous Year Corresponding	
	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Tier 1 Capital to RWA		9.38%		8.79%		9.38%		8.79%
CET 1 Capital to RWA		9.38%		8.79%		9.38%		8.79%
Capital fund to RWA		13.43%		13.17%		13.43%		13.17%
Non-performing loan (NPL) to total loan		3.15%		2.56%		3.15%		2.56%
Net Non-performing loan to total loan		1.13%		1.12%		1.13%		1.12%
Total loan loss provision to Total NPL		109.08%		109.66%		109.08%		109.66%
Cost of Funds		5.47%		7.53%		5.47%		7.53%
Credit to Deposit Ratio		82.10%		83.56%		82.10%		83.56%
Base Rate		7.61%		10.01%		7.61%		10.01%
Interest Rate Spread		3.99%		3.99%		3.99%		3.99%
Return on Equity		11.71%		13.26%		11.47%		13.25%
Return on Assets		1.06%		1.16%		1.04%		1.16%

Statement of Distributable Profit or Loss
For the Qtr end of 30 Ashwin, 2081
(As per NRB Regulation)

	Bank	
	Current Year Upto this Qtr YTD	**Previous Year Corresponding Qtr YTD**
Net profit or (Loss) as per statement of profit or loss	**503,263,297**	**542,239,511**
Appropriations		
a. General Reserve	100,652,659	108,447,902
b. Foreign Exchange Fluctuation Fund	3,909,470	2,902,002
b. Capital Redemption Reserve	-	-
d. Corporate Social Responsibity Fund	5,032,633	5,422,395
e. Employees Training Fund	-	0
f. Other	-	0
Profit or (Loss) before regulatory adjustment	**393,668,535**	**425,467,212**
Regulatory adjustment:		
a. Interest receivable (+)/previous accrued interest received (-)	(11,796,300)	213,700,262
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(-)	(237,650,777)	124,041,917
e. Deferred tax assets recognised(+)/reversal(-)	10,554,140	28,641,045
f. Goodwill recognised(+)/impairment of Goodwill(-)		
g. Bargain purchase gain recognised(+)/reversal(-)		
h. Actuarial loss recognised(+)/reversal(-)	31,612,322	-
i. Other	1,721,818	43,073,774
Net Profit for the Qtr end 30 Ashwin, 2081 available for distribution	599,227,331	16,010,214
Opening Retained Earning as on Shrawan 1, 2081	466,454,364	1,448,531,597
Adjustment (+/-)	-	
Distribution		
Bonus shares issued		1,364,201,692
Cash Dividend paid		71,800,089
Total distributable profit or (loss) as on Qtr end date	**1,065,681,695**	**28,540,031**
Annualised as per Distributable Profit/Loss per share*	12.27	0.98

**Note- During the Quarter, pursuant to the amendement made by Nepal Rastra Bank in Unified Directive No.4 vide circular no.05/081-82 dated Ashwin 22, 2081, Regulatory Reserve on account of Non Banking Assets and Interest Receivable has been reversed by an amount of NPR 324 million .Accordingly, in determining the annualised Distributable profit/loss per share the effect of above amount has been considered only once without multiplying it by factor of 4.*

Contents

1. Reporting Entity

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

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

1.1 Subsidiary

a. Machhapuchchhre Capital Limited:

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

Machhapuchchhre Bank holds 69.85% shares in Machhapuchchhre Capital Limited.

Subsidiary	Cost as on Ashwin End 2081 (NPR)
Machhapuchchhre Capital Limited	200,000,000

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

b. Machhapuchchhre Securities Limited:

Machhapuchchhre Securities Limited subsidiary of the Bank was incorporated as a public limited company as per the Companies Act 2063 and licensed by Securities Board of Nepal under the Securities Businessperson (Securities broker and securities trader) (Fifth Amendments) Regulations, 2079 to provide securities brokering services in the secondary market of Nepal.

Machhapuchchhre Bank holds 100% shares in Machhapuchchhre Securities Limited.

Subsidiary	Cost as on Ashwin End 2081 (NPR)
Machhapuchchhre Securities Limited	200,000,000

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

1.2 Group

The "Group" represents The Bank and its subsidiaries. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the above mentioned circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where Subsidiaries have been sold or acquired during the year, assets, liabilities, income and expenses of the said subsidiary are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. Basis of Preparation

The interim financial statements of the Bank have been prepared in accordance with Nepal Financial Reporting Standards (NFRS), NAS 34 Interim Financial Reporting as published by the Accounting Standards Board (ASB) Nepal and pronounced by The Institute of Chartered Accountants of Nepal (ICAN). The disclosures made in the condensed consolidated interim financial information have been limited on the format prescribed by Nepal Rastra Bank.

The Financial Statement comprise of:

- Condensed Consolidated Statement of Financial Position (SOFP)
- Condensed Consolidated Statement of Profit and Loss (SOPL) and Condensed Consolidated Statement of Other Comprehensive Income (SOCI)
- Condensed Consolidated Statement of Changes in Equity (SOCE)
- Condensed Consolidated Statement of Cash Flows (SOCF)
- Notes to the Condensed Consolidated Financial Statements comprising summary of Significant Accounting Policies and explanatory notes.

The interim financial statements do not include all of the information required for a complete set of NFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Bank's financial position and performance since the last annual financial statements.

2.1 Statement of Compliance with NFRSs

The financial statements of the group have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) as issued by Accounting Standards Board issued by the Institute of Chartered Accountants of Nepal and in compliance with BAFIA 2073 and Unified Directives 2080 issued by Nepal Rastra Bank and all other applicable laws and regulations. These policies have been consistently applied to all the years presented except otherwise stated.

2.2 Reporting Period and approval of financial statements

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

Relevant Financial Statement	Nepalese Calendar Date/Period	English Calendar Date/Period
Condensed Consolidated Statement of Financial Position	As on 30 Ashwin, 2081	16 October 2024
Condensed Consolidated Statement of Profit/Loss	1 Shrawan 2081 to 30 Ashwin 2081	16 July, 2024 to 16 October, 2024
Condensed Consolidated Statement of Cash flow	1 Shrawan 2081 to 30 Ashwin 2081	16 July, 2024 to 16 October, 2024
Condensed Consolidated Statement of Changes in Equity	1 Shrawan 2081 to 30 Ashwin 2081	16 July, 2024 to 16 October, 2024

2.3 Foreign Exchange Transaction

Foreign Exchange Transactions assets and liabilities denominated in foreign currencies as on the balance sheet date have been converted into local currency at mid-point exchange rates published by Nepal Rastra Bank after adjustment for effective trading rate.

2.4 Functional and Presentation Currency

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

2.5 Significant Accounting Judgments, Estimates and Assumptions

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

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

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

- Impairment on loans and advances (Higher of provision for loan loss calculated as per NRB Guideline and Impairment loss calculated as per NFRS)
- Determination of fair value of financial instruments
- Assessment of Bank's ability to continue as going concern.

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.

Accordingly, the Bank reviews its individually significant loans and advances portfolio at each reporting date to assess whether an impairment loss should be recognised in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

A collective impairment provision is established for:

- Banks of homogeneous loans and advances that are not considered individually significant; and
- Assets of Banks that are individually significant but that were not found to be individually impaired.

Following NFRS 9, the Bank's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of 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 Life Time 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 behavior 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.

2.6 Accounting Policies and Changes in Accounting Polices

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

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

2.7 New Standards and interpretation not adopted

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

2.8 Discounting

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

2.9 Prior Period Errors

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

2.10 Materiality and Aggregation

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

2.11 Offsetting

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

2.12 Rounding

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

3. Summary of significant accounting policies

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

3.1 Basis of Measurement

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

- Financial assets and liabilities are measured at fair value at its initial recognition. Subsequent recognition of FVTOCI and FVTPL financial instruments are measured at fair value.
- The liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

3.2 Basis of Consolidation

3.2.1 Business Combinations and Goodwill

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

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

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

3.2.2 Non-Controlling Interest (NCI)

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

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

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

3.2.3 Subsidiaries

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

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

3.2.4 Loss of Control

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

3.2.5 Special Purpose Entity(SPE)

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

3.2.6 Transaction Elimination on Consolidation

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

3.3 Cash and Cash equivalent

Cash and cash equivalents include notes and coins on hand and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

3.4 Due from Nepal Rastra Bank

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

3.5 Placement with Bank and Financial Institution:

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

3.6 Financial Assets and Financial Liabilities

3.6.1 Recognition

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

3.6.2 Classification

Financial instruments are classified as

- Financial Assets
- Financial Liabilities

A Financial Assets

The Bank classifies the financial assets as subsequently measured at amortized cost or fair value on the basis of the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The two classes of financial assets are as follows;

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

i. Financial assets measured at amortized cost

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

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

ii. Financial asset measured at fair value

Financial assets other than those measured at amortized cost are measured at fair value. Financial assets measured at fair value are further classified into two categories as below:

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

Financial assets at fair value through profit or loss.

Financial assets are classified as fair value through profit or loss (FVTPL) if they are held for trading or are designated at fair value through profit or loss. Upon initial recognition, transaction cost are directly attributable to the acquisition are recognized in profit or loss as incurred. Such assets are subsequently measured at fair value and changes in fair value are recognized in Statement of Profit or Loss.

Financial assets at fair value through other comprehensive income

Investment in an equity instrument that is not held for trading and at the initial recognition, the Bank makes an irrevocable election that the subsequent changes in fair value of the instrument is to be recognized in other comprehensive income are classified as financial assets at fair value though other comprehensive income. Such assets are subsequently measured at fair value and changes in fair value are recognized in other comprehensive income.

B Financial Liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan Commitments, as follows;

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

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities are classified as fair value through profit or loss if they are held for trading or are designated at fair value through profit or loss. Upon initial recognition, transaction costs are directly attributable to the acquisition are recognized in Statement of Profit or Loss as incurred except for particular liabilities designated as at FVTPL, the amount of the change in the fair value that is attributable to changes in the liability’s credit risk is recognized in Other Comprehensive Income.

Financial Liabilities measured at amortized cost

All financial liabilities other than measured at fair value though profit or loss are classified as subsequently measured at amortized cost using effective interest method.

3.6.3 Measurement

Initial Measurement

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

Subsequent Measurement

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

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

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

3.6.4 Derecognition

Derecognition of Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) shall be recognized in profit or loss

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

Derecognition of Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in Statement of Profit or Loss.

3.6.5 Determination of Fair Value

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

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 valuations are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 portfolios are those where at least one input, which could have a significant effect on the instrument’s valuation, is not based on observable market data.

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

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

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

3.6.6 Offsetting

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

3.6.7 Impairment charges and other losses

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 (12M ECL).
- **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. Details have been mentioned below regarding how the Bank determines when a SICR has occurred
- **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%. Details have been mentioned below regarding how the Bank determines when a SICR has occurred

Purchased or originated credit impaired (POCI) financial assets:

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

Significant Increase in Credit Risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and available qualitative information analysis, based on the Bank's historical experience and credit assessment and including forward looking information.

The Bank considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with the rebuttable presumption in NFRS 9.

The Bank individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include inter-alia:

- When the absolute lifetime PD is 5% or more
- When the relative lifetime PD is increased by 100% or more
- When the risk rating (internal or external) downgraded by 2 notches since initial recognition
- When the risk rating downgraded to non-investment grade by external credit rating agency (BB+ or below) or by bank's internal credit rating system
- When there is deterioration of relevant determinants of credit risk (e.g. future cash flows) for an individual obligor (or pool of obligors)
- When there is expectation of forbearance or restructuring due to financial difficulties
- When there is deterioration of prospects for sector or industries within which a borrower operates
- When the borrowers are affected by macroeconomic conditions based on reasonable and supportable forecasts.
- When there are modification of terms resulting in restructuring/rescheduling
- Credit Quality Indicators determined as per internal credit assessment of performing loans which are subject to individual monitoring and review, are weaker than that in the initial recognition
- Management decision to strengthen collateral and/or covenant requirements for credit exposures because of changes in the credit risk of those exposures since initial recognition.

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with SICR and assessed accordingly in ECL computations. The Bank also considers the conditions stipulated in the guidelines issued by the NRB on identifying SICR criteria for assessing credit facilities for ECL computations. The Bank regularly monitors the effectiveness of the criteria used to identify SICR to confirm that the criteria is capable of identifying SICR before an exposure is in default.

Definition of default and credit impaired assets

The Bank considers loans and advances to other customers are defaulted when:

- The borrower is unlikely to pay its obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- The borrower becomes 90 days past due on its contractual payments.

In assessing whether a borrower is in default, the Bank reviews its individually significant loans and advances above a predefined threshold at each reporting date. Further, as per "Unified NRB directive/02", Non-Performing Loans (NPL) means all the credit facilities where the contractual payments of a customer are past due for more than 90 days or has remained in excess of the sanctioned limit for more than 90 days, and any other credit facilities classified as Stage 3 credit facility under NFRS 9.

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 described below and also 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 the purpose of ECL calculation on collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to other customers are grouped in to homogeneous portfolios, based on a combination of product and customer characteristics.

Impairment charges as per NFRS 9

The Bank recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Placements with banks;
- Loans and advances to other customers;
- Financial assets at amortised cost-debt and other financial instruments;
- Debt instruments at fair value through other comprehensive income;
- Loan commitments and financial guarantee contracts.

No impairment loss is recognised on equity investments.

The Bank assesses the credit risk and the estimates unbiased and probability- weighted ECL, and incorporates all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

Impairment charges on loans and advances to customers

For loans and advances above a predefined threshold, the Bank individually assesses for significant increase in credit risk (SICR). If a particular loan is individually impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If the Bank determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

The Bank computes ECL using three main components; a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from developed statistical models and historical data and then adjusted to reflect forward-looking information.

- **PD** – The probability of default represents the likelihood of a borrower defaulting on its financial obligations either over the next 12-months (12m PD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due (DPD) is the primary input into the determination of the term structure of PD for exposures. DPD are determined by counting the number of days since the due date. The Bank employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.
- **LGD** – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD. The Bank applies standard haircuts and selling costs rates duly prescribed by Nepal Rastra Bank to derive realizable value of the collaterals.
- **EAD –** The exposure at default represents the expected exposure in the event of a default. The Bank estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months. To calculate EAD of all other loans, default events over the lifetime of the financial instruments are considered.

Impairment charges on financial investments

Impairment charges on financial investments include ECL on debt instruments at FVOCI and financial assets at amortised cost.

The Bank does not have historical loss experience on debt instruments at amortised cost and debt instruments at FVOCI. EAD of a debt instrument is its gross carrying amount.

Credit cards and revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities. The Bank reviews the sanction limits at least annually and therefore has the right to cancel and/or reduce the limits. Therefore, the Bank calculates only the 12-month ECL (12m ECL) allowance on these facilities. The EAD is arrived by taking the maximum of either sanction limit adjusted for Credit Conversion Factor (CCF) and the gross carrying amount of the loan (utilised amount). The expected 12-month default probabilities are applied to EAD and multiplied by the expected LGD.

Undrawn loan commitments

When estimating Life Time ECL (LTECL) for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down.

Forward-looking information

The Bank incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Bank also obtained experienced credit judgement from economic outlook and Risk Management Departments to formulate a base case, a best case and a worst case scenario. The base case represents a most-likely outcome and is aligned with information used by the Bank for strategic planning and budgeting. Quantitative economic factors are based on economic data and forecasts published by the NSO, NRB, and other reliable sources and statistical models.

Drivers of Credit Risk

Parameters	***Sources***
Real GDP (% change p.a.)	National Statistics Office (NSO
Inflation rate (% of change p.a.)	NRB
Unemployment (%)	IMF / World Bank
Interest Rate (% of change p.a.)	NRB
NEPSE Index	NEPSE

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 in Note# 11 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 in order to comply with the Bank's procedures for recovery of amounts due.

Scenario probability weighting (Bank)

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

3.7 Trading Asset and liabilities

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

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

3.8 Derivative financial Instruments

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

3.9 Property, Plant and Equipment

Recognition

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

Measurement

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

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

Cost Model

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

Revaluation Model

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

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

Subsequent Cost

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

Derecognition

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

Depreciation

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

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

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

a) Depreciation for income tax purpose is calculated separately at the rate and manner prescribed by the Income Tax Act, 2058.
b) Assets with a unit value of NPR 10,000 or less are expensed-off during the year of purchase irrespective of its useful life. However, in case of opening of new branches, expansion, relocation and reconstruction of offices for same nature of assets if total purchase price is greater than 50,000 such type of assets are capitalized even though the assets unit price is less than NPR 10,000.
c) Leasehold improvements are depreciated over the lease period or 10 years whichever is lower.
d) Software, licenses are amortized over a period of useful life and in case useful life cannot be ascertained the bank has the policy to amortize the cost in five years.

Changes in Estimates

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

Capital Work in Progress

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

3.10 Intangible Assets and Goodwill

Recognition

An intangible asset is an identifiable non-monetary asset without physical substance, held for use in the production or supply of goods or services, for rental to others or for administrative purposes. An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

An intangible asset is initially measured at cost. Expenditure incurred on an intangible item that was initially recognized as an expense by the Bank in previous annual Financial Statements or interim Financial Statements are not recognized as part of the cost of an intangible asset at a later date.

Computer Software

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

Goodwill

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

Subsequent Expenditure

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

Amortization of Intangible Assets

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

Derecognition of Intangible Assets

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

3.11 Government Grant

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

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

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

3.12 Investment Property / Non-Current Asset held for sale

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

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

Non-Current Assets Held for Sale

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

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

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

3.13 Due to Banks and Financial Institution

Due to banks and financial institution represents credit balances in Nostro Accounts, short-term borrowings from banks, deposit accepted from “D” class financial Institutions. These are initially recognized at fair value. Subsequent to initial recognition, these are measured at their amortized cost.

3.14 Deposit from Customers

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

3.15 Contingent Liabilities and Commitments

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

3.16 Litigation

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

3.17 Borrowing Cost

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

3.18 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.

3.18.1 Current Tax

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

3.18.2 Deferred Tax

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination, and at the time of transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

3.19 Provisions

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

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

3.20 Revenue Recognition

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

3.20.1 Interest Income

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

Treatment of transaction cost

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

NFRS 9- Expected Credit Loss Guidelines 2024 by NRB.

Interest income recognition

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

3.20.2 Fee and Commission Income

Fees and Commission Income being the transaction costs integral to the effective interest rate on financial asset. Since such transaction costs are not identifiable for separate customer and therefore being impracticable, they have not been considered when computing EIR. They have been booked on accrual basis except commission on guarantees issued by the bank which is recognized as income over the period of the guarantee, except for guarantee commission not exceeding NPR one lakhs is recognized at the time of issue. Other fee and commission income are recognized on accrual basis.

3.20.3 Dividend Income

Dividend income are recognized when right to receive such dividend is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity investment.

3.20.4 Net Trading Income

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

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

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

3.21 Interest Expense

Interest expense on all financial liabilities including deposits are recognized in profit or loss using effective interest rate method. Interest expense on all trading liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in fair value of trading assets and liabilities in net trading income.

3.22 Impairment of non-financial Assets

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

3.23 Employment Benefits

Short term employee Benefits

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

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

Post-employment benefit

Post-employment benefit includes the following

a) Defined Contribution Plans

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

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

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

b) Defined Benefit Plans

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

Under NFRS, the actuarial gains and losses form part of re measurement of the net defined benefit liability / asset which is recognized in Other Comprehensive income (OCI). Also, the tax effect of the same is also recognized in Other Comprehensive Income (OCI) under NFRS.

c) Gratuity

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

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

The increase in gratuity liabilities attributable to the services provided by employees during the under 'Personnel Expenses' together with the net interest expense. Also, actuarial gain loss have been shown under Other Comprehensive Income (OCI) Bank recognizes the total actuarial gain/ (loss) that arises in computing Bank's obligation in respect of gratuity in other comprehensive income during the period in which it occurs.

d) Unutilized Accumulated Leave

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

Subsidized interest income and amortization expenses of prepaid staff loan

An endowment life insurance policy is purchased by Bank for insured sum equivalent to the principal of housing loan. The policy is purchased for a period of 21 years or remaining service period of the employee, whichever is earlier. The employees pay insurance premium in respect of policy on monthly basis. Upon maturity of the endowment policy, the proceeds/bonus are accounted towards settlement of interest and principal loan amount in a single installment. The Bank has amortized prepaid employee expense of NPR 69,554,291. Bank has considered 7.60% as market rate for calculating fair value of staff loans.

3.24 Other expense

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

3.25 Lease

Bank has been making lease payments for operating different branches and therefore as provisioned under "NFRS 16 - Leases" Right of Use(ROU) is presented under Other assets and Lease liability shown under other liabilities in Statement of Financial Position. Similarly, finance expense is shown under interest expense and Depreciation on ROU is shown under Depreciation and Amortization heading in Statement of Profit & Loss.

3.26 Foreign Currency Transactions, Translation and Balances

All foreign currency transactions are translated into the functional currency, which is Nepalese Rupees (NPR), using the exchange rates prevailing at the dates when the transactions were affected.

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

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

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

3.27 Financial guarantee and loan commitment

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

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

3.28 Share Capital and Reserves

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity is defined as residual interest in total assets of the Bank after deducting all its liabilities.

Common shares are classified as equity of the Bank and distributions thereon are presented in statement of changes in equity. Dividends on ordinary shares and preference shares classified as equity are recognized in equity in the period in which they are declared. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments considering the tax benefits achieved thereon.

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

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

Exchange equalization reserve

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

Fair value reserve

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

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.

Corporate social responsibility fund

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

Investment adjustment reserve

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

Actuarial gain / loss reserve

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

Regulatory reserve

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

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

- Amount of goodwill recognized under NFRS.

Debenture Redemption Reserve

As per NRB Directive 16 (10) (7), Capital Redemption reserve is to be created for the redemption of Debentures/ Redeemable Non-convertible preference shares.

However, the bank may not set aside amount out of profit for Capital Redemption Reserve for a particular year where it has issued bonus share for the equivalent amount in case the remaining period for redemption is more than five years except for meeting minimum paid up capital requirement. No any adjustment has been given in unaudited financial statement. Adjustment in debenture redemption reserve will be given in audited financial statement subject to approval from Nepal Rastra Bank.

Employees training fund

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

3.29 Earnings per Share including diluted earning

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

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

Dividend on Ordinary Shares

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

3.30 Segment Reporting

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

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

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

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

3.31 Capital Management

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

Capital Adequacy

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

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

3.32 Risk Management

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

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

Board of Directors

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

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

Risk Management Committee

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

AML/ CFT committee

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

Assets and Liability Management Committee

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

Credit Risk Management Department:

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

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

Credit Risk Management

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

Operation Risk Management

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

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

Market Risk Management

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

Liquidity Risk Management

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

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

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

Reputational Risk Management

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

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

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

Internal Control

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

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

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

4. Segmental Information

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

(i) Information about reportable segments

Rs in Million

Particulars	Banking		Treasury		Transaction Banking		All Others		Total	
	Current Quarter	Corresponding Previous Year Quarter	Current Quarter	Corresponding Previous Year Quarter	Current Quarter	Corresponding Previous Year Quarter	Current Quarter	Corresponding Previous Year Quarter	Current Quarter	Corresponding Previous Year Quarter
Revenues from external customers	3,864	4,721	570	457	105	104	32	2	4,570	5,284
Intersegment revenues	1,400	498	(2,513)	(624)	(26)	(14)	283	140	(855)	0
Segment profit (loss) before tax	1,088	1,308	393	148	48	47	(811)	(800)	719	703
Segment assets	286,411	139,614	87,794	32,651	896	515	22,307	16,168	397,408	188,948
Segment liabilities	333,079	156,217	4,035	11,841	45	46	31,748	20,843	368,907	188,948

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

(ii) Reconciliation of reportable segment profit or loss

Amount in NPR Million

Particulars	Current Quarter	Corresponding Previous Year Quarter
Total profit before tax for reportable segments	719	703
Profit before tax for other segments	-	-
Elimination of inter-segment profit	-	
Elimination of discontinued operation	-	-
Unallocated amounts:		
– Other corporate expenses		
Profit before tax	719	703

5. Concentration of Borrowings, Credits and Deposits

A. Concentration of Borrowings

Amount in NPR

Particulars	Current Quarter end (Ashwin end 2081)	Previous Year end (Asar end 2081)
Borrowings from ten largest lenders	2,017,500,000	2,005,500,000
Percentage of borrowings from ten largest lenders to total loan	1.47%	1.53%

B. Concentration of Credit exposures

Amount in NPR

Particulars	Current Quarter end (Ashwin end 2081)	Previous Year end (Asar end 2081)
Total exposures to twenty largest borrowers		
a. As per group (Related party)	30,487,304,765	28,683,458,993
b. As per individual customer	21,014,378,285	19,339,640,321
Percentage of exposures to twenty largest borrowers to Total loans and advances		
a. As per group (Related party)	22.18%	21.87%
b. As per individual customer	15.29%	14.75%

C. Concentration of Deposits

Amount in NPR

Particulars	Current Quarter end (Ashwin end 2081)	Previous Year end (Asar end 2081)
Total deposits from twenty largest depositors (Group-wise/ individual customer)	21,706,350,797	22,654,034,735
Percentage of deposits from twenty largest depositors to Total deposits (Group-wise/ individual customer)	12.79%	14.04%

6. Related Parties Disclosures

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

i. National Fund Management Limited (National Fund)

The Bank has entered into financial transactions with National Fund having financial interest.

Related Party	Nature of Relationship	Nature of transaction	Current Year
National Fund Management Limited	Representation in BOD	Investment in Shares	90,000,000

ii. Machhapuchchhre Capital Limited-Subsidiary of Machhapuchchhre Bank Limited.

The Bank has invested NPR 200 million in Machhapuchchhre Capital Ltd, subsidiary company of the Bank. Transaction details with Machhapuchchhre Capital Limited is as follows:

Particulars		Amount in NPR
Balance as at 30 Ashwin 2081		
Fixed Deposit from Subsidiary		57,500,000
Call & Current Deposit from subsidiary		39,920,628
Transactions during the year		
Interest paid to Subsidiary		651,745
Rent paid to the subsidiary		30,000

iii. Machhapuchchhre Securities Limited-Subsidiary of Machhapuchchhre Bank Limited

The Bank has invested NPR 200 million in Machhapuchchhre Securities Ltd, subsidiary company of the Bank. Transaction details with Machhapuchchhre Securities Limited is as follows:

Particulars	Amount in NPR
Balance as at 30 Ashwin 2081	
Fixed Deposit from Subsidiary	0
Call & Current Deposit from subsidiary	3,282,492
Bank Guarantee (BG) issued	21,000,000
Transactions during the reporting period	
Interest paid to Subsidiary	1,811,905
Interest received from Subsidiary from loan against FDR	1,662,768
Bank charge received from issuance of BG	61,487

iv. Key Management Personnel (KMP):

The key management personnel are those persons having authority and responsibility of planning, directing and controlling the activities of the entity, directly or indirectly including any director. The key management of the Bank includes members of its Board of Directors, Chief Executive Officer, and other higher level employee of the Bank. The name of the key management personnel who were holding various positions in the office during the reporting period were as follows:

Name of the related party	Nature
Mr. Roshan K.C	Chairman
Mr. Jaya Mukunda Khanal	Director
Mr. Bishwo Prakash Gautam	Director
Mr. Haribhakta Sigdel	Director
Ms. Bandana Karki	Director
Mr. Peshal Raj Pokharel	Independent Director
Mr. Santosh Koirala	Chief Executive Officer
Mr. Prasidha Raj Aryal	Deputy Chief Executive Officer
Mr. Bishwambhar Neupane	Deputy Chief Executive Officer
Mr. Suvash Jamarkattel	Deputy General Manager

Particulars	Amount in NPR
Meeting Fees	679,000
Other Board Expenses	246,290
Total	**925,290**

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

Particulars	Amount in NPR
Short term employee benefits	16,841,487
Post- employment benefits	2,629,827
Other long term benefits	-
Termination benefits(Retirement Compensation)	-
Total	19,471,314

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

Key management personnel are also eligible for the following benefits:

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

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

Total no. of Key Management Personnel as on Ashwin end 2081 (including CEO): 4

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

Annual General Meeting of the bank for the FY 2080/81 has not been conducted yet as bank is in the process of finalization of financial statement for the FY 2080/81.
Annual General Meeting held on 2080/06/18 has approved to distribute 13.3% as Bonus Share and 0.7% as cash dividend (for the purpose of tax on bonus share) for the F.Y. 2079/80. Bonus share has been distributed to the shareholders and listed as approved by the meeting.

8. Interest Capitalized Term Loan (ICTL):

Pursuant to the clause 4.3 of NRB directive 2080, bank and financial institutions should record separately for the interest capitalized on term loan approved and financial closure of the after 26-10-2079 under Interest Capitalized on Term Loan account. Such amount shall be kept under regulatory reserve after deducting applicable tax and employee bonus. Balance on Interest Capitalized on Term Loan account till Ashwin end 2081 is NPR 30,594,846. Addition during the first quarter of 2081/82 for NPR 3,814,636 has been deducted from distributable profit as Interest Capitalized Reserve (ICR)

9. Share Capital

Share capital of the bank is NPR 11,621,357,273.

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

The bank has issued two debentures in previous years. These debentures do not carry any voting rights. These debentures are subordinate to the depositors of the bank.

Details regarding "10.25% Machhapuchchhre Debenture 2085":

Particulars	Details
Name	10.25% Machhapuchchhre Debenture, 2085
Amount of issue	NPR 3,000,000,000
Interest Rate	10.25% per annum payable semi annually
Numbers of Debentures	3,000,000
Face Value	NPR 1,000
Maturity Period	10 Years
Listing	Listed with Nepal Stock Exchange

Details regarding "8.5% Machhapuchchhre Debenture 2087":

Particulars	Details
Name	8.5% Machhapuchchhre Debenture, 2087
Amount of issue	NPR 2,253,496,000
Interest Rate	8.5% per annum payable semi annually
Numbers of Debentures	2,253,496
Face Value	NPR 1,000
Maturity Period	10 Years
Listing	Listed with Nepal Stock Exchange

11. Impairment Charge as per Expected Credit Loss (ECL) method

Particulars	As of Ashwin end 2081
Loans and advances to customers (A)	4,451,424,029
Other financial assets (B)	
Off-balance sheet credit exposures (C)	95,174,836
Total impairment charges (D = A+B+C)	4,546,598,865
Investments in subsidiaries (E)	
Direct write-offs (F)	270,554,412

Total charge to Impairment Charge to Income Statements	**4,546,598,865**

Particulars	As on Ashwin end 2081			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers (A)	813,695,970	2,714,707,747	923,020,312	**4,451,**424,**029**
Other Financial Assets (B)				-
Cash and cash equivalents				-
Due from Nepal Rastra Bank				-
Placement with Bank and Financial Institutions				-
Derivative Financial Instruments				-
Other Trading Assets				-
Investment Securities				-
Other assets				-
Off-balance sheet credit exposures (C)	95,174,834			**95,174,834**
Total impairment charges (D = A+B+C)				**4,546,598,865**

12. Impairment Charge recognized in Income Statements

The Bank, following regulatory backstop as mentioned Clause 16 of "NFRS 9- Expected Credit Loss 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. Following is the details of impairment under both methods:

Particulars	As on Ashwin end 2081
Total Impairment on loan and advances as per Unified NRB Directives no 02	**4,725,440,499**
Total Impairment on exposures duly calculated under ECL methods as per NFRS 9	**4,546,598,865**

13. Distributable Profit Note

Statement of Distributable Profit or Loss

For the Qtr end of 30 Ashwin, 2081

(As per NRB Regulation)

	Bank	
	Current Year Upto this Qtr YTD	**Previous Year Corresponding Qtr YTD**
Net profit or (Loss) as per statement of profit or loss	**503,263,297**	**542,239,511**
Appropriations		
a. General Reserve	100,652,659	108,447,902
b. Foreign Exchange Fluctuation Fund	3,909,470	2,902,002
b. Capital Redemption Reserve	-	-
d. Corporate Social Responsibility Fund	5,032,633	5,422,395
e. Employees Training Fund	-	0
f. Other	-	0
Profit or (Loss) before regulatory adjustment	**393,668,535**	**425,467,212**
Regulatory adjustment:		
a. Interest receivable (+)/previous accrued interest received (-)	(11,796,300)	213,700,262
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(-)	(237,650,777)	124,041,917
e. Deferred tax assets recognised(+)/reversal(-)	10,554,140	28,641,045
f. Goodwill recognised(+)/impairment of Goodwill(-)		
g. Bargain purchase gain recognised(+)/reversal(-)		
h. Actuarial loss recognised(+)/reversal(-)	31,612,322	-
i. Other	1,721,818	43,073,774
Net Profit for the Qtr end 30 Ashwin, 2081 available for distribution	599,227,331	16,010,214
Opening Retained Earning as on Shrawan 1, 2081	466,454,364	1,448,531,597
Adjustment (+/-)	-	
Distribution		
Bonus shares issued		1,364,201,692
Cash Dividend paid		71,800,089
Total distributable profit or (loss) as on Qtr end date	**1,065,681,695**	**28,540,031**
Annualised as per Distributable Profit/Loss per share*	12.27	0.98

*Note- During the Quarter, pursuant to the amendement made by Nepal Rastra Bank in UnifiedDirective No.4 vide circular no.05/081-82 dated Ashwin 22, 2081, Regulatory Reserve on account of Non Banking Assets and Interest Receivable has been reversed by an amount of NPR 324 million .Accordingly, in determining the annualised Distributable profit/loss per share the effect of above amount has been considered only once without multiplying it by factor of 4.

14. Events after Interim Period

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

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

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

16. Transactions Eliminated on Consolidation

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Profit and Loss resulting from transaction between groups are also eliminated on consolidation.

17. Alteration in figure

Above figures reported in consolidated interim financial report are subject to change upon otherwise instructions of statutory auditor and/or regulatory authorities.