सांग्रिला डेभलपमेन्ट बैंक लि.
Shangri-la Development Bank Ltd.
स्थानिय विकाशको आधार

INTERIM FINANCIAL STATEMENT

AS ON ASHAD END 2078

Shangri-la Devlopment Bank Ltd.
Condensed Statement of Financial Position
As on Quarter Ended 31 Ashad 2078

Amount in NPR

Particulars	Bank	
	This Quarter Ending	Immediate Previous Year Ending(Audited)
Assets		
Cash and Cash Equivalent	3,836,674,448.26	3,828,595,108.27
Due from Nepal Rastra Bank	1,471,279,399.84	1,426,597,704.49
Placement with Banks and FIs	5,547,187.75	5,610,012.45
Derivative Financial Instruments	-	-
Other Trading Assets	531,381,486.79	157,900,872.04
Loans and Advances to Banks and FIs	3,143,294,716.84	931,095,864.27
Loans and Advances to Customers	33,095,238,676.88	22,934,397,573.01
Investment Securities	5,214,892,287.24	3,020,814,422.48
Current Tax Assets	29,574,461.30	29,816,417.29
Investment in Subsidiaries		
Investment in Associates	-	-
Investment Property	-	-
Property and Equipment	386,266,949.33	412,896,126.82
Goodwill and Intangible Assets	3,923,284.99	5,172,407.52
Deferred Tax Assets	39,375,607.62	28,432,732.86
Other Assets	89,865,367.96	117,004,845.66
Total Assets	**47,847,313,874.81**	**32,898,334,087.16**

Liabilities

Due to Banks and FIS	1,052,292,705.14	1,120,730,593.76
Due to Nepal Rasra Bank	750,463,771.02	1,327,844.83
Derivative Financial Instruments	-	-
Deposit from Customers	41,797,350,040.65	28,132,696,848.91
Borrowings		
Current Tax Liabilities		
Provisions	-	-
Deferred Tax Liabilities		
Other Liabilities	530,240,336.37	337,542,470.68
Debt Securities Issured	-	-
Subordinated Liabilities	-	-
Total Liabilities	**44,130,346,853.18**	**29,592,297,758.18**

Equity

Share Capital	2,736,972,420.00	2,606,640,400.00
Share Premium		
Retained Earnings	304,695,032.29	153,493,255.94
Reserves	675,299,569.34	545,902,673.04
Total Equity Attributable to Equity Holders	**3,716,967,021.63**	**3,306,036,328.98**
Non Controlling Interest		
Total Equity	**3,716,967,021.63**	**3,306,036,328.98**
Total Liabilities and Equity	**47,847,313,874.81**	**32,898,334,087.16**

Note: Above figures are subject to change as per supervision of NRB/Statutory Audit

Shangri-la Devlopment Bank Ltd.
Statement of Profit or Loss
For the Quarter Ended 31 Ashad 2078

Amount in NPR

	Current Year		Previous Year Corresponding	
Particulars	**This Quarter**	**Upto This Quarter**	**This Quarter**	**Upto This Quarter**
Interest Income	1,007,590,660.86	3,502,106,489.38	790,702,679.23	3,135,051,468.31
Interest Expense	658,582,663.54	2,304,170,917.47	561,711,956.78	2,084,752,749.14
Net interest income	**349,007,997.32**	**1,197,935,571.91**	**228,990,722.45**	**1,050,298,719.17**
Fees and Commission Income	42,388,395.91	225,617,080.92	25,145,456.67	166,786,010.86
Fees and Commission Expense	2,364,366.64	6,905,954.87	1,220,312.09	3,562,695.28
Net fee and Commission income	**40,024,029.27**	**218,711,126.05**	**23,925,144.58**	**163,223,315.58**
Net interest fee and commission income	**389,032,026.59**	**1,416,646,697.96**	**252,915,867.03**	**1,213,522,034.75**
Net Trading Income	-	-	-	-
Other Operating Income	9,256,162.34	241,090,222.02	969,158.43	7,530,734.25
Total operating income	**398,288,188.93**	**1,657,736,919.98**	**253,885,025.46**	**1,221,052,769.00**
Impairment charge/(reversal) for loans and other losses	58,592,797.26	232,532,333.46	150,656,489.47	259,481,127.01
Net Operating income	**339,695,391.67**	**1,425,204,586.52**	**103,228,535.99**	**961,571,642.00**
Operating expenses	-			
Personnel Expense	156,500,450.08	502,518,062.78	65,336,610.80	366,789,244.95
Other Operating Expenses	71,803,251.73	281,654,387.40	72,070,509.72	249,720,576.84
Depreciation and amortisation	21,326,978.35	80,929,401.83	21,277,991.97	77,337,180.64
Operating Profit	**90,064,711.51**	**560,102,734.51**	**(55,456,576.50)**	**267,724,639.56**
Non operating income	129,070.01	129,070.01	1,806,653.80	1,882,713.26
Non operating expense	939,573.74	939,573.74	(1,279,721.03)	1,297,718.98
Profit before income tax	**89,254,207.78**	**559,292,230.78**	**(52,370,201.67)**	**268,309,633.84**
Income tax expense	23,998,283.26	142,361,644.77	(18,992,130.54)	77,211,820.12
Current tax	36,915,634.94	155,278,996.46	(16,567,905.51)	79,636,045.15
Deferred tax Expenses/(Income)	(12,917,351.68)	(12,917,351.68)	(2,424,225.03)	(2,424,225.03)
Profit for the period	**65,255,924.52**	**416,930,586.01**	**(33,378,071.13)**	**191,097,813.72**

Note: Above figures are subject to change as per supervision of NRB/Statutory Audit

Shangri-la Devlopment Bank Ltd
Statement of Other Comprehensive Income
For the Quarter Ended 31 Ashad 2078

NPR

Particulars	Bank			
	Current Year		Previous Year Corresponding	
	This Quarter	Upto this Quarter (YTD)	This Quarter	Upto this Quarter (YTD)
Profit or loss for the year	**65,255,924.52**	**416,930,586.01**	**(33,378,071.13)**	**191,097,813.72**
Other comprehensive income a) Items that will not be reclassified to Profit or loss				
• Gains/(losses) from Investments in equity instruments measured at fair value	5,383,508.30	6,581,589.74	21,590,677.99	19,026,624.07
• Gains/(losses) on revaluation	-		-	
• Actuarial gains/(losses) on defined benefit plans	-		-	-
• Income tax relating to above items	(1,615,052.49)	(1,974,476.92)	(6,477,203.40)	(5,707,987.22)
Net other comprehensive income that will not be reclassified to profit or loss	**3,768,455.81**	**4,607,112.82**	**15,113,474.59**	**13,318,636.85**
b) Items that are or may be reclassified to profit or loss				
• Gains/(losses) on cash flow hedge			-	
• Exchange gains/(losses) (arising from trasalating financial assets of foreign operation)			-	
• Income tax relating to above items			-	
• Reclassify to profit or loss			-	
Net other comprehensive income that are or may be reclassified to profit or loss	**-**	**-**	-	**-**
c) Share of other comprehensive income of associate accounted as per equited method			-	
Other comprehensive income for the period, net of income tax	**3,768,455.81**	**4,607,112.82**	**15,113,474.59**	**13,318,636.85**
Total comprehensive income for the period	**69,024,380.33**	**421,537,698.83**	**(18,264,596.54)**	**204,416,450.58**
Total comprehensive income attributable to:				
Equity holders of the Bank	69,024,380.33	421,537,698.83	(18,264,596.54)	204,416,450.58
Non-controlling interest				
Total comprehensive income for the period	**69,024,380.33**	**421,537,698.83**	**(18,264,596.54)**	**204,416,450.58**

Condensed Statement of Other Comprehensive Income

Profit for the period	65,255,924.52	416,930,586.01	(33,378,071.13)	191,097,813.72
Total Other comprehensive income	3,768,455.81	4,607,112.82	15,113,474.59	13,318,636.85
Total Comprehensive income for the period	**69,024,380.33**	**421,537,698.83**	**(18,264,596.54)**	**204,416,450.58**

Profit attributable to:

Equity holders of the bank	69,024,380.33	421,537,698.83	(18,264,596.54)	204,416,450.58
Non-controlling interest				
Profit for the period	69,024,380.33	421,537,698.83	(18,264,596.54)	204,416,450.58

Earning per share

Basic earning per share		15.23		7.33
Diluted earning per share		15.23		7.33

RATIOS AS PER NRB DIRECTIVE

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto this Quarter (YTD)	This Quarter	Upto this Quarter (YTD)
Capital Fund to RWA		11.86%		13.22%
Non Performing Loan (NPL) to Total Loan		1.40%		1.13%
Total Loan Loss Provision to total NPL		150.74%		197.24%
Cost of Funds		5.96%		7.41%
Credit to Deposit Ratio		78.28%		72.96%
Base Rate		8.54%		9.99%
Interest Spread Rate		4.29%		4.57%

Shangri-la Devlopment Bank Ltd.
Statement of Changes in Equity
As on Quarter Ended 31 Ashad 2078

	Attributable to Equity-Holders of the Bank								
Particulars	**Share Capital**	**General Reserve**	**Exchange Equalisation Reserve**	**Regulatory Reserve**	**Fair Value Reserve**	**Revaluation Reserve**	**Retained Earning**	**Other Reserve**	**Total**
Balance at Shrawan 01, 2077	**2,606,640,400**	**423,107,161**	**260,405**	**115,759,031**	**(5,275,279)**	**-**	**153,493,256**	**12,051,354**	**3,306,036,329**
Adjustment/Restatement									**-**
Adjustment/Restated Balance as at Shrawan 01, 2077	**2,606,640,400**	**423,107,161**	**260,405**	**115,759,031**	**(5,275,279)**	**-**	**153,493,256**	**12,051,354**	**3,306,036,329**
Comprehensive Income for the year									**-**
Profit for the year							416,930,586		**416,930,586**
Other Comprehensive Income, Net of Tax									**-**
Gains/(losses) from investment in equity instruments measured at fair value					4,607,113				**4,607,113**
Gains/(losses) on revaluation									**-**
Income tax related to Gains/(losses) from investment in equity instruments measured at fair value									**-**
Gains/(losses) on cash flow hedge									**-**
Exchange gains/(losses)(arising from translating financial assets of foreign operation)									**-**
Total Comprehensive Income for the year	**-**	**-**	**-**	**-**	**4,607,113**	**-**	**416,930,586**	**-**	**421,537,699**
Adjustment of Investment Adjustment Reserve									**-**
Adjustment of Deferred Tax Reserve									**-**
Creation of CSR Fund							(4,169,306)	4,169,306	**-**
Creation of Training Fund									**-**
Utilization of Training Fund									**-**
Utilization of CSR Fund								(3,747,426)	**(3,747,426)**
Transfer to General Reserves during the year		83,386,117					(83,386,117)		**-**
Transfer to Regulalatory Reserve(AIR) during the year				34,646,025			(34,646,025)		**-**
Transfer to Deferred Tax Reserve during the year				10,942,875			(10,942,875)		**-**
Transfer to Regulalatory Reserve(Reducation in Fair Value of Investment) during the year				(4,607,113)			4,607,113		**-**
Transfer to Exchange Equalization Fund			-						**-**
Transactions with Owners, directly recognized in Equity									**-**
Share Issued									**-**
Share Issued Expenses									**-**
Share Issued Expenses- Tax Impact									**-**
Share Based Payments									**-**
Dividend to Equity-Holders									**-**
Bonus Shares Issued	130,332,020						(130,332,020)		**-**
Cash Dividend Paid							(6,859,580)		**(6,859,580)**
Gain on Disposal of Share Classified into OCI									**-**
Current Tax on Gain on Disposal of Share Classified into OCI									**-**
Other									**-**
									-
Total Contributions by and Distributions									**-**
Balance at Ashad 2078	**2,736,972,420**	**506,493,278**	**260,405**	**156,740,818**	**(668,166)**	**-**	**304,695,032**	**12,473,234**	**3,716,967,022**

Shangri-la Devlopment Bank Ltd.
Statement of Cash Flows
As on Quarter Ended 31 Ashad 2078

NPR

Particulars	Bank	
	This Quarter Ending	**Immediate Previous Year Ending**
Cash flows from operating activities		
Interest Received	3,565,433,009.62	2,985,840,548.98
Fee and other income received	225,668,755.97	169,710,343.43
Dividend Received	9,876,248.54	3,848,965.73
Receipts from other operating activities		
Interest paid	(2,303,846,805.03)	(2,102,254,186.60)
Commission and fee paid	(6,905,954.87)	(3,562,695.28)
Cash payments to employee	(442,283,931.61)	(385,579,371.33)
Other expense paid	(153,262,193.08)	(233,796,935.74)
Operating cash flows before change in operating assets and liabilities	**894,679,129.54**	**434,206,669.19**
(Increase)/Decrease in operating assets	**(13,060,756,936.13)**	**(5,178,999,074.00)**
Due from Nepal Rastra Bank	(44,681,695.35)	(594,514,463.09)
Placement with bank and financial institutions	62,824.70	(3,094,732.45)
Other Trading assets	(373,480,614.75)	-
Loan and advances to bank and financial institutions	(2,244,194,888.74)	(506,207,407.81)
Loan and advances to customer	(10,425,602,041.30)	(4,035,465,460.68)
Other Assets	27,139,479.31	(39,717,009.97)
Increase/(Decrease) in operating liabilities	**14,345,351,229.31**	**6,680,490,661.02**
Due to bank and financial institutions	(68,437,888.62)	(2,025,960,994.23)
Due to Nepal Rastra Bank	749,135,926.19	(2,411,744.98)
Deposits from customers	13,664,653,191.74	8,708,863,400.23
Borrowings	-	-
Other Liabilities		
Net Cash flow from operating activities before tax paid	**2,179,273,422.72**	**1,935,698,256.21**
Income taxes paid	(155,037,040.47)	(124,628,548.60)
Net Cash flow from operating activities	**2,024,236,382.25**	**1,811,069,707.61**
Cash flows from investing activities		
Purchase of investment securities	(2,187,496,275.02)	(1,567,117,710.72)
Receipts from sale of investment securities	231,374,456.94	-
Purchase of Property and equipment	(53,638,248.82)	(60,873,758.79)
Receipt from sale of property and equipment	462,604.64	2,912,767.90
Purchase of intangible assets		
Receipt from sale of intangible assets	-	-
Purchase of investment properties	-	-
Receipt from the sale of investment properties	-	-
Interest received	-	-
Dividend received	-	-
Net cash used in investing activities	**(2,009,297,462.26)**	**(1,625,078,701.61)**
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	-	-
Dividend paid	(6,859,580.00)	(233,537,296.96)
Interest paid		-
Other receipt/payment		-
Net cash from financing activities	**(6,859,580.00)**	**(233,537,296.96)**
Net increase/(decrease) in cash and cash equivalents	**8,079,339.99**	**(47,546,290.96)**
Cash and Cash Equivalents at the Beginning	3,828,595,108.27	3,876,141,399.23
Effect of exchange rate fluctuations on cash and cash equivalents held	-	-
Closing Cash and Cash Equivalents	**3,836,674,448.26**	**3,828,595,108.27**

Notes to the Financial Statements
Shangri-la Development Bank Limited
For the quarter ended 31st Ashad 2078

1. General Information

Shangri-la Development Bank Limited(referred to as "the Bank" hereinafter) is a National level Development bank domiciled in Nepal, registered as a Public Limited Company under Companies Act, 2063 & Banking and Financial Institution Act, 2063. The bank has been formed after the merger with Cosmos Development Bank after approval from Nepal Rastra Bank vide letter dated 20/03/2074.Joint operation of merged entity had been commenced from 30thAshad, 2074. The registered address of the Bank is located at Baluwatar, Kathmandu Nepal. Shangri-la Development Bank Limited is listed on Nepal Stock Exchange and is trading under the code "SADBL".

2. Basis of Preparation

2.1 Statement of Compliance

The financial statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) issued by the Accounting Standards Board of Nepal on 13th September 2013.

NFRS conform, in all material respect, to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

2.2 Reporting Period and Approval of financial statement

The Bank follows the Nepalese financial year based on the Nepalese calendar.
The Bank has, for the preparation of financial statements, adopted the NFRS pronounced by ASB with effect from fiscal year 2075/76.

2.3 Functional and Presentation currency

Financial statements are denominated in Nepalese Rupees, which is the functional and presentation currency of the Bank.

2.4 Use of Estimates, assumption and judgments

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 judgement in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the financial statements. Later on this may be determined that a different choice could have been more appropriate.

NFRS requires the Bank to make estimates and assumptions that will affect the assets, liabilities, disclosure of contingent assets and liabilities, and profit or loss as reported in the financial statements.

The Bank applies estimates in preparing and presenting the financial statements. The estimates and underlying assumptions are reviewed periodically. Revision to accounting estimates are recognised in the period in which the estimates is revised, and are applied prospectively.

Disclosures of the accounting estimates have been included in the relevant section of the notes wherever the estimates have been applied along with the nature and effect of changes of accounting estimates, if any.

2.5 Changes in Accounting policies

There has been no significant change in the accounting policies adopted by the bank except where required due to adoption of Nepal Financial Reporting Standards.

2.6 New standards in issue but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

- ✓ ***IFRS 9 – Financial Instruments***

IFRS 9 – Financial Instruments having expected credit loss model has been issued and effective from 1st January 2018 internationally but is not yet pronounced by The Institute of Chartered Accountants of Nepal (ICAN). For the reporting of financial instruments, NAS 32 Financial Instruments, Presentation, NAS 39 Financial Instruments Recognition and Measurements and NFRS 7 Financial Instruments – Disclosures have been applied.

A number of new standards and amendments to the existing standards and interpretations have been issued by IASB after the pronouncements of NFRS with varying effective dates. Those become applicable when ASB Nepal incorporates them within NFRS.

A significant impact on classification and measurement including impairment of financial instruments will arise as a result of application of IFRS 9.

2.7 New Standards and Interpretation not adopted

Although IFRS 9 is applicable internationally from 1st of January 2018, it has not been applied as it is yet to be adopted by ICAN.

Further the Institute of Chartered Accountants of Nepal (ICAN) has provided carve out on various standards with different time frame; some of which are compulsory and others optional for banks and financial institutions. The list of carve-out and its compliance status while preparation of financial statement of the bank is as given below;

NFRS 10: Consolidated Financial Statements-Preparation of consolidated financial statement using uniform accounting policies is necessary unless it is impracticable to do so- Optional-up to FY 2019-20-This carve out has no implication to the Bank as it does not have any subsidiaries.

NAS 28: Investments in Associates and Joint Ventures

Accounting for Investment in Associates as per equity method using uniform accounting policies Optional-up to FY 2019-20-Not applicable

NAS 39: Financial Instruments: Recognition and Measurement- Incurred Loss Model to measure the Impairment Loss on Loan and Advances or impairment provision as per Nepal Rastra Bank (NRB) directive whichever is higher- compulsory-up to FY 2019-20. The Bank loans and advances are greater as per NRB Directive as compared to NFRS. Therefore, loans and advances are impaired as per NRB Directive.

NAS 39: Financial Instruments: Recognition and Measurement-Impracticability to determine transaction cost of all previous years which is the part of effective interest rate-Optional-up to FY 2018-19-TheBankhas utilized this carve out.

NAS 39: Financial Instruments: Recognition and Measurement- Impracticability to determine interest income on amortized cost Optional-up to FY 2019-20-The Bank has utilized this carve out.

2.8 Discounting

Discounting has been applied where assets and liabilities are non-current and the impact of the discounting is material.

2.9 Limitation of NFRS implementation

If the information is not available and the cost to develop would exceed the benefit derived, such exception to NFRS implementation has been noted and disclosed in respective section.

3. Significant Accounting Policies

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

3.1 Basis of Measurement

The financial statements have been prepared on a historical cost basis, except for available – for-sale investments, assets held for sale and discontinued operations, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss (FVTPL), all of which have been measured at fair value.
The financial statements have been prepared on a going concern basis where the accounting policies and judgements as required by the standards are consistently used and in case of deviations disclosed specifically.

3.2 Basis of Consolidation

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

3.3 Cash & Cash Equivalent

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

3.4 Financial Assets and Financial Liabilities

3.4.1 Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account at fair value inclusive of transaction costs. The Bank recognises due to customer balances when funds reach the bank.

3.4.2 Classification

The Bank classifies its financial assets into the following measurement categories:

- ✓ ***Financial assets and liabilities held for trading***

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking. Included in this classification are Government bonds, NRB Bonds, Domestic Corporate bonds, Treasury bills, Equities etc. held primarily for the trading purpose.

- ✓ ***Financial assets and financial liabilities designated at fair value through profit or loss***

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at FVTPL upon initial recognition when one of the following criteria are met, and designation is determined on an instrument-by-instrument basis:

• The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis

Or

• The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed, and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

Or

• The financial instrument contains one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

- ✓ ***Loans and receivables to Customers***

After initial measurement, loans and advances to customers are subsequently measured at amortisation over the period of loan. This practice is almost nearer to the effective interest method prescribed by NFRS. The method has been adopted as the cost for computation for interest on effective interest method is huge in terms of benefits to be received from the computation in the short run.

- ✓ ***Held-to-maturity***

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the intention and ability to hold to maturity.

- ✓ ***Available-for-sale.***

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

- ✓ ***Financial liabilities held at amortised cost***

Financial liabilities not classified held at fair value through profit or loss includes borrowings which are classified as amortised cost instruments.

3.4.3 Measurement

- ✓ ***Initial measurement***

All financial instruments are initially recognised at fair value plus transaction cost except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

- ✓ ***Subsequent measurement***

Financial assets and liabilities designated at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the statement of profit or loss. Interest and dividend income or expense is recorded in revenue according to the terms of the contract, or when the right to payment has been established.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to Other Comprehensive Income. The Bank makes irrevocable election to route fair value changes through Other Comprehensive Income.

Loans and receivables and held-to-maturity financial assets are subsequently measured at amortised cost. Within this category loans and advances to the customers have been recognised at amortised cost using the method that very closely approximates effective interest rate method. The losses arising from impairment of such investments are recognised in the income statement within credit loss expense. If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale.

Financial liabilities are subsequently measured at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

3.4.4 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Bank has retained control, the assets continue to be recognised to the extent of the Bank's continuing involvement.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires. 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 derecognition 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 recognised in profit or loss.

3.4.5 Determination of Fair Value

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

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

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

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

3.4.6 Impairment of Loans and Advances

The Bank reviews its individually significant loans and advances at each Reporting date to assess whether an impairment loss should be provided in the Statement of Profit or loss. In particular, the Management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence actual results may differ resulting in future changes to the provision made. Individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgments 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.
Individual assessment of impairment of exposures means establishing whether objective evidence of impairment exists, estimation of the present value of future cash flows, and calculation of the value of impairment for each individual receivable from the borrower included in this assessment.

The bank has considered all loans and advances above NRs. 15 million for individual assessment of impairment. The bank determines, for each individual loan to be assessed for individual impairment, whether they expect to collect their receivables from expected future cash flows (going concern) or from collateral realization (gone concern). If a bank identifies objective evidence of impairment, the bank indicates, at single debtor level, the most realistic sources of repayment (collection approach/strategy) based on all available information regarding such borrower's financial position and performances. The bank assesses whether collection will be made from the borrower`s expected future operating cash flows (borrower continues to perform business activities – going concern) or on the basis of collateral enforcement and realization (expectation that the borrower ceases to exist – gone concern). In both cases, bank uses conservative assumptions relating to the estimation of the expected cash flows, taking into account current economic conditions and the Bank's own economic forecasts.
When estimating impairment based on collateral realization, the recoverable amount is the present value of the net inflow from collateral realization (taking into account the priority of claims), discounted by applying the original effective interest rate to the expected time to realization.

A collective impairment provision is established for:

☐Groups of homogeneous loans and advances that are not considered individually significant; and

☐Groups of assets that are individually significant but that were not found to be individually impaired

The collective provision for groups of homogeneous loans is established using statistical methods based on historical loss rate experience, Loss Given Default (LGD) and Probability of Default (PD) computed using the statistical analysis of historical data on delinquency to estimate the amount of loss for each class of portfolio selected on the basis of its product, risk factor, collateral coverage, exposure group etc. Management applies judgment to ensure that the estimate of loss arrived at, on the basis of historical information is appropriately adjusted to reflect the economic conditions and portfolio factors as at the Reporting date. The loss rates are regularly reviewed against actual loss experience.

In assessing the need for collective impairment, Management considers factors such as credit quality (for example, loan to collateral ratio, level of restructured performing loans), portfolio Size, concentrations and economic factors.

To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the provision depends on the model assumptions and parameters used in determining the collective provision.

As stated in 2.7 the bank loans and advances are greater considering the NRB directive as compared to NFRS impairment provisioning. Therefore, provisioning as per NRB directive is applied.

3.4.7 Impairment of Financial Investments – Available-for-Sale

The Bank also records impairment charges on available-for-sale equity investments when there has been significant or prolonged decline in the fair value below their cost along with the historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

3.4.8 Impairment of Non-Financial Assets

The Bank assesses whether there are any indicators of impairment for an asset or a cash generating unit (CGU) at each Reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'Value in use' of such individual assets or the CGUs. Estimating 'Value in use' requires the Management to make an estimate of the expected future cash flows from the asset or the CGU and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Bank to make estimates about expected future cash flows and discount rates and hence, they are subject to uncertainty.

3.5 Trading Assets

Trading asses are those assets that the bank acquire principally for the purpose of selling in the near term or hold as part of portfolio that is managed together for short term profit shall be presented under this account head. The other trading assets include non derivative financial assets. It includes government bond, NRB Bond, Domestic Corporate Bond, Treasury Bills, Equities etc held primarily for the trading purpose..

3.6 Property and Equipment

All property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Freehold land is not depreciated although it is subject to impairment testing. Depreciation on other assets is calculated using the straight- line method to allocate their cost to their residual values over their estimated useful lives, as follows:

➢ Vehicle	5 Years
➢ Furniture and Fixture	7 Years
➢ Computer	5 years
➢ Office Equipment	7 Years
➢ Leasehold assets	10 Years

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

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

Assets with costs less than NPR 5,000 are charged off on purchase as revenue expenditure.

Gains and losses on disposals are included in the Statement of Profit or Loss.

3.7 Intangible assets

Acquired Intangible Assets
Intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the Bank and are amortised on the basis of their expected useful lives.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised over the period of 5 years in Straight Line method (SLM). Costs associated with maintaining software are recognised as an expense as incurred.

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

3.8 Investment Property

Land or Land and Building other than those classified as property and equipment and non-current assets held for sale under relevant accounting standard are presented under this account head. The Non-Banking Assets acquired by the company is classified as assets held for sale and presented under investment property.
Further land which is rented and held for capital appreciation motive is classified as investment property. The bank does not have any investment property.

3.9 Income Tax

3.9.1 Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities of Nepal. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in Nepal. The liabilities recognised for the purpose of current Income tax, including fees, penalties are included under this head.

3.9.2 Deferred Tax Liabilities

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements Deferred income tax is determined using tax rate applicable to the Bank as at the reporting date which is expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the statement of profit or loss together with the deferred gain or loss.

3.10 Deposits, Debt securities issued and subordinate Liabilities

The deposits held by the bank on behalf of its customers are classified as financial liabilities and measured at amortised cost under effective interest method. The bank does not have any debt securities issued and subordinated liabilities.

3.11 Provisions

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflow of resources will be required to settle the obligations and they can be reliably estimated.

3.12 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

3.12.1 Interest Income

Interest Income include interest income on loan and advance, investment securities except on those investment securities measure at fair value through profit or loss, cash and cash equivalent, due from Nepal Rastra Bank, due from BFIs, loan and advances to staff etc.
Interest income on loans and advances is recognized on amortised principal which is nearer to the effective interest method suggested by NFRS. The adoption of effective interest method is not possible due to constraints of time, effort and cost in short term compared to the benefits it provides. As stated earlier, benefit of carve-out bas been applied to this effect. Interest of loans and advances which are significantly impaired are not recognized.
Interest income on government bond, treasury bills and bank balances are recognized under effective interest method.

3.12.2 Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided or significant act performed. Service Fee Income/Expenses are recognized on accrual basis unless it is impracticable to recognize as allowed through carve-out on NFRS.

3.12.3 Dividend Income

Dividend income is recognised when the Bank's right to receive the payment is established, which is generally when the shareholders approve the dividend.

3.12.4 Net Trading Income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading.

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

Gains and losses arising from changes in the fair value of financial instruments designated at fair value through profit or loss are included in the statement of profit or loss in the period in which they arise. Contractual interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

3.13 Interest Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at FVTPL, interest expense is recorded using the EIR unless it is impracticable.

3.14 Employee Benefits

3.14.1 Retirement Benefits

The Bank has schemes of retirement benefits namely Gratuity, Provident Fund and Medical Allowance.

Retirement benefit obligations

The bank operates a defined contribution plans as provident fund contribution.

For Provident Fund, the bank pays contributions to the publicly administered provident fund plans (named Employee Provident Fund) on a mandatory basis, and such amounts are charged to operating expenses. The bank has no further payment obligations once the contributions have been paid.

The bank has converted the Defined Benefit Obligation on Gratuity to Defined Contribution Plan with effect from Magh 1, 2075. Therefore, the ascertained liability is crystallized and settled in FY 2075/76. The plan assets are maintained at Citizen Investment Trust.

After Magh 1, 2075, new Labour Act 2074 is applicable which requires payment of minimum Gratuity of at least 8.33% of basic salary to all staff (equal to one-month salary per year).

3.14.2 Accumulated Leave

The Bank provides accumulated leave benefit under its staff byelaw. The Home Leave is accumulated up to 90 days and sick leave is also accumulated upto 90 days.

Accumulated leave benefits are treated as short term benefit liability.

3.14.3 Staff Bonus

Provision for bonus has been made at 10% of net profit including such bonus as prescribed by the directive of Nepal Rastra Bank.

3.15 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

- ✓ **Bank as a lessee**

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement **on a straight-line basis** over the lease term.

- ✓ **Bank as a lessor**

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in other operating income.

3.16 Foreign Currency Translation

Foreign currency transactions are translated into the NPR using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when recognised in other comprehensive income. Non-monetary assets that are measured at fair value are translated using exchange rate at the date that fair value was determined.

3.17 Financial Guarantee and Loan Commitment

In the ordinary course of business, the Bank issues performance guarantees, bid bond guarantees and advance payment guarantee. These guarantees are initially disclosed in the financial statement (within 'contingent liabilities') ate guaranteed value. The premium received is recognised in the Statement of Profit or Loss in net fees and commission income on a straight-line basis over the life of the guarantee.

3.18 Share Capital and Reserves

3.18.1 Share Capital

Financial instruments issues are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue available number of own equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as deduction net of taxes from the proceeds.
Dividends on ordinary shares classified as equity are recognised in equity in the period in which they are declared.
The avoidable share issue expenses were charged in the year of issue directly through equity disclosing the same and it's tax impact in Statement of Changes in Equity.

3.18.2 Reserves

The reserves include regulatory and free reserves.

- ✓ **General Reserve**

There is a regulatory requirement to set aside 20% of the net profit to the general reserve until the reserve is twice the paid of share capital. The reserve is the accumulation of setting aside profits over the years.

No Dividend (either cash dividend or bonus share) are distributed from the amount in General/ Statutory Reserve.

- ✓ **Assets Revaluation Reserve**

Any Reserve created from revaluation of assets (such as Property & Equipment, Intangible Assets, Investment Property) shall be presented under this heading. Revaluation reserves often serve as a cushion against unexpected losses but may not be fully available to absorb unexpected losses due to the subsequent deterioration in market value and tax consequences of revaluation. The Bank has followed cost model therefore no assets revaluation reserve is created.

- ✓ **Capital Reserve**

The capital reserve represents the amount of those reserves which are in nature of capital and which shall not be available for distribution of cash dividend. The amount from share forfeiture due to non-payment of remaining amount for the unpaid shares, capital grants received in cash or kind, capital reserve arising out of merger and acquisition etc are presented under this heading.

✓ **Special Reserve**

Any special reserve that is created as per the specific requirement of NRB directive or special instruction of NRB are represented as special reserve. The amount is allocated to this reserve by debiting retained earning account is presented under this heading.

✓ **Corporate Social Responsibility Fund**

The fund created for the purpose of corporate social responsibility by allocating 1% of Net profit as per NRB Directive is presented under this account head.

✓ **Regulatory Reserve**

The amount that is allocated from profit or retained earnings of the Bank to this reserve as per the *Directive of NRB for the purpose of implementation of NFRS* and which shall not be regarded as free for distribution of dividend (cash as well as bonus shares) shall be presented under this account head. The amount allocated to this reserve shall include interest income recognized but not received in cash, difference of loan loss provision as per NRB directive and impairment on loan and advance as per NFRS (in case lower impairment is recognized under NFRS), amount equals to deferred tax assets, actual loss recognized in other comprehensive income, amount of goodwill recognized under NFRS etc.

✓ **Fair Value Reserve**

Assets that are not classified as Fair Value through Profit and Loss, Held To maturity and Loans and Receivables are categorised as Available for Sale financial instruments. The Bank has under regulatory provisions a requirement to appropriate the upward movements in fair value under AFS reserve. The accounting of gain or loss in the fair value movement of AFS Financial Assets is done though other comprehensive income under NAS 39.

✓ **Other reserve**

Any reserve created with specific or non-specific purpose (except stated in above) are presented under thus by disclosing accounting heads.

3.19 Earnings per share

The Bank measures earning per share on the basis of the earning attributable to the equity shareholders for the period. The number of shares is taken as the weighted average number of shares for the relevant period as required by *NAS 33 - Earnings Per Share.*

There are no instruments, such as convertibles, that would require dilution of EPS, therefore diluted EPS has not been computed and disclosed.

3.20 Interim Financial Reporting

Interim reports corresponding to the financial statements had been reported in accordance with the regulatory reporting requirements. Those statements have been published quarterly in national level newspaper.

Additional Disclosure as per Securities Registration and Issuance Regulation - 2073 (Sub-Rule (1) of Rule 26, Annex 14) for Fourth Quarter of FY 2077/78

A. Financial Statement

i) Statement of Financial Position and Statement of Profit or Loss
Published along with this report

ii) Key financial indicators and ratios

Earnings per share	Rs. 15.23
Price Earnings Ratio (P/E Ratio)	27.83
Net Worth per Share	Rs. 135.81
Liquidity Ratio	24.35%
Total Assets per Share	Rs. 1748.18
Capital Adequacy Ratio	11.86%

B. Related Party Disclosure

Parties are considered to be related if any one party has the ability to control the other party or exercise the significant influence over the other party in making or operation decision.
The bank do not have the related party, therefore there is no such transaction.

C. Management Analysis

i) The bank has been focusing on cost management, diversified investments, technological up-gradation, and optimum utilization of resources and automation of work.
ii) Total deposits (Deposits from customer and BFIs) has been increased by 46.48% and Loans and Advances (Loans to customer and BFIs) has been increased by 51.84% till the Quarter end with reference to immediate Previous Year Ending.
iii) The bank is improvising its IT Infrastructure, expanding branches as per management vision as well as regulator requirement and adopting digitization.
iv) The Development Bank aims to achieve its financial goals through sustainable profitability and measured growth in balance sheet size. Our business models remain robust and we continue to seek sound growth with a high degree of customers' satisfaction.

D. Details to Legal Action

i) Except in the normal course of business, no lawsuit of material nature has been filed by or against the bank during the review quarter period.
ii) No legal suit related to criminal activity has been filed by or against the directors and promoters of the bank during the period.
iii) No legal suit has been filed against any director of the organization for any kind actions related to financial crime.

E. Analysis of share transaction and progress of the bank

i) Management view on share transaction of the bank at securities market- since price and transaction of the bank's shares are being determined at Nepal Stock Exchange through open share market operation, management view on this is neutral.
ii) Maximum, Minimum and last share price of the bank including total number of shares traded and days of transaction during the quarter.

Maximum Value	Minimum Value	Last Price	Transaction volume (No. of shares)	Days of Transaction
Rs. 502	Rs. 218	Rs. 424	10,514,663	65

F. Problem and Challenges

Internal

- Increased cost of operation

- Challenges in increasing Non- Interest revenue
- Timely recovery of Loans
- Recruitment and retention of quality human resources.
- Challenge to manage spread

External

- Adverse impact of global pandemic COVID-19 on various sectors of economy resulting into problem in recovery. Due to this the default in credit portfolio may increase.
- Cost of deposit/fund is decreasing in the banking sector.
- Changing regulatory framework and its timely adaptation
- Surplus liquidity in the market.

G. Strategy

- Focus on business continuity planning as the COVID-19 may have a far reaching and deep impact on overall economy.
- Better management of assets and liabilities.
- Focus on investment diversification
- Closely monitoring internal and external environment changes and adopting proactive approaches.
- Different strategies around marketing, innovation and digital banking.
- Developing human resources thorough online trainings and motivating them for growth.

H. Corporate Governance

i) Board of Directors

Committees like Risk Management Committee, Human Resource Committee, Audit Committee, AML/CFT Committee have been constituted to carry out banking operations and these committees have been involved in major policy/plans related decisions.

ii) Internal control System

In order to strengthen the internal control mechanism of the Bank, a separate independent internal audit department has been established. The internal audit department carries out audit of various auditable areas on a continuous manner and makes necessary recommendations to Audit Committee. Accordingly, Audit Committee holds regular meetings to analyze the recommendation and bring about necessary changes.

iii) Internal policies, regulations and Directives

In order to carry out various functionalities smoothly and to mitigate risks emanating from business functions, the bank has installed a sound operations system. All activities of the bank are guided by strong internal policies, manuals and guidelines which are reviewed on a regular basis to address new developments and requirements. The bank has a system to monitor compliance with all regulatory and statutory requirements.

I. Declaration by the Chief Executive Officer on the truthfulness and accuracy of information

I hereby declare that all the information provided in this document is true, complete and factual and that I take personal responsibility to any deviations thereof. I also declare that the Bank's information or data that assists investors make their investment decisions have not been concealed in any way.