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

Unaudited Interim Financial Statements

For the Second Quarter Ended

As on Poush 30, 2082

Shangri-la Development Bank Limited
Statement of Financial Position
As on 30 Poush 2082 (14 January 2026)

Amount in NPR

Particulars	Note	Poush end 2082	Ashadh end 2082
Assets			
Cash and cash equivalent	4.1	1,695,068,444	2,454,642,710
Due from Nepal Rastra Bank	4.2	2,350,654,682	2,497,928,135
Placement with Bank and Financial Institutions	4.3	-	-
Derivative financial instruments	4.4	-	-
Other trading assets	4.5	-	-
Loan and advances to B/FIs	4.6	1,576,651,046	2,868,266,918
Loans and advances to customers	4.7	44,408,323,930	42,823,895,737
Investment securities	4.8	11,342,809,374	10,979,490,324
Current tax assets	4.9	-	-
Investment in subsidiaries	4.10	-	-
Investment in associates	4.11	-	-
Investment property	4.12	505,529,838	528,099,838
Property and equipment	4.13	716,621,386	733,378,400
Goodwill and Intangible assets	4.14	16,156,889	16,461,269
Deferred tax assets	4.15	61,247,176	53,980,914
Other assets	4.16	730,864,048	575,269,438
Total Assets		**63,403,926,813**	**63,531,413,683**
Liabilities			
Due to Bank and Financial Institutions	4.17	1,625,066,328	1,530,882,450
Due to Nepal Rastra Bank	4.18	-	-
Derivative financial instruments	4.19	-	-
Deposits from customers	4.20	54,392,446,625	54,668,494,391
Borrowing	4.21	-	-
Current Tax Liabilities	4.9	27,648,936	56,216,196
Provisions	4.22	-	-
Deferred tax liabilities	4.15	-	-
Other liabilities	4.23	889,408,483	901,007,453
Debt securities issued	4.24	747,298,958	747,212,038
Subordinated Liabilities	4.25	-	-
Total Liabilities		**57,681,869,330**	**57,903,812,528**
Equity			
Share capital	4.26	3,734,068,506	3,556,255,720
Share premium		-	-
Retained earnings		94,661,157	368,366,412
Reserves	4.27	1,893,327,821	1,702,979,022
Total equity attributable to equity holders		**5,722,057,484**	**5,627,601,154**
Non-controlling interest		-	-
Total Equity		**5,722,057,484**	**5,627,601,154**
Total Liabilities and Equity		**63,403,926,814**	**63,531,413,683**

Shangri-la Development Bank Limited
Statement of Profit or Loss
For the Quarter Ended As on 30 Poush 2082 (14 January 2026)

Amount in NPR

Particulars	Poush end 2082		Poush end 2081	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Interest Income	1,120,093,226	2,336,904,129	1,183,105,523	2,643,555,912
Interest Expense	581,137,427	1,248,831,679	811,050,619	1,725,257,418
Net interest income	**538,955,799**	**1,088,072,451**	**372,054,904**	**918,298,494**
Fees and Commission Income	62,961,874	127,692,662	58,534,746	116,827,071
Fees and Commission Expense	3,356,253	7,639,650	4,991,583	8,954,810
Net fee and Commission income	59,605,622	**120,053,012**	**53,543,163**	**107,872,260**
Net interest fee and commission income	**598,561,421**	**1,208,125,463**	**425,598,067**	**1,026,170,754**
Net Trading Income	-	-	-	-
Other Operating Income	7,151,407	49,159,747	12,083,822	26,302,618
Total operating income	**605,712,828**	**1,257,285,209**	**437,681,889**	**1,052,473,372**
Impairment charge/(reversal) for loans and other losses	(52,827,530)	176,842,767	(44,551,268)	208,541,050
Net Operating income	**658,540,358**	**1,080,442,442**	**482,233,156**	**843,932,322**
Operating expenses				
Personnel Expense	196,824,640	370,533,832	162,311,401	325,775,855
Other Operating Expenses	112,722,318	211,921,590	97,899,711	182,482,622
Depreciation and amortization	23,067,640	46,673,767	26,102,158	52,411,114
Operating Profit	**325,925,759**	**451,313,254**	**195,919,886**	**283,262,731**
Non-operating income	1,008,354	1,637,430	113,865	146,918
Non-operating expense	19,024,580	19,025,025	1,202,356	2,607,791
Profit before income tax	**307,909,533**	**433,925,658**	**194,831,396**	**280,801,858**
Income tax expense	93,522,983	131,327,820	58,449,419	84,240,557
Current tax	93,522,983	131,327,820	58,449,419	84,240,557
Deferred tax Expenses/(Income)	-	-	-	-
Profit for the period	**214,386,550**	**302,597,838**	**136,381,977**	**196,561,300**

Shangri-la Development Bank Ltd.
Statement of Other Comprehensive Income
For the Quarter ended 30 Poush 2082 (14 January 2026)

Amount in NPR

Particulars	Poush end 2082		Poush end 2081	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Profit for the year	**214,386,550**	**302,597,838**	**136,381,977**	**196,561,300**
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	46,283,933	(24,220,872)	(58,565,306)	(13,616,993)
Gain/(loss) on revaluation				
Actuarial gain/(loss) on defined benefit plans				
Income tax relating to above items	(13,885,180)	7,266,262	17,569,592	4,085,098
Net other comprehensive income that will not be reclassified to profit or loss	**32,398,753**	**(16,954,610)**	**(40,995,714)**	**(9,531,895)**
b) Items that are or may be reclassified to profit or loss				
Gains/(losses) on cash flow hedge				
Exchange gains/(losses) (arising from translating financial assets of foreign operation)				
Income tax relating to above items				
Reclassification of Profit/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 equity method				
Other comprehensive income for the period, net of income tax	**32,398,753**	**(16,954,610)**	**(40,995,714)**	**(9,531,895)**
Total comprehensive income for the year	**246,785,303 5**	**285,643,228**	**95,386,263**	**187,029,405**
Total comprehensive income attributable to:				
Equity holders of the Bank	246,785,303	285,643,228	95,386,263	187,029,405
Non-controlling interest				
Total comprehensive income for the year	**246,785,303**	**285,643,228**	**95,386,263**	**187,029,405**

Particulars	Poush end 2082		Poush end 2081	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Earnings per share				
Basic earnings per share		16.21		11.46
Diluted earnings per share		16.21		11.46

Ratios as per NRB Directives

Particulars	Poush end 2082		Poush end 2081	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Tier 1 Capital to RWA		10.70%		10.09%
CET Capital to RWA		10.70%		10.09%
Capital Fund to RWA		13.91%		13.32%
Non-Performing Loan(NPL) to Total Loan		6.87%		4.99%
Total Loan Loss Provision to Total NPL		72.74%		85.28%
Cost of Fund		4.11%		5.71%
Credit to Deposit Ratio		83.55%		83.69%
Base Rate		6.17%		7.87%
Interest Spread Rate		4.57%		4.49%
Return on Assets		0.96%		0.62%
Return on Equity		10.68%		7.70%

Shangri-la Development Bank Ltd.
Statement of Changes in Equity
For the Quarter ended 30 Poush 2082 (14 January 2026)

Amount in NPR

Particulars	Share Capital	General Reserve	Exchange Equalization Reserve	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Other Reserve	Total
Balance at Shrawan 1, 2081	**3,430,971,303**	**772,005,167**	**954,538**	**533,295,155**	**(1,333,302)**	**-**	**131,878,334**	**116,604,492**	**4,984,375,687**
Adjustment/Restatement	-	-	-	-	-	-	(15,087,312)	-	(15,087,312)
Adjusted/Restated balance at Shrawan 1, 2081	**3,430,971,303**	**772,005,167**	**954,538**	**533,295,155**	**(1,333,302)**	**-**	**116,791,022**	**116,604,492**	**4,969,288,375**
Comprehensive income for the year									-
Profit for the year as per Report (NFRS)	-	-	-	-	-	-	606,671,757	-	606,671,757
Other comprehensive income, net of tax									-
Gains/(losses) from investments in equity instruments measured at fair value	-	-	-	-	61,351,074	-	-	-	61,351,074
Gain/(loss) on revaluation	-	-	-	-	-	-	-	-	-
Actuarial gain/loss on defined benefit plans	-	-	-	-	-	-	-	-	-
Gains/(losses) on cash flow hedge	-	-	-	-	-	-	-	-	-
Exchange gains/(losses) (arising from translating financial assets of foreign operation)	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**61,351,074**	**-**	**606,671,757**	**-**	**668,022,831**
Transfer to General Reserve	-	121,334,351	-	-	-	-	(121,334,351)	-	-
Transfer to General Reserve -Disposal of Shares	-	3,448,007	-	-	-	-	(3,448,007)	-	-
Transfer From General Reserve	-	-	-	-	-	-	-	-	-
Exchange Fluctuation Fund	-	-	117,549	-	-	-	(117,549)	-	-
Investment Adjustment Reserve	-	-	-	-	-	-	-	-	-
Institution CSR Fund	-	-	-	-	-	-	(6,066,718)	6,066,718	-
Utilization of Institution CSR Fund	-	-	-	-	-	-	-	(3,116,134)	(3,116,134)
Staff Training Fund	-	-	-	-	-	-	-	-	-
Utilization of Staff Training Fund	-	-	-	-	-	-	-	-	-
Fair Value Reserve	-	-	-	-	(17,240,036)	-	17,240,036	-	-
Other Reserve									
Transfer To/from Regulatory reserve during the year									
Deferred Tax Reserve									
Interest Receivable	-	-	-	11,766,053	-	-	(11,766,053)	-	-
Fair Value Reserve	-	-	-	(89,377,494)	-	-	89,377,494	-	-
Non-Banking Assets	-	-	-	(1,333,302)	-	-	1,333,302	-	-
Fair Value Reserve	-	-	-	81,293,329	-	-	(81,293,329)	-	-
Transactions with owners, directly recognized in equity									-
Share Issued	-	-	-	-	-	-	-	-	-
Share Issue Expenses	-	-	-	-	-	-	-	-	-
Tax On Share Issue Expenses	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-
Bonus shares issued	125,284,417	-	-	-	-	-	(125,284,417)	-	-
Cash dividend paid	-	-	-	-	-	-	(6,593,917)	-	(6,593,917)
Other	-	-	-	-	-	-	(107,142,857)	107,142,857	-
Total contributions by and distributions	-	-	-	-	-	-	-	-	-
Balance at 32 Ashad 2082	**3,556,255,720**	**896,787,525**	**1,072,088**	**535,643,741**	**42,777,736**	**-**	**368,366,412**	**226,697,933**	**5,627,601,154**

Particulars	Share Capital	General Reserve	Exchange Equalization Reserve	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Other Reserve	Total
Balance at Shrawan 1, 2082	**3,556,255,720**	**896,787,525**	**1,072,088**	**535,643,741**	**42,777,736**	**-**	**368,366,412**	**226,697,933**	**5,627,601,154**
Adjustment/Restatement	-	-	-	-			-	-	-
Adjusted/Restated balance at Shrawan 1, 2082	**3,556,255,720**	**896,787,525**	**1,072,088**	**535,643,741**	**42,777,736**	**-**	**368,366,412**	**226,697,933**	**5,627,601,154**
Comprehensive income for the year									-
Profit for the year as per Report (NFRS)	-	-	-	-	-	-	302,597,838	-	302,597,838
Other comprehensive income, net of tax									-
Gains/(losses) from investments in equity instruments measured at fair value	-	-	-	-	(16,954,610)	-	-	-	(16,954,610)
Gain/(loss) on revaluation									
Actuarial gain/loss on defined benefit plans	-	-	-	-	-	-	-	-	-
Gains/(losses) on cash flow hedge	-	-	-	-	-	-	-	-	-
Exchange gains/(losses) (arising from translating financial assets of foreign operation)	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	(16,954,610)	-	302,597,838	-	285,643,228
Transfer to General Reserve	-	60,519,568	-	-	-	-	(60,519,568)	-	-
Transfer to General Reserve -Disposal of Shares	-	536,724	-	-	-	-	(536,724)	-	-
Transfer From General Reserve	-	-	-	-	-	-	-	-	-
Exchange Fluctuation Fund	-	-	268,038	-	-	-	(268,038)	-	-
Investment Adjustment Reserve	-	-	-	-	-	-	-	-	-
Institution CSR Fund	-	-	-	-	-	-	(3,025,978)	3,025,978	-
Utilization of Institution CSR Fund	-	-	-	-	-	-	-	(633,272)	(633,272)
Staff Training Fund	-	-	-	-	-	-	-	-	-
Utilization of Staff Training Fund	-	-	-	-	-	-	-	-	-
Fair Value Reserve							-		-
Transfer To/from Regulatory reserve during the year	-	-	-	-	(2,683,620)	-	2,683,620	-	-
Deferred Tax Reserve	-	-	-	-	-	-	-	-	-
Interest Receivable	-	-	-	103,931,629	-	-	(103,931,629)	-	-
Fair Value Reserve	-	-	-	-	-	-	-	-	-
Non-Banking Assets	-	-	-	(11,233,089)	-	-	11,233,089	-	-
Transactions with owners, directly recognized in equity									-
Share Issued	-	-	-	-	-	-	-	-	-
Share Issue Expenses	-	-	-	-	-	-	-	-	-
Tax On Share Issue Expenses	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-
Bonus shares issued	177,812,786	-	-	-	-	-	(177,812,786)	-	-
Cash dividend paid	-	-	-	-	-	-	(190,553,626)	-	(190,553,626)
Other	-	-	-	-	-	-	(53,571,429)	53,571,429	-
Total contributions by and distributions	-	-	-	-	-	-	-	-	-
Balance at 30 Poush 2082	**3,734,068,506**	**957,843,817**	**1,340,126**	**628,342,281**	**23,139,506**	**-**	**94,661,182**	**282,662,067**	**5,722,057,484**

Shangri-la Development Bank Ltd.
Statement of Cash Flows
For the Quarter ended 30 Poush 2082 (14 January 2026)

Amount in NPR

Particulars	Poush end 2082	Ashadh end 2082
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	2,036,196,496	4,900,406,094
Fees and other income received	132,972,971	380,208,874
Dividend received	-	-
Receipts from other operating activities	-	-
Interest paid	(1,239,245,186)	(3,310,541,333)
Commission and fees paid	(7,639,650)	(20,557,125)
Cash payment to employees	(400,773,008)	(642,270,576)
Other expense paid	(169,664,229)	(251,165,647)
Operating cash flows before changes in operating assets and liabilities	**351,847,394**	**1,056,080,288**
(Increase)/Decrease in operating assets		
Due from Nepal Rastra Bank	147,273,453	(462,888,791)
Placement with bank and financial institutions	-	-
Other trading assets	-	-
Loan and advances to bank and financial institutions	1,360,511,604	345,561,153
Loans and advances to customers	(1,819,178,478)	(1,549,364,470)
Other assets	(155,507,689)	126,515,106
	(466,901,111)	**(1,540,177,003)**
Increase/(Decrease) in operating liabilities		
Due to bank and financial institutions	94,183,878	(30,187,043)
Due to Nepal Rastra Bank	-	-
Deposit from customers	(276,047,767)	640,390,034
Borrowings	-	-
Other liabilities		
	(181,863,889)	**610,202,991**
Net cash flow from operating activities before tax paid	**(296,917,605)**	**126,106,276**
Income taxes paid	(159,895,080)	(252,298,960)
Net cash flow from operating activities	**(456,812,685)**	**(126,192,683)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(390,110,649)	(418,314,362)
Receipts from sale of investment securities	2,570,727	142,734,283
Purchase of property and equipment	(29,717,020)	(235,108,237)
Receipt from the sale of property and equipment	8,903,735	6,319,676
Purchase of intangible assets	-	-
Receipt from the sale of intangible assets	-	-
Purchase of investment properties	-	(239,937,996)
Receipt from the sale of investment properties	22,570,000	-
Interest received	270,799,041	544,873,219
Dividend received	36,613,132	25,507,124
Net cash used in investing activities	**(78,371,034)**	**(173,926,294)**

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	(0)	-
Dividends paid	(190,553,626)	(6,593,917)
Interest paid	(33,836,920)	(67,836,619)
Other receipt/payment	-	-
Net cash from financing activities	**(224,390,546)**	**(74,430,536)**
Net increase (decrease) in cash and cash equivalents	**(759,574,266)**	**(374,865,530)**
Cash and cash equivalents at Shrawan, 01, 2082	2,454,642,710	2,829,192,223
Effect of exchange rate fluctuations on cash and cash equivalents held		-
Cash and cash equivalents at 30 Poush 2082	**1,695,068,444**	**2,454,642,710**

Shangri-la Development Bank Ltd.
Statement of Distributable Profit or Loss
For the Quarter ended 30 Poush 2082 (14 January 2026)

Amount in NPR

Particulars	Poush end 2082	Poush end 2081
Net profit or (loss) as per statement of profit or loss	**302,597,838**	**196,561,300**
Appropriations:		
a. General reserve	(61,056,292)	(39,312,260)
b. Foreign exchange fluctuation fund	(268,038)	(112,863)
c. Capital redemption reserve	(53,571,429)	(53,571,429)
d. Corporate social responsibility fund	(3,025,978)	(1,965,613)
e. Employees' training fund	-	-
f. Fair Value Reserve	2,683,620	-
g. Investment Adjustment Reserve	-	-
h. Others	-	-
Profit or (loss) before regulatory adjustment	**187,359,721**	**101,599,136**
Regulatory adjustment:		
a. Interest receivable (-)/previous accrued interest received (+)	(103,931,653)	773,708
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 (+)	11,233,089	31,867,723
e. Deferred tax assets recognized (-)/ reversal (+)	-	(4,085,098)
f. Goodwill recognized (-)/ impairment of Goodwill (+)	-	
g. Bargain purchase gain recognized (-)/reversal (+)	-	-
h. Actuarial loss recognized (-)/reversal (+)	-	-
i. Other (+/-)		-
Unrealized Gain/(Loss) on Investment Securities		(9,531,895)
Net Profit Available for Distribution	**94,661,157**	**120,623,573**
Opening Retained Earning as on Shrawan 1	**368,366,412**	**131,878,334**
Adjustment(+,-)	-	
Distributions:		
Bonus Shares Issued	(177,812,786)	-
Cash Dividend Paid	(190,553,626)	-
Total Distributable Profit or (Loss)	**94,661,157**	**252,501,907**
Annualized Distributable Profit/Loss per share	5.07	14.72

Note: *For the quarter ended Poush 2082, paid-up capital including approved bonus share from 21st AGM has been considered and its bonus listing is under process.*

Shangri-la Development Bank Limited
Notes to the Financial Statements

1. Reporting Entity

Shangri-la Development Bank Limited (“the Bank”) is incorporated as a public limited company under the Office of the Company Registrar and operates as a Class “Kha” licensed financial institution, authorized by Nepal Rastra Bank. The Bank’s corporate office is located in Baluwatar, Kathmandu, Nepal. With a robust network of 109 branches, it stands among the largest national-level development banks in the country. The Bank is publicly traded on the Nepal Stock Exchange under the ticker symbol SADBL.

2. Basis of Preparation

The financial statement of the Bank has been prepared on accrual basis of accounting in accordance with Nepal Financial Reporting Standards (NFRS) as published by the Accounting Standards Board (ASB) Nepal and pronounced by The Institute of Chartered Accountants of Nepal (ICAN) and in the format issued by Nepal Rastra Bank in Directive No. 4 of NRB Directives, 2081.

The financial statement comprises Statement of Financial Position, Statement of Profit or Loss and Statement of Other Comprehensive Income shown in a single statement, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statement.

2.1. Statement of Compliance

The financial statement has been prepared and approved by the Board of Directors in accordance with Company Act 2063, Bank and Financial Institution Act 2073, Nepal Financial Reporting Standards (NFRS) and as published by the Accounting Standards Board (ASB) Nepal and pronounced by The Institute of Chartered Accountants of Nepal (ICAN) and in the format issued by Nepal Rastra Bank in Directive No.4 of NRB Directives, 2081. These policies have been consistently applied to all the years presented except otherwise stated.

2.2. Functional and Presentation Currency

The financial statement is presented in Nepalese Rupees (NPR) which is the Bank’s functional currency. All financial information presented in NPR has been rounded to the nearest rupee except where indicated otherwise.

2.3. Use of Estimates, Assumptions and Judgment

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.

The 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 and such estimates and underlying assumptions are reviewed periodically. The revision to accounting estimates are recognized in the period in which the estimates are revised and are applied prospectively.

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

Going Concern

The financial statements of the Bank is prepared on a going concern basis. The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue its business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

2.4. Change in Accounting Policies

The Bank has prepared the opening Statement of Financial Position as per Nepal Financial Reporting Standard (NFRS) as at 16 July 2016 (the transition date) by recognizing all assets and liabilities whose recognition is required by NFRS, not recognizing the items of assets or liabilities which are not permitted by NFRS, by reclassifying items from previous GAAP to NFRS as required by NFRS and applying NFRS in measurement of recognized assets and liabilities.

2.5. Reporting Pronouncements

The Bank has, for the preparation of financial statements, adopted the NFRS pronounced by ASB as effective on September 13, 2013. The NFRS confirm, in all material respect, to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Institute of Chartered Accountants of Nepal has pronounced implementation of NFRS. Accordingly, the accompanying financial statements are prepared in accordance with NFRS including Carve-Out Alternatives provided for Bank and Financial Institutions (BFIs) under NFRS – 9. Wherever the information is not adequately available, and/or it is impracticable to develop such exception to NFRS implementation has been noted and disclosed in respective sections.

2.6. Discounting

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

2.7. 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.

2.8. Offsetting

In the Statement of Financial Position, financial assets and financial liabilities are netted off only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not netted off in the Statement of Profit or Loss unless required or permitted by an accounting standard or interpretation and as specifically disclosed in the accounting policy.

2.9. Materiality and Aggregation

In the financial statements materiality and aggregation is dealt with in compliance with Nepal Accounting Standard – NAS 1 "Presentation of Financial Statements" and within the scope of formats implemented by Nepal Rastra Bank. Accordingly, each material class of similar items is presented separately and items that are not similar in nature or function are also presented separately unless these are immaterial.

2.10. Rounding

The amounts in the financial statements are rounded off to the nearest Rupees, except where otherwise indicated as permitted by NAS 1 – "Presentation of Financial Statements".

2.11. Comparative Information

Accounting policies are consistently applied across all periods reported. The presentation and classification of financial figures relating to previous period are regrouped or reclassified where relevant to facilitate consistent presentation and better comparability.

3. Significant Accounting Policies

The Bank has applied the accounting policies set out below consistently to all periods presented in the accompanying financial statements unless specifically stated otherwise.

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:

- Investment Securities are measured at Fair value through Other Comprehensive Income (FVTOCI).
- Liabilities for employee defined benefit obligations and liabilities for long service leave presented in SoFP line-item Other Liabilities measured at fair value under NAS 19 'Employee Benefits'

3.2 Cash and Cash Equivalent

Cash and cash equivalent comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value and carried at amortized cost.

The cash and cash equivalents for the purpose of cash flow statement include cash in hand, balances with banks, money at call and money market funds and financial assets with original maturity less than 3 months from the date of acquisition.

3.3 Financial Assets and Financial Liabilities

3.3.1. Recognition

The Bank recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are measured at fair value on initial recognition. Transaction costs in relation to financial assets and financial liabilities, other than those carried at fair value through profit or loss (FVTPL), are added to the fair value on initial recognition. Transaction costs in relation to financial assets and financial liabilities which are carried at fair value through profit or loss (FVTPL), are charged to Statement of Profit or Loss.

3.3.2. Classification

The financial assets and liabilities are subsequently measured at amortized cost or fair value on the basis of business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are classified under three categories as required by NFRS 9, namely:

I. Financial Assets Measured at Amortized Cost:

Financial assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest, are subsequently measured at amortized cost using the effective interest rate ('EIR') method less impairment, if any. The amortization of EIR and loss arising from impairment, if any is recognized in Statement of Profit or Loss.

II. Financial Assets Measured at Fair Value Through Other Comprehensive Income:

Financial assets that are held within a business model whose objective is achieved by both, selling financial assets and collecting contractual cash flows that are solely payments of principal and interest, are subsequently measured at fair value through other comprehensive income. Fair value movements are recognized in Other Comprehensive Income (OCI).

III. Financial Assets Measured at Fair Value Through Profit or Loss:

The bank classifies the financials assets as fair value through profit or loss if they are held for trading or designated at fair value through profit or loss. Any other financial asset not classified as either amortized cost or FVTOCI, is classified as FVTPL.

Financial Liabilities are classified under two categories as required by NFRS 9, namely:

I. Financial Liabilities Measured at Fair Value Through Profit or Loss:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Upon initial recognition, transaction cost directly attributable to the acquisition are recognized in Statement of Profit or Loss as incurred. Subsequent changes in fair value is recognized at profit or loss.

II. 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.

3.3.3. 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 collectability.

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.

3.3.4. De-recognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the contractual rights to receive the cash flows from the asset. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expires.

3.3.5. Determination of Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Bank follows three levels of the fair-value-hierarchy are described below:

Level 1: Quoted (unadjusted) prices for identical assets or liabilities in active markets;
Level 2: Significant inputs to the fair value measurement are directly or indirectly observable or valuations of quoted for similar instrument in active markets or quoted prices for identical or similar instrument in inactive markets; and
Level 3: Significant inputs to the fair value measurement are unobservable.
Investment in Unquoted Equity Instrument are carried at cost as the market price of such shares could not be ascertained with certainty at the reporting date.

3.4 Impairment Losses on Financial Assets

The Bank has adopted NFRS 9: Financial Instruments, which introduces a forward-looking Expected Credit Loss (ECL) model for the recognition of impairment on financial assets. NFRS 9 replaces the previous incurred loss model under NAS 39, and requires recognition of credit losses based on a three-stage model, reflecting changes in credit risk since initial recognition.

Accordingly, the Bank reviews its individually significant loans and advances portfolio at each reporting date to assess whether an impairment loss is to be recognized in the Statement of Profit or Loss. 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 realizable value of any underlying collateral (foreclosure) and expected cash from operations. 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 several factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

Following NFRS 9, the Bank's Expected Credit Loss (ECL) calculations are outputs of complex models with several underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the Bank's ECL models that are considered accounting judgements and estimates include:

- Criteria for qualitatively assessing whether there has been a significant increase in credit risk (SICR) and if so, allowances for financial assets measured on a Lifetime Expected Credit Loss (LT - ECL) basis.
- Segmentation of financial assets when their ECL is assessed on a collective basis.
- Various statistical formulas and the choice of inputs used in the development of ECL models.
- Associations between macroeconomic inputs, such as GDP, inflation, interest rates, exchange rates, general government net lending/borrowing, etc. and the effect of these inputs on Probability of Default (PDs).
- Forward-looking macroeconomic scenarios and their probability weightings.
- Coupon rate of loan has been considered by the Bank as effective interest rate.

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 (normal) case, best case and worst-case scenarios when assessing the probability weighted forward looking macro-economic indicators.

To facilitate a consistent and robust implementation of the ECL framework, the Nepal Rastra Bank (NRB) has issued detailed ECL Implementation Guidelines, developed in alignment with international practices and regulatory frameworks of comparable jurisdictions. These guidelines are intended to support institutions in applying NFRS 9 requirements prudently and uniformly across the banking sector.

NFRS 9- Expected Credit Loss Related Guidelines, 2024

Expected Credit Losses are a probability weighted estimate of credit losses (i.e., present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between cash flows that are due to an entity in accordance with the contract and cash flows that the entity expects to receive.

12 month expected credit losses

Twelve month expected credit losses is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within 12 months after reporting date. An amount equal to 12-month ECL is not only losses expected in next 12 months rather, it is the expected cash shortfalls over the life of the lending exposure or group of lending exposures due to loss events that could occur in the next 12 months. Twelve month expected credit losses are to be recognized for financial instruments with low credit risk or no significant change in credit risk since initial recognition, at the reporting date. A nil allowance is rare as ECL estimates are probability weighted amount.

Lifetime expected credit losses

Lifetime Expected Credit Losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Lifetime expected credit losses are to be recognized for financial instruments with significant increase in credit risk since initial recognition, whether assessed on individual or collective basis, considering all reasonable and supportable information, including that which is forward looking.

It is the change in risk of default rather than change in amount of expected credit losses that is of concern for assessment of changes in credit risk (before consideration of effects of credit risk mitigants such as collateral or guarantees).

In the case of modified/restructured/renegotiated exposures, the assessment of increase in credit risk by comparing risk of default occurring at the reporting date based on modified contractual terms with risk of default occurring upon initial recognition based on original, unmodified contractual terms. BFIs should not move back to 12-month ECL unless there is sufficient evidence.

For purchased or originated credit impaired financial assets, only cumulative changes in lifetime expected credit losses since initial recognition are recognized.

Indicators of significant increase in credit risk

The recognition of lifetime or 12 month expected credit losses requires assessment of significant increase in credit risk since initial recognition. Therefore, the following conditions (non-exhaustive list) can be deemed as indicators of significant increase in credit risk.

i. More than one month past due
ii. Absolute Lifetime PD is 5% or more
iii. Relative Lifetime PD is increased by 100% or more
iv. Risk rating (internal or external) downgraded by 2 notches since initial recognition
v. Risk rating downgraded to non-investment grade by external credit rating agency (BB+ or below) or by bank's internal credit rating system
vi. Deterioration of relevant determinants of credit risk (eg future cash flows) for an individual obligor (or pool of obligors)
vii. Expectation of forbearance or restructuring due to financial difficulties
viii. Deterioration of prospects for sector or industries within which a borrower operates
ix. Borrowers affected by macroeconomic conditions based on reasonable and supportable forecasts.
x. Modification of terms resulting in restructuring/rescheduling
xi. 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
xii. 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

Both qualitative and quantitative factors are encouraged to be considered while assessing whether there has been significant increases in credit risk. Accurate identification of drivers of credit risk and reliable demonstration of linkage between those drivers and level of credit risk is also critical.

Internal risk rating systems of banks and financial institutions should include sufficient number of grades to appropriately distinguish credit risk whilst change in credit risk can occur prior to a movement in a credit grade.

For the purpose of determining significant increases in credit risk and recognizing loss allowance on a collective basis, banks and financial institutions can group financial instruments on the basis of shared risk characteristics. Examples of shared credit risk characteristics may include, but are not limited to, the:

i. instrument/product type
ii. credit risk ratings
iii. collateral type
iv. date of initial recognition
v. remaining term to maturity
vi. industry/sector
vii. geographical location of borrower
viii. value of collateral relative to financial asset only if it has an impact on probability of default occurring.

Assessment of significant increase in credit risk on a collective basis may be needed, for example: on group or sub group of financial instruments, even if evidence of such significant increases in credit risk at individual instrument level is not yet available.

In order to assess changes in credit risk since initial recognition, at each reporting date, it is recommended to:

a. Measure risk of default of retail or other exposures that have less borrower-specific information via collective or group assessment (based on shared risk characteristics) and of exposures classified under Stage 3 and large exposures via individual assessment. However, if additional information becomes available that is considered to have impact on repayment capacity of individual borrower falling within a group assessed via collective assessment, additional adjustment should be made in measurement of risk of default factoring in such information. To measure ECL on collective basis, among different shared credit risk characteristics considered, BFIs should at least include credit risk rating to group or segment exposures.
b. Assess significant increase in credit risk at counterparty level and obligor level, if counterparties under same obligor have business interconnection.

Guidance for computation of Expected Credit Loss (based on PD, LGD and EAD)

In view of the fact that most ECL models require the determination of Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD), BFIs are required to take following factors into account:

$$ECL = PD * LGD*EAD$$

a. Probability of Default (PD)

PD is an estimate of the likelihood of a default over a given time horizon. With regards to PD estimation, the following measures are to be considered by BFIs:

i. Derive PD based on historical default migration rates and/other data, internal and external credit rating etc.

ii. Incorporate forward looking PD information as well by adjusting PD to its sensitivity to changes in certain macroeconomic factors.
iii. Use at least five-year historical data, where available, for calculating PDs and validate any smoothing of data or inputs by the Risk Management Department.
iv. Can link their internal rating scale to external credit rating for the determination of PD. However, BFIs should avoid using proxies to compute PDs.
v. Compute PDs by using a sovereign PD which is linked to the external credit rating scale, with respect to exposures denominated in foreign currencies issued by the foreign sovereigns.

Irrespective of results derived by the model of BFIs, prudential floor of 2.5% for credit exposures PD has been prescribed as a regulatory backstop measure. Based on experience of 5 years post implementation period of this guideline, NRB shall review above prudential floor.

b. Loss Given Default (LGD)

LGD is the percentage of exposure that is not expected to be recovered in the event of a default.

Factors to consider for LGD

i. The BFIs are advised to initiate development of LGD models based on historical data, historical experience of cash recovery from defaults (including settlements), cost and time of recoveries and all other relevant and supportable information (including forward looking information).
ii. It is recommended to pursue computation of LGD in the following order:
    - Use historical actual recovery rates in first place.
    - If historical rates are unavailable, use valuation (prudential floors) for ECL calculation as outlined in this guideline taking into account disposal time and costs until expected disposal of collateral or assets. However, value of collateral or assets for loans that have defaulted and BFIs have also not been able to realize within 5 years of default, cannot be used for determining loss or recovery rates.
    - If such net realizable value of collateral or other sources are reliably undeterminable and BFIs are unable to compute LGDs due to lack of data or inputs, they are required to obtain approval of the same from the board of directors. Such BFIs are required to use a minimum LGD of 45 per cent for such credit exposures.

(Note: BFIs should demonstrate via sound back-testing that the assumptions used are reasonable and grounded in observed experience. In this context, BFIs should regularly back-test their valuation history (last valuation before the asset was classified as a NPL or Stage 3) vs. their sales history (net sales price of collateral).

iii. BFIs shall use LGD of 0 per cent for same currency denominated cash backed loans with a haircut of over 10 per cent subject to meeting following conditions:
    - BFIs shall have the right to take legal possession of such cash deposit, in the event of default, or insolvency or bankruptcy of borrower.
    - All documentation used in cash collateralized transactions shall be binding on all parties and legally enforceable.
iv. Exposures backed by Government of Nepal guarantees shall have minimum LGD of 0 percent.
v. All subordinated claims on corporates, banks and foreign sovereigns will be assigned a minimum of 75% LGD. A subordinated loan is a facility that is expressly subordinated to another facility.

vi. BFIs should avoid using proxies to compute LGDs.

c. Exposure at Default (EAD)

EAD refers to the expected exposure to a borrower in the event of default. The methodology for EAD varies according to the nature of product. BFIs are required to consider the following factors, in relation to EAD.

i. Since ECL is a forward-looking measure, EAD input will be forward-looking as well as based on the time period when the default is likely to occur.
ii. Model to be developed for computing credit conversion factor on off balance sheet exposures based on past experience and forward-looking information, which is required for EAD.
iii. EAD to include all outstanding exposure and off-balance sheet exposure after adjustment with contractual cash flows to reflect expected exposure when default occurs.
iv. For closed end loans, EAD to be capped at maximum contractual period over which entity is exposed to credit risk.
v. BFIs are not permitted to use the legally enforceable contractual period for revolving credit facilities unless analysis of historical data shows that, in practice, management action consistently limits the period of exposure to the contractual period. BFIs are expected to consider all relevant historical information that is available without undue cost and effort when determining the exposure period of a revolving credit facility.
vi. For revolving products (such as overdraft, credit cards), period longer than actual contractual period may be required based on past experience and forward-looking information.
vii. If data is not available for off balance sheet exposures, BFIs may use Credit Conversion Factor (CCF) for the calculation of EAD for off balance sheet exposures

Guidance on staging for expected credit losses

Bank and financial institutions are required to segregate their financial instruments in three stages for the purpose of measurement of expected credit loss. 12 months expected credit loss shall be recognized for stage 1 whereas life time expected credit loss shall be recognized for stage 2 and stage 3.

a. Stage 1 includes the following**:**

i. Initially recognized financial instruments, unless it is purchased or originated credit-impaired financial assets
ii. Financial instruments that do not have significant increase in credit risk since initial recognition
iii. Financial instruments that have low credit risk at the reporting date

For this purpose, instruments with low credit risk includes:

- All exposures on Nepal Government/Province/Local Level or Nepal Rastra Bank
- Exposures fully guaranteed by Nepal Government/ Province/Local Level
- Foreign Sovereign exposures having rating BBB- and above from an external rating agency at the reporting date.
- All exposures on BIS, IMF, EC, ECB and multilateral development banks with risk weight of 0% as defined in Capital Adequacy Framework 2015
- Debenture/bonds having rating of AA or above at reporting date from external credit rating agency.

BFIs are required to determine at each reporting date as whether the financial instruments meet the requirement of low credit risk. If the instrument does not meet the requirement of low credit risk, the BFIs shall determine whether the risk of default on financial instrument has been increased significantly or not after the initial recognition. If the risk has been increased, the instrument shall be classified under stage 2 and accordingly life time ECL shall be recognized.

iv. Financial assets in which contractual payments are not overdue or is overdue for up to one month.

b. Stage 2 includes the following**:**

i. Financial instruments having significant increase in credit risk since initial recognition
ii. Financial instruments having contractual payments overdue for more than one month but not exceeding three months
iii. Loans classified under 'Watch list' as per NRB Directive on prudential provisioning
iv. Loans without approved credit line or with credit line revoked by the bank
v. Loan that has been restructured/rescheduled but not classified as non-performing loan as per existing provisions of NRB directives. However, rescheduling of instalment/EMI based loans resulting reduction in number of instalments due to prepayments or change in number of instalments due to change in interest rates under floating interest rate are not applicable.
vi. Claims on non-investment grade financial instruments i.e., with credit rating of BB+ or below

c. Stage 3 includes the following:

i. Financial instruments having contractual payments overdue for more than three months
ii. BFIs consider that the borrower is unlikely to pay its credit obligations to the bank in full, without realizing security (if held). The indicators of unlikeliness to pay includes:
   - Bank puts credit obligation on non-accrued status
   - Bank consents to distressed restructuring of credit obligation resulting in reduction in financial obligation due to material forgiveness, postponement of principal, interest
   - Bank has filed for debtor's bankruptcy or a similar order in respect of the borrower's credit obligation
   - The bank sells a part of the credit obligation at a material credit-related economic loss.
   - The debtor has sought or has been placed in bankruptcy or similar protection where this would avoid or delay repayment of the credit obligation.
   - There is evidence that full repayment based on contractual terms is unlikely without bank's realization of collateral regardless of whether the exposure is current or past due by few days
iii. Loan is classified as non-performing as per the NRB prudential provisioning directive.
iv. Credit impaired financial instruments with objective evidence of impairment
   A financial instrument is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial instrument have occurred. Evidence that a financial instrument is credit-impaired include observable data about the following events:
   - significant financial difficulty of the issuer or the borrower
   - a breach of contract, such as a default or past due event;
   - the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
   - it is becoming probable that the borrower will enter bankruptcy or other financial re-organization;
   - The disappearance of an active market for that financial instrument because of financial difficulties; or

- The purchase or origination of a financial instrument at a deep discount that reflects the incurred credit losses.

Credit impaired financial instrument shall also include credit impaired defined by BFIs as per their risk management practices.

v. The financial assets classified as purchased or originated credit impaired (POCI) assets as per NFRS 9. POCI assets also refer to new loans disbursed during the current reporting period for accounts that were classified under Stage 3 at previous reporting date.

Transfer criteria between stages

Transfer from Stage 2 to Stage 1: Where there is evidence of significant reduction in credit risk, BFIs can upgrade such exposure from Stage 2 to Stage 1.

Transfer Out of Stage 3: Though the conditions for an exposure to be classified in Stage 3 no longer exist, BFIs should continue to monitor for a minimum probationary period of three months to upgrade from Stage 3.

For restructured/rescheduled exposures: BFIs need to monitor restructured/ rescheduled exposures classified under Stage 3 for a minimum probationary period of 24 months before upgradation.

Upgrading of stages for exposures should be executed by Risk Management department in line with policies approved by the Board of Directors of BFIs.

Forward Looking Information

BFIs should have board approved policies to specify the sources and methodologies to be used for economic analysis and forecasting. Wider range of forward-looking information including macroeconomic factors, for measurement of expected credit loss need to be considered for formulating such policies. Information should not be excluded from that process simply because an event has a low likelihood of occurring or the effect of that event on the credit risk or the amount of expected credit losses is uncertain. BFIs need to employ sound judgment consistent with generally accepted methods for economic analysis and forecasting supported by sufficient and reliable data. Appropriate oversight and an effective internal control system should be in place to ensure periodic sensitivity assessment of ECL to each forward-looking parameter applied and to ensure that bias is not introduced in the ECL assessment and measurement process. BFIs may consider a minimum of three economic scenarios for ECL forecasting: normal, best and worst case scenarios. For weightages of the economic scenarios, BFIs may use recognized statistical methodologies.

BFIs should use the forecasts and projections published by authentic sources (such as Central Bureau of Statistics, Nepal Rastra Bank, International Monetary Fund, World Bank, Asian Development Bank etc.) where available and also other alternative credible sources when adjusting ECL models to reflect the economic conditions and forecasts and maintain documentary evidence for such data.

Loan Loss Provision as per NRB Directives

As per NRB Directives, provision is made for possible losses on loans and advances at 1 % to 100 % on the basis of classification of loans and advances, overdraft and bills purchased. Loan loss provisions in respect of non-performing loans and advances are based on management's assessment of the degree of impairment of the loans and advances, subject to the minimum provisioning level prescribed in relevant NRB Directives.

The bank has considered the impairment on loans and advances as the higher of total impairment charge calculated under ECL provision as per NFRS 9 and as per existing regulatory provisions as per NRB Directive, in accordance to ECL Guidelines, 2024 issued by NRB.

3.5 Trading Assets

Financial assets are classified as trading assets (held for trading) if they have been acquired principally for the purpose of selling in the near term, or form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short- term profit taking. They are recognized on trade date, when the bank enters into contractual arrangements with counterparties, and are normally derecognized when sold. They are initially measured at fair value, with transaction costs taken to profit or loss. Subsequent changes in their fair values are recognized in profit or loss.

3.6 Derivative Assets and Derivative Liabilities

Derivative instruments include transactions like interest rate swap, currency swap, forward foreign exchange contract etc. held for trading as well as risk management purposes. Derivative financial instruments are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date. The Bank does not have any derivative instrument during the reporting period.

3.7 Property & 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 recognized 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. Depreciation on other assets is calculated from the date the assets are available for use up to the date of disposal using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Particulars	No. of Years
Building	50
Computer and Accessories	5
Furniture and Fixtures	7
Office Equipment	7
Vehicles	7
Leasehold Properties	10

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

3.8 Intangible Assets

An intangible asset appearing in the Bank's books is computer software/software licenses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalized where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortized over the period of 5 years in Straight Line method (SLM). Costs associated with maintaining software are recognized as an expense as incurred.

3.9 Investment Property

Investment properties are land or building or both other than those classified as property and equipment under NAS 16 – "Property, Plant and Equipment"; and assets classified as non-current assets held for sale under NFRS 5 – "Non-Current Assets Held for Sale and Discontinued Operations". Land and Building acquired as non-banking assets are recognized as investment property.

Such investment properties have been measured at lower of loan outstanding amount or fair market value of the collateral at the time of recognition in line with NRB Directives. No depreciation is charged in investment property as they are not intended for the owner-occupied use.

3.10 Income Tax

Tax expenses comprises of current tax and deferred tax.

Current tax

Current tax is the income tax expense recognized in 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. Current tax is the amounts expected 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.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realized or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the group has a legal right to offset.

3.11 Deposit, Debts Securities Issued and Subordinated Liabilities

i. Deposits

The Bank accepts deposits from its customers under saving, current, term deposits, call 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.

ii. Debt Securities Issued

It includes debenture issued by the Bank initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. However, debentures issued by the Bank are subordinate to the deposits from customer.

iii. Subordinated Liabilities

Subordinated liabilities are those liabilities which at the event of winding up are subordinate to the claims of depositors, debt securities issued and other creditors. The Bank does not have any subordinated liabilities as at the reporting date.

3.12 Provisions, Contingent Liabilities and Contingent Assets

The Bank recognizes a provision if, as a result of past event, the Bank has a present constructive or legal obligation that can be reliability measured and it is probable that an outflow of economic benefit will be required to settle the obligation.

A disclosure for contingent liability is made when there is a possible obligation or a present obligation that may but probably will not require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

A provision for onerous contract is recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligation under the contract.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed. Contingent assets are not recognized in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognized in the period in which the change occurs.

3.13 Revenue Recognition

Revenue is recognized 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 recognized.

a. 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. For all financial assets measured at amortized cost, interest bearing financial assets classified as Fair value through profit and loss, interest income is recorded using the rate that closely approximates the effective interest rate (EIR) 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. Benefit of carve out has been applied to this effect.

Interest income on Loans and Advances is recognized as per the Guidance Note on Interest Income Recognition, 2025 issued by NRB and carve out issued by ICAN has been opted.

For Stage 1 and Stage 2 Loans and Advances: Based on coupon interest rate on principal outstanding for all financial assets (Accrual Basis)

For Stage 3 Loans and Advances: Based on actual cash basis approach (incremental) and coupon interest rate applied on principal outstanding. For stage 3 financial assets, interest income recognized on accrual basis shall be adjusted against the movement in accrued interest receivable during the current quarter and interest suspense at beginning of quarter and only cash-based interest income during the current quarter shall be recognized. Similarly, for Stage 1 and 2 financial assets, interest income is recognized on accrual basis (coupon rate or effective rate) and any interest suspense at the beginning of quarter is also recognized as interest income.

NFRS Requirement: NFRS requires interest income to be recognized using the Effective Interest method, except for those classified at fair value through profit or loss. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the expected life of the financial instrument.

Carve out issued by ICAN

As per carve out regarding Effective Interest Rate used for calculation of Interest revenue, bank or other financial institutions established /licensed by appropriate government bodies, interest revenue can be recognized as per the Guidance Note issued by respective regulators.

b. Fees and Commission Income

Fees and commission are generally recognized 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.

c. Dividend Income

Dividend income is recognized when the Bank’s right to receive the payment is established, which is generally when the shareholders approve the dividend. In line with the requirements of the Income Tax Act 2058, dividends received from domestic companies are recognized as final withholding income, while those received in respect of unit investments in mutual are recognized in gross amounts and respective withholding taxes are recognized as tax receivables.

d. 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.

3.14 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.

3.15 Employee Benefits

a. Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is also recognized for the amount expected to be paid under bonus required by the Bonus Act, 2030 to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably under short term employee benefits.

Short-term employee benefits include all the following items (if payable within 12 months after the end of the reporting period):

- wages, salaries and social security contributions,
- paid annual leave and paid sick leave,
- profit-sharing and bonuses and non-monetary benefits

b. Post-Employment Benefits

Post-employment benefit plan includes the followings;

I. Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which a Bank pays fixed contribution into a separate Bank (a fund) and will have no legal or constructive obligation to pay further contributions 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).

Provident Fund

The Bank deducts ten percent of the basic remuneration of each employee, add ten percent to that amount and deposit the total amount for the purpose of provident fund. The above expenses are identified as contributions to 'Defined Contribution Plans' as defined in Nepal Accounting Standards – NAS 19 (Employee Benefits).

Gratuity

The Bank has followed Defined Contribution Plan from 2075/10/01. The Bank has followed following rate to deposit the gratuity:

- For the employee who have worked first 15 years or less than that, gratuity is provided at 8.33% of the basic remuneration of each month.
- For the employee who have worked above 15 years and up to 20 years, gratuity is provided at 12.50% of the basic remuneration of each month.

- For the employee who have worked above 20 years, gratuity is provided at 16.67% of the basic remuneration of each month.

II. Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The bank's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods. That benefit is discounted to determine its present value.

Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds, that have maturity dates approximating the terms of the Bank's obligation and that are denominated in the currency in which the benefits are expected to be paid.

III. Other long term employee benefits

Other long term employee benefits include accumulated leave which is expected to be utilized beyond one year from the end of the reporting period. 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 bonds 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.

IV. Termination Benefits

Termination benefits are recognized as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

3.16 Leases

Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless either:

- Another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis; or
- The payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.

Majority of lease agreements entered by the Banks are with the clause of normal increment of 5%-15% p.a. which the management assumes are in line with the lessor's expected inflationary cost increases.

Bank has implemented lease as per NFRS 16 pronounced by ASB with effect from fiscal year 2021/22 (2078.79).

During the current financial year, the Bank identified an error in the measurement of Right-of-Use (ROU) Assets and Lease Liabilities relating to leases accounted under NFRS 16 – Leases in the previous financial year. The error arose due to computational mistake in determination of lease liability/ROU asset at inception of lease, which resulted in an understatement of the related balances in the prior year financial statements.

3.17 Foreign Currency Translation

The financial statements are presented in Nepalese Rupees (NPR). Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date.

3.18 Share Capital and Reserves

Equity is the residual interest in the total assets of the Bank after deducting all of its liability. Shares are classified as equity when the Bank has an unconditional right to avoid delivery of cash or another financial asset, that is, when the dividend and repayment of capital are at the sole and absolute discretion of the Bank and there is no contractual obligation whatsoever to that effect.

Reserves are the allocation out of profit or retained earnings. These are created as statutory requirement, accounting standard requirement and the bank's own requirement.

3.19 Earnings per Share (EPS) and Diluted EPS

The 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 the Bank by the weighted average number of ordinary shares outstanding during 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.

Diluted EPS is determined by adjusting both the profit and loss attributable to the ordinary equity holders relating to the dilutive potential equity shares, by the weighted average number of equity shares considered for deriving basic earnings per share and the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares. Potential equity shares are deemed to be dilutive only if their conversion to equity shares would decrease the net profit per share from continuing ordinary operations. Potential dilutive equity shares are deemed to be converted as at the beginning of the period, unless they have been issued at a later date.

Earnings per share are disclosed in the Statement of Profit or Loss.

3.20 Cash Flow Statement

The cash flow statement has been prepared using 'The Direct Method', whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognized.

3.21 Events after interim period

There were no material events subsequent to the date of the condensed statement of financial position that require disclosure or adjustments to the unaudited interim financial statements.

Additional Disclosure as per Securities Registration and Issuance Regulation - 2073 (Sub-Rule (1) of Rule 26, Annex 14) for Second Quarter of FY 2082/83

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	16.21
Return on Equity (ROE) (Annualized)	10.68%
Price Earnings Ratio (P/E Ratio)	24.78
Net Worth per Share	153.24
Liquidity Ratio	25.50
Total Assets per Share	Rs.1697.99
Capital Adequacy Ratio	14.12

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 does not have any 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) Deposits have been decreased by 0.32% and loans and advances has been increase by 0.64% till the quarter end with reference to immediate previous year ending.

iii) The Bank is improvising its IT Infrastructure as well and adopting digitization.

iv) The 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 Development 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	Closing Price	Transaction volume (No. of shares)	Days of Transaction
426	376	401.60	17,20,308	55

F. Problem and Challenges

Internal

- Digital operation risk
- Low credit demand
- Assets quality management
- Challenges in increasing non-interest revenue
- Timely recovery of loans
- Recruitment and retention of quality human resources.

External

- Political instability affecting investor confidence and long-term planning
- Sluggish economic growth leading to reduced credit demand and slower recovery
- Surge in non-performing loans (NPLs) due to weak business performance and loan defaults
- High inflation and interest rate volatility impacting borrowing and repayment capacity
- Global economic uncertainty affecting remittances and trade, and economy
- Digital disruption and cybersecurity risks requiring rapid tech adaptation

G. Strategy

- Strengthen risk management frameworks to proactively identify and mitigate credit, market, and operational risks
- Accelerate digital transformation to improve service delivery, reduce costs, and enhance customer experience
- Promote financial literacy to improve borrower discipline and repayment behavior
- Strengthen internal governance and compliance to maintain public trust and regulatory alignment
- Develop contingency plans for political or economic disruptions to ensure business continuity
- Optimize capital planning to maintain resilience and meet regulatory capital requirements
- Monitor global trends to anticipate external shocks and adjust strategies accordingly
- Invest in staff training to build capacity for handling complex financial and regulatory environments

H. Corporate Governance

i) Board of Directors

Committees like Risk Management Committee, Employee Service & Benefit 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 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 Development Bank are guided by strong internal policies, manuals and guidelines which are reviewed on a periodic basis to address new developments and requirements. The Bank has Compliance Department 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.