Himalayan Bank Limited
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As on Quarter Ended Asar 2076

	Bank	
Assets	**This Quarter Ending**	**Immediate Previous Year Ending**
Cash and Cash Equivalents	4,658,553,979	4,741,359,383
Due from Nepal Rastra Bank	4,883,535,225	5,159,259,737
Placements with Bank and Financial Institutions	5,231,235,350	4,989,524,816.00
Derivative financial instruments	127,145,274	33,444,999
Other trading assets	-	-
Loans & Advances to BFIs	4,772,752,717	3,685,218,985
Loans & Advances to Customers	92,820,907,421	82,474,993,680
Investment Securities	16,466,029,116	11,654,171,810
Current Tax Assets	203,757,077	154,307,606
Investments in subsidiaries	-	-
Investments in Associates	195,785,700	195,785,700
Investment Property	109,134,714	2,299,307
Property & Equipment	2,391,830,155	2,222,677,268
Goodwill and Intangible Assets	117,677,347	85,852,688
Deferred Tax Assets		-
Other Assets	1,317,450,139	1,063,405,401
Total Assets	**133,295,794,214**	**116,462,301,380**
Liabilities		
Due to Bank and Financial Institutions	3,699,494,594	754,253,957
Due to Nepal Rastra Bank	560,812,042	-
Derivative financial instruments	6,540,600	9,109,574
Deposits from Customers	109,390,482,184	98,988,791,212
Borrowing	-	-
Current Tax Liabilities	-	-
Provisions	114,584,058	2,299,307
Deferred Tax Liabilities	119,344,357	131,264,033
Other Liabilities	2,698,182,324	1,814,328,754
Debt Securities Issued	623,148,518	623,357,548
Subordinated Liabilities	-	-
Total Liabilities	**117,212,588,677**	**102,323,404,385**
Equity		
Share Capital	8,520,255,844	8,114,529,375
Share Premium	-	-
Retained Earnings	2,236,962,434	1,500,405,440
Reserves	5,325,987,259	4,523,962,180
Total Equity attributable to Equity Holders	**16,083,205,537**	**14,138,896,995**
Non Controlling Interest		
Total Equity	**16,083,205,537**	**14,138,896,995**
Total Liabilities and Equity	**133,295,794,214**	**116,462,301,380**

Himalayan Bank Limited

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Quarter Ended Asar 2076

	Bank			
	Current Year		Previous Year Corresponding Period	
	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)
Interest Income	3,084,971,678	11,636,372,579	2,561,366,070	9,724,870,892
Interest Expense	1,796,059,933	6,594,025,202	1,442,595,556	5,403,047,172
Net interest income	1,288,911,745	5,042,347,377	1,118,770,514	4,321,823,720
Fee and Commission Income	270,235,136	821,306,480	246,324,555	772,037,821
Fee and Commission Expenses	17,944,222	67,406,664	6,045,045	64,236,793
Net Fee and Commission Income	252,290,914	753,899,816	240,279,510	707,801,028
Net interest, fee and commission income	**1,541,202,659**	**5,796,247,193**	**1,359,050,024**	**5,029,624,748**
Net Trading Income	147,537,957	718,157,896	240,736,173	718,904,848
Other Operating Income	93,289,548	175,116,606	3,957,726	104,848,090
Total Operating Income	**1,782,030,164**	**6,689,521,695**	**1,603,743,923**	**5,853,377,686**
Impairment (charges)/reversal for Loans and Other losses	(97,603,921)	133,683,426	320,804,642	679,917,035
Net operating income	**1,879,634,085**	**6,555,838,269**	**1,282,939,281**	**5,173,460,651**
Operating expense				
Personnel Expenses	415,293,787	1,585,691,024	181,611,284	1,322,248,139
Other Operating Expenses	257,379,944	771,646,286	209,855,894	694,270,757
Depreciation & Amortisation	45,172,593	171,237,706	65,552,460	168,276,176
Operating Profit	**1,161,787,761**	**4,027,263,253**	**825,919,643**	**2,988,665,579**
Non operating income	41,815,980	47,649,050	30,182,508	309,525,238
Non operating expense	16,851,975	16,851,975	533,011,412	533,011,412
Profit before income tax	**1,186,751,766**	**4,058,060,328**	**323,090,739**	**2,765,179,405**
Income Tax Expense				
Current Tax	356,080,581	1,213,313,396	262,551,518	877,612,392
Deferred Tax	(2,258,917)	(2,258,917)	11,956,544	11,956,544
Profit for the period	**832,930,102**	**2,847,005,849**	**48,582,677**	**1,875,610,469**

Himalayan Bank Limited
STATEMENT OF COMPREHENSIVE INCOME
For the Quarter Ended Asar 2076

	Current Year		Previous Year	
	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)
Profit or loss for the year	**832,930,102**	**2,847,005,849**	**48,582,678**	**1,875,610,469**
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	(15,832,487)	(32,202,530)	4,853,971	(13,193,277)
Gains/(losses) on revaluation				
Actuarial gain/(loss) on defined benefit plans	-	-	(12,457,906)	29,792,839
Income tax relating to above items	4,749,746	9,660,759	6,742,145	3,957,983
Net other comprehsive income that will not be reclassified to profit or loss				
b) Items that are or may be reclassified to profit or loss				
Gains/(losses) on cash flow hedge				
Exchange gains/(losses) (arising from translating financial assets of foreign operation)				
Income tax relating to above items				
Net other comprehsive 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	**(11,082,741)**	**(22,541,771)**	**(861,790)**	**20,557,545**
Total comprehensive income for the period	**821,847,362**	**2,824,464,078**	**47,720,888**	**1,896,168,012**
Profit attributable to:				
Equity holders of the Bank	821,847,362	2,824,464,078	47,720,888	1,896,168,012
Non-controlling interest				
Total	821,847,362	2,824,464,078	47,720,888	1,896,168,012
Earning Per Share				
Basic earnings per share		33.41		23.11
Annualized Earning Per Share		33.41		23.11
Diluted earnings per share		33.41		23.11

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		12.73		12.46
Non-performing loan (NPL) to total loan		1.12		1.4
Total loan loss provision to Total NPL		187.54		158.14
Cost of Funds		6.55		6.42
Credit to Deposit Ratio		75.59		77.02
Base Rate		9.05		9.66
Interest Rate Spread		4.47		4.7

Himalayan Bank Limited

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the Quarter Ended Asar 2076

	Attributable to the equity holders of the bank									
	Share Capital	**Share Premium**	**General reserve**	**Exchange equalisation reserve**	**Regulatory Reserve**	**Fair value reserve**	**Revaluation reserve**	**Retained Earnings**	**Other Reserves**	**Total**
Balance at Shrawan 1, 2075	8,114,529,375		3,184,119,880	34,636,311	723,597,851	38,793,817		1,500,405,440	542,814,321	14,138,896,995
Restated Reserve As on Shrawan 1, 2075	8,114,529,375		3,184,119,880	34,636,311	723,597,851	38,793,817		1,495,767,050	542,814,321	14,134,258,605
Profit for the period								2,847,005,849		
Other comprehensive Income						(22,541,771)				(22,541,771)
Total Comprehensive Income								2,847,005,849		2,847,005,849
Share Issued										-
Share based payments										-
Dividends to equity holders										-
Bonus shares issued	405,726,469							(405,726,469)		-
Cash dividend paid								(875,517,146)		(875,517,146)
Other			569,401,170	4,419,782	127,596,688			(824,566,849)	123,149,210	-
Total contributions by and distributions	405,726,469	-	569,401,170	4,419,782	127,596,688	(22,541,771)		741,195,385	123,149,210	1,948,946,932
Balance as at Asar end 2076	8,520,255,844	-	3,753,521,050	39,056,093	851,194,539	16,252,046	-	2,236,962,434	665,963,531	16,083,205,537

Himalayan Bank Limited
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the Quarter Ended Asar 2076

	Upto This Quarter	Corresponding Previous Year Upto This Quarter
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	10,824,230,837	9,307,833,312
Fees and other income received	821,306,480	850,208,832
Divided received		-
Receipts from other operating activities	855,261,161	16,371,060
Interest paid	(6,394,523,603)	(5,373,959,963)
Commission and fees paid	(67,406,664)	(64,236,793)
Cash payment to employees	(1,359,930,312)	(1,339,474,335)
Other expense paid	(787,947,856)	(743,334,398)
Operating cash flows before changes in operating assets and liabilities	**3,890,990,043**	**2,653,407,715**
(Increase)/Decrease in operating assets		
Due from Nepal Rastra Bank	275,724,512	981,892,180
Placement with bank and financial institutions	(241,710,534)	1,290,684,047
Other trading assets		-
Loan and advances to bank and financial institutions	(1,093,002,884)	(358,406,256)
Loans and advances to customers	(10,354,563,750)	(8,868,199,821)
Other assets	(439,510,930)	(44,717,953)
	(11,853,063,587)	**(6,998,747,803)**
Increase/(Decrease) in operating liabilities		
Due to bank and financial institutions	2,945,240,637	167,594,370
Due to Nepal Rastra Bank	560,812,042	-
Deposit from customers	10,401,690,972	6,654,336,544
Borrowings		-
Other liabilities	362,593,103	(391,389,583)
Net cash flow from operating activities before tax paid	**14,270,336,754**	**6,430,541,331**
Income taxes paid	(1,266,919,563)	(1,003,806,311)
Net cash flow from operating activities	**5,041,343,647**	**1,081,394,932**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(19,078,495,599)	(15,108,205,471.00)
Receipts from sale of investment securities	14,295,538,030	13,162,845,600
Purchase of property and equipment	(357,877,712)	(199,688,334)
Receipt from the sale of property and equipment	54,364,688	20,932,209
Purchase of intangible assets	(67,248,592)	(45,310,356)
Receipt from the sale of intangible assets	-	-
Purchase of investment properties	-	-
Receipt from the sale of investment properties	3,212,109	251,976,376
Interest received	701,810,401	241,116,731
Dividend received	63,317,521	48,597,350
Net cash used in investing activities	**(4,385,379,154)**	**(1,627,735,895)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt from issue of debt securities	-	-
Repayment of debt securities	-	(50,000)
Receipt from issue of subordinated liabilities	-	-
Repayment of subordinated liabilities	-	-
Receipt from issue of shares	-	-
Dividends paid	(680,232,451)	(75,238,708)
Interest paid	(76,216,572)	(47,645,840)
Other receipt/payment		-
Net cash from financing activities	**(756,449,023)**	**(122,934,548)**
Net increase (decrease) in cash and cash equivalents	**(100,484,530)**	**(669,275,511)**
Cash and cash equivalents at Shrawan 1, 2075	4,741,359,383	4,734,344,144
Effect of exchange rate fluctuations on cash and cash equivalents held	17,679,126	676,290,750
Cash and cash equivalents at Asar end 2076	**4,658,553,979**	**4,741,359,383**

Statement Of Distributable Profit for the period ended fourth quarter

Net Profit for the period end 4th quarter	**2,847,005,849**
1. Appropriations	
1.1 Profit required to be appropriated to statutory reserve	**(696,970,161)**
a. General Reserve	(569,401,170)
b. Capital Redemption Reserve	-
c. Exchange Fluctuation Fund	(4,419,782)
d. Corporate Social Responsibility Fund	(17,857,659)
e. Employees Training Fund	(19,577,264)
f. Other	(85,714,286)
1.2 Profit required to be transfer to Regulatory Reserve	**(127,596,688)**
a. Transfer to Regulatory Reserve	(128,217,781)
b. Transfer from Regulatory Reserve	621,093
Net Profit for the period end fourth quarter 2075/76 available for distribution	**2,022,439,000**

Himalayan Bank Limited
Notes to the Interim Financial Statements

1. BASIS OF PREPARATION

The financial statements have been prepared on the going concern and historical cost basis, except for the following material items in the Statement of financial position, all of which are measured at fair value.

- Investment in equity instruments measured at FVTOCI
- Investment Property

2. STATEMENT OF COMPLIANCE WITH NFRSs

The Interim Financial Statements of the Bank which comprise of the Statement of Financial Position,Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash flow and Significant Accounting Policies and Notes have been prepared in accordance with Nepal Financial Reporting Standards (NFRSs) laid down by the Accounting Standards Board of Nepal,except where alternative treatments have been adopted in line with carve-outs approved by the Institute of Chartered Accountants of Nepal, the accounting regulating body of the country.

3. USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the financial statements in conformity with NFRSs requires management to make judgments, estimates and assumptions for application of accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the estimates so made. Estimates and underlying assumptions are reviewed on an ongoing basis and the effect of revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The most significant uses of judgment and estimates are as follows:

(a) Going concern

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

(b) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using judgment; to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

(c) Impairment losses on loans and advances

As per thecarve-out approved by the Institute of Chartered Accountants of Nepal, Bank and Financial Institutions shall measure impairment loss on loans and advances as the higher of the amount derived as perrule-based norms prescribed by the Regulator and the amount determined as per paragraph 63 of NAS 39, with proper disclosures of the same. Accordingly, the Bank has assessed impairment loss under both norms and impairment provided in the financial statements is the impairment under norms prescribed by the Regulator with separate disclosure of impairment calculated under NAS 39.

(d) Impairment of Equity Instruments

The Bank records impairment charges on quotedequity investments by comparing with the fair market value as on the reporting date. In case of un-quoted equity investments, impairment is recorded only where there is objective evidence of permanent decline in the value of investment.

(e) Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

(f) Taxation

The Bank is subject to income taxes. Significant judgment was required to determine the total provision for current and deferred taxes pending the issue of tax guideline on the treatment of the adoption of NFRSs in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

The Bank recognized assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income of that year.

(g) Defined Benefit plan

The cost of the defined benefit plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, salary increment rate, age of retirement, and mortality rates, among other things. Due to the long–term nature of these plans, such estimates are subject to significant uncertainty.

For the purpose of determining interim reporting liability of the bank towards leave encashment and gratuity for the quarter ended has been estimated through interim actuarial valuation and may vary on the final report issued by the actuary at the year end.

(h) Materiality

In compliance with NAS 01 on Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, if they are material.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position 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 expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

(i) Useful lives of property & equipment

The Bank reviews the useful lives, methods and rate of depreciationof property, &equipment ateach reporting date. Judgment of themanagement is exercised in the estimationof these values, rates, methods and hencethey are subject to uncertainty.

The depreciable amount of an asset has been allocated on a systematic basis over its useful life using diminishing balance method. The systematic basis has however been determined using the best management's judgement.

(j) Fair Value of Investment Property

Non-Banking Assets, which are assets mortgaged with the bank and subsequently taken over by the Bank in the course of recovery of the loan, are shown under Investment Properties. The value at which such assets are taken over in line with the guidelines issued by the Regulator have been considered as fair value of such assets.

4. CHANGES IN ACCOUNTING POLICIES

There has been no significant change in the accounting policies adopted by the bank while preparation of the annual financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash-in-hand, balances with other bank and financial institutions, money at call and short notice, and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the Statement of Financial Position.

5.2 Financial Assets and Financial Liabilities

The Bank determines the classification of its financial instruments (assets and liabilities)at initial recognition. The classification of financial instruments is done as:

- Financial assets or liabilities held–for–trading
- Financial assets or liabilities held at fair value through profit or loss
- Financial Instruments measured at amortized cost
- Financial Investments at FVTOCI

(a) Recognition

All financial assets and liabilities are initially recognized 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.

(b) Classification

The classification of financial instruments at initial recognition depends on the purpose and the management’s intention for which the financial instruments are acquired and their characteristics.

I) Financial assets or liabilities held–for–trading

Financial assets / liabilities held for the purpose of selling in the short term and for which there is a recent pattern of short term profit taking. The Bank has not designated any financial assets and liabilities upon initial recognition asheld for trading.

II) Financial assets or liabilities designated at fair value through profit or loss

Management designates an instrument at fair value through profit or loss upon initial recognition when the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.

The Bank has not designated any financial assets and liabilities upon initial recognition as at fair value through profit or loss.

III) Financial Instruments measured at amortized cost

These financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, such financial investments are subsequently measured at amortized cost using the Effective Interest Rate(EIR), less impairment. Amortized cost is generally calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR.

Included in this classification are loans and advances, treasury bills, government bonds and other debt securities.

IV) Financial investments at fair value through other comprehensive income.

These investments include equity and debt securities. Equity investments classified as FVOCI are those which are neither classified as held–for–trading nor designated at fair value through profit or loss.After initial measurement, such financial investments are subsequently measured at fair value.

(c) Measurement

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

The subsequent measurement of financial assets depends on their classification as described below:

I) Financial assets or financial liabilities held–for–trading

Financial assets or financial liabilities held–for–trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Other operating income'. Interest and dividend income or expense is recorded in 'Other operating income' according to the terms of the contract, or when the right to the payment has been established.

II) ***Financial assets and financial liabilities designated at fair value through profit or loss***

The financial assets or financial liabilities classified under this category are measured at fair value and changes, if any, on subsequent measurement are recognized in the income statement.

III) Financial instruments at amortized cost

Such financial investments are subsequently measured at amortized cost using the effective interest rate (EIR), less impairment. The amortization is included in 'Interest income' in the income statement. The losses arising from impairment of such investments are recognized in the income statement line 'Impairment for loans and other losses'.

Prepaid Benefits:When the transaction price differs from the fair value of other observable current market transactions in the same instrument, the Bank immediately recognizes the difference between the transaction price and fair value as Prepaid Benefit. Bank estimates the Prepaid Benefit in relation to Staff Loans.While calculating the fair value in case of Staff Loans, the average base rate for past 13 months of the Bank has been considered to be the market rate for the loan. Further, the amortization income and expense of such prepaid benefit is shown both under Interest Income as well as Personnel expense as it is the notional income and expense for the Bank.

IV) Financial investments at fair value through other comprehensive income.

After initial measurement, such financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized directly in equity in the 'Fair ValueReserve'. Amounts recorded in other comprehensive income are not subsequently transferred to profit or loss. Where the Bank holds multiple units of the same security, they are deemed to be disposed of on a first–in first–out basis. Dividends earned whilst holding such financial investments are recognised in the income statement unless the dividend clearly represents a recovery of part of the cost of the investment.

(d) De-recognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognized when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
- The Bank has transferred substantially all the risks and rewards of the asset, or
- TheBank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or 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.

(e) Determination of fair value

'Fair value' is the price that would bereceived to sell an asset or paid totransfer a liability (exit price) in an orderlytransaction between market participantsat the measurement date.The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price.In case of all other financial instruments not traded in an active market, the Bank recognizes such unquoted equity instruments at their cost price.

(f) Impairment

Loans & Advances: The Bank recognises impairment on loans and advances as the higher of the amount computed as per the norms prescribed by the Regulator and amount determined as per paragraph 63 of NAS -39.

Under the norms prescribed by the Regulator, impairment is provisioned from 0.25% to 100% of the outstanding balance depending on the categorization of the individual loans & advances.

For assessment of impairment under NAS 39, the Bank reviews its individually significant loans and advances at each statement of financial position date against pre-determined criteria to assess whether an impairment loss should be recorded in the income statement. The Bank has set the criteria of **Significance** for Individual Impairment as follows:
1. Top 50 Customers based on the amortized cost, outstanding as at year end date
2. The loans those are overdue for more than 180 days as at year end date.

In particular, management 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 actual results may differ, resulting in future changes to the allowance. All individually not significant loans and advances and those significant loans & advances not individually impaired are assessed collectively, in groups of assets with similar product nature (viz. Home Loan, Hire Purchase Loan, Short Term Loan, Term Loan and Personal Loan), to determine whether impairment need to be recognized due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Financial investments at FVOCI: For these financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired. The Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

In the case of equity investments, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

5.3 Trading Assets

Trading assets are those assets that the Bank acquires principally for the purpose of selling in the near term, or holds as part of a portfolio that is managed together for short-term profit. The other trading asset includes non derivative financial assets. It includes Government bonds, NRB Bonds, Domestic Corporate bonds, Treasury bills, Equities etc held primarily for the trading purpose.

5.4 Derivative assets and derivative liabilities

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, foreign exchange rates. Derivatives are categorized as trading unless they are designated as hedging instruments.

Derivative instruments-both assets as well as liabilities; like interest rate swap, currency swap, forward foreign exchange contract etc. held for trading as well as risk management purposes are presented under this head.

5.5 Property and Equipment

(a) Recognition and measurement

Property & Equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with NAS 16 on Property, Plant & Equipment. Initially property and equipment are measured at cost.

(b) Cost Model

Property and equipment (including equipment under operating leases where the Bank is the lessor) is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

(c) Subsequent Cost

These are costs that are recognised in the carrying amount of an item, if it is probable that the future economic benefits embodied within that part will flow to the entity and it can be reliably measured.

(d) Depreciation

Depreciation is calculated using the diminishing balance method to write down thecost of property and equipment using the rates stipulated as follows. Land is not depreciated.

- Buildings	5%
- Computer Hardware	20%
- Machinery and Equipment	15%
- Motor Vehicle	15%
- Furniture and Fittings- Wood	15%
- Furniture and Fittings- Metal	10%

(e) De-recognition

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in ‘Other operating income' in the income statement in the year the asset is derecognised.

5.6 Goodwill /Intangible assets

The Bank’s intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives. Computer software is amortised equally over the estimated useful life of five years.

5.7 Investment Property

"Investment Property" is shownin the face of Statement of Financial Position as these assets are assets of the bank from the date of repossession and are intended to sale from the legal process in due course of time. They are recognized at fair value in the books. Non-banking assets taken over at the lower of fair value (*PanchakritMulya*) or total amount due from the borroweras per guidelines issued by the Regulator is continued to be shown at the recorded value till the same is disposed.

5.8 Income Tax

(a) 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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

(b) Deferred tax

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5.9 Deposits, debt securities issued and subordinated liabilities

Financial instruments issued by the Bank, that are not designated at fair value through profit or loss, are classified as liabilities under Deposits from Customers, Due to Bank and Financial Institutions, Borrowings, and other Liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

5.10 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.Where the effect of the time value of money is material, the amount of a provision is determined by discounting the anticipated future cash flows expected to be required to settle the obligation at a pre-tax rate that reflects the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

5.11 Revenue Recognition

Revenue is recognised to the extent 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.

(a) Interest income

For all financial instruments measured at amortized cost and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates ofpayments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change incarrying amount is recorded as 'Other operating income'. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result ofincreased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to animpairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned for services that are provided within the reporting period.

- Fees earned for provision of services over a period of time and accrue over that period.

In case of the first category of fees & commission earned, the Bank recognises the income at the time of receipt itself whereas in case of the latter category, the commission is deferred over the period of service. However, if the transaction fees are not material,the Bank recognises such fees in income immediately.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.However, such amount collectively tantamount to less than 1% of the total gross loan portfolio of the bank and the cost of extractiontend to exceed the benefit from its use; hence on materiality ground, such costs is not considered in the measurement of effective interest rate and accordingly, the coupon rate embedded in the instrument has been considered to be the Effective Interest Rate for the instrument.

(c) Dividend income

Dividend income is recognized at an amount net of applicable final withholding tax when the Bank’s right to receive the payment is established.

(d) Net Trading Income

Net trading income includes gains and (losses) from changes in fair value, related capital gains/ losses, foreign exchange trading gains/ (losses), interest income from trading assets and dividend from trading assets

(e) Net Income from other financial instrument at fair value through Profit or Loss

The bank has not designated any investments as financial instrument at fair value through Profit or Loss, income also has not been recognized under this head.

5.12 Interest Expense

The Bank recognizes the interest expenses on financial liabilities. The interest expenses are recognized on accrual basis usingthe effective interest rate (EIR) method. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

Interest expenses include interest on deposits from customers, deposits from banks, debt securities issued, and other interest bearing financial liabilities.

5.13 Employee Benefits

(a) Defined Benefit Plan- Gratuity

Based on the Nepal Accounting Standard NAS19- Employee Benefits, the Bank has adopted the actuarial valuation method for employee benefit liability. Actuarial valuation is carried out every year to ascertain the liability under gratuity.

The liability recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the date of the statement of financial position less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability.The defined benefit plan liability is discounted using rates equivalent to the market yields at the date of statement of financial position that are denominated in the currency in which benefits will be paid, and that have a maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. Interest cost, present service cost and past-service costs are recognized in statement of profit or loss.

The principal assumptions, which have the most significant effects on the valuation, are the rate of discount, rate of salary revision, rate of turnover at the selected age groups, rate of disability, death benefits and expenses.

(b) Long Term Paid Absences

Liability towards long term paid absences, accumulated and payable under Staff Service Bye-Laws, has been assessed using actuarial valuation method and Current service cost, Interest Cost as well as the actuarial gain/(loss) has been charged to Income Statement.

(c) Defined Contribution Plan - Employees' Provident Fund

Employees are eligible for Employees' Provident Fund Contributions in line with the respective Statutes and Regulations. The Bank contributes at 10% with equal contribution from the employees.

For the purpose of determining interim reporting liability of the bank towards leave encashment and gratuity for the quarter ended has been estimated through interim actuarial valuation and may vary on the final report issued by the actuary at the year end.

5.14 Leases

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

Operating Leases

Bank as a lessor: Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to thecarrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

*Bank as a lessee:*Under NAS 17,lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease termunless another systematic basis is more representative of thetime pattern of the user's benefit.Further to this, under carve-out given by the Institute of Chartered Accountants of Nepal,lease payments under an operating lease shall be recognized as an expense on straight line basis over the lease term unless 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. In case of lease agreements entered into by the Bank, pre-determined percentage increment in lease payments is made to compensate for the general inflation rate and hence, all lease expense has been recognized based on the actual payment basis.

Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownershipother than legal title, are classified as 'Finance Leases'. Amounts receivable under finance leases are included under 'Loans and Receivables to Customers' in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognised as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognised as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

5.15 Foreign currency translation

All foreign currency transactions are converted to Nepalese Rupees (NPR) which is Bank's functional & reporting currency, at the rates ofexchange prevailing at the time the transactions are affected.

Monetary assets and liabilities denominated in foreign currencies at the close of the year are translated to Nepalese Rupees using the spotforeign exchange rate as on that date and differences are taken to 'Other operating income' in the

IncomeStatement, being of non-trading nature.Non-monetary items in a foreign currency that are measured in terms ofhistorical cost are translated using the exchange rates as at the dates of theinitial transactions. Non-monetary items in foreign currency measured at fairvalue are translated using the exchange rates at the date when the fair value is determined.

Foreign exchange differences arising on the settlement or reporting ofmonetary items at rates different from those which were initially recorded aredealt with in the Income Statement.

5.16 Financial Guarantee and Loan Commitment

The Bank may give financial guarantees in the ordinary course of business. The guarantees are initially recognised in the financial statements (within ‘other liabilities’) at fair value. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortization recognised in the income statement, and the best estimate of expenditure required tosettle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the income statement as expense. The premium received is recognised in the income statement in ‘on a straight-line basis over the life of the guarantee.

5.17 Share Capital and Reserves

Increment in Share Capital results with the issue of Right Share, Further Public Offers and Bonus Share. However, proposed bonus shares are not shown as increment to share capital until approved by annual general meeting.

Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank’s shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the reporting date.

Statutory Reserves:

Statutory reserves represent the mandatory reserves maintained by the Bank as required by the Regulator or under other applicable laws & regulations and are not available for distribution as dividend to the shareholders. This includes general reserve, exchange fluctuation reserve, capital redemption reserve, interest capitalization reserves, corporate social responsibility reserve, employee training reserve and other reserves as may be notified from time to time.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Bank’s statement of financial position include:

- ‘Fair ValueReserve’which comprise changes in fair value of investments, net of deferred tax, recognized through Other Comprehensive Income.

-Reserve for ‘Actuarial Gains/Losses of Defined Benefit plans’ on Actuarial Gain/ (Loss), as required by NAS 19- Employee Benefits.

Regulatory Reserve

The Regulatory Reserve is mandated under directives issued by the Regulator for adjustment of specified differences on account of first time adoption of NFRS in order to ensure a fair representation of financial statements. The Reserve is required to be created by adjustment to Retained Earnings. The amount in Regulatory Reserve is not allowed to be considered for Capital Adequacy purposes.

Retained Earnings

Retained earnings represents the cumulative net earnings or profit available for distribution after accounting for dividends and all mandatory reserves.

5.18 Earnings per share including diluted

The bank presents basic and diluted Earnings per Share (EPS) for its ordinary shares.

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to ordinary equity-holders of Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted Earnings per Share is determined by adjusting both the profit attributable to the ordinary equity holders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares if any.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of EPS.

6. SEGMENT REPORTING

A segment is a distinguishable component of the Bank that is engaged in providing services (Business Segments) or in providing services within a particular economic environment (Geographical Segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the Nepal Financial Reporting Standards NFRS 8 on 'Segmental Reporting', segmental information is presented in respect of the Bank based on Bank management and internal reporting structure.

The Bank's segmental reporting is based on the geographical operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss of respective segment.

Particulars	Province 1	Province 2	Province 3	Province 4	Province 5	Province 6	Province 7	Head Office and other profit center	Total
Revenues From External Customer	931,414,158	1,183,435,768	7,110,510,717	320,178,853	1,793,248,623	4,672,008	161,673,322	1,893,469,162	13,398,602,611
Intersegment Revenues	(336,526,047)	(703,246,948)	2,447,264,742	121,214,368	(943,456,185)	2,707,554	(107,946,066)	(480,011,418)	-
Segment Profit/ Loss before Tax	1,475,834,355	267,190,361	3,109,737,697	192,802,736	493,711,931	(3,090,017)	19,672,411	(1,497,799,146)	4,058,060,328
Segment Assets	4,477,455,683	3,258,687,155	97,467,036,419	4,140,845,287	6,318,359,628	180,350,489	492,509,081	16,960,550,472	133,295,794,214
Segment Liabilities	4,477,455,683	3,258,687,155	97,467,036,419	4,140,845,287	6,318,359,628	180,350,489	492,509,081	16,960,550,472	133,295,794,214

Reconciliation of Segment Profit and Loss:

Particulars	Current Quarter
Total Profit before Tax for reportable segment	5,555,859,474
Profit before tax for other segment	(990,075,027)
Elimination of intersegment profit	
Elimination of discontined operation	
Unallocated amounts	
Other Corporate expenses	(507,724,118)
Profit before tax	4,058,060,328

7. RELATED PARTY DISCLOSURE

The Bank carries out transactions in the ordinary course of business with parties that fall within the ambit of related parties as defined in Nepal Accounting Standard - NAS 24 (Related Party Disclosures). The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Bank and is comparable with what is applied to transactions between the Bank and its unrelated customers.

By virtue of its shareholding of over 10 per cent in the Bank and representation in the Board of Directors, Habib Bank Limited and Karmachari Sanchaya Kosh are related parties to the Bank. Transactions with related parties during the reporting period is given below:

Transaction with Habib Bank Ltd.	**This Quarter Ending**	**Immediate Previous Year Ending**
Deposits with Habib Bank		
Due from Habib Bank	3,191,260	2,660,179
Placements in Habib bank	1,096,500,000	1,096,500,000
Due to Habib bank		
Total	**1,099,691,260**	**1,099,160,179**
For the Year Ended		
Interest Received	35,422,851	34,626,252
Total	**35,422,851**	**34,626,252**
Cash Dividend Paid	81,145,294	17,137,886
Total	**81,145,294**	**17,137,886**

Transaction with Karmachari Sanchaya Kosh	**This Quarter Ending**	**Immediate Previous Year Ending**
Rental Expense paid	59,679,730	54,654,600
Cash Dividend Paid	56,801,706	11,996,520
Total	**116,481,436**	**66,651,120**

According to Nepal Accounting Standard NAS 24 (Related Party Disclosure) key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Such KMPs include the Board of Directors and Executives of the Bank. Transactions with Key Managerial Personnel are summarized below:

Transactions with Key Managerial Personnel (KMPs)	This Quarter Ending	Immediate Previous Year Ending
Board of Directors		
Benefits	4,197,181	3,662,407
Total	**4,197,181**	**3,662,407**
Chief Executive Officer		
Short term employee benefits	15,600,000	14,498,630
Other Benefits	1,364,317	1,129,477
Post-employment benefits	-	-
Total	**16,964,317**	**15,628,107**
Key Management Executives		
Short term employee benefits	86,569,127	68,263,575
Other Benefits	1,035,725	851,916
Post-employment benefits	-	-
Total	**87,602,852**	**69,115,492**

Key Management Executives are entitled to Gratuity and Leave Encashment Facilities as post-employment benefits as per the Employees' Service Bye-Laws of the Bank. They are further provided with subsidized loans and advances and vehicle facility. However, where such executives are employed under a contract the compensation is determined by terms of such contract. The Deputy Chief Executive Officer, an expat on secondment deputation from Habib Bank Limited, is further provided with a full furnished residence.

8. ISSUES, REPURCHASES AND REPAYMENTS OF DEBT AND EQUITY SECURITIES

None

9. EVENTS AFTER INTERIM PERIOD

There are no material events after Balance Sheet date affecting the position of the Bank.

10. EFFECTS OF CHANGE IN THE COMPOSITION OF THE ENTITY DURING THE INTERIM PERIOD INCLUDING MERGER AND ACQUISITION

There is no change in the composition of the entity during the interim period.