



Interim Financial Statements

For the interim period ended 32 Ashadh 2079 (16 July 2022)



लक्ष्मी बैंक लिमिटेड Laxmi Bank Limited

Condensed Consolidated Statement of Financial Position

As on Quarter ended 32 Ashadh 2079 (16 July 2022)

Amount in Rs '000

Assets	Group		Bank	
	This Quarter Ending	Immediate Previous Year Ending	This Quarter Ending	Immediate Previous Year Ending
Cash and Cash Equivalent	11,203,014	11,020,224	11,194,738	10,940,570
Due from Nepal Rastra Bank	6,362,030	7,285,871	6,327,047	7,256,233
Placements with Bank and Financial Institutions	75,344	236,850	-	-
Derivative financial instruments	362,812	6,073,905	362,812	6,073,905
Other Trading Assets	10,090	-	10,090	-
Loans and advances to B/Fls	3,033,793	960,879	5,948,477	3,272,948
Loans and advances to customers	135,522,072	111,582,348	128,001,269	105,213,372
Investment Securities	15,921,395	13,104,976	16,816,558	13,004,406
Current tax assets	142,693	72,556	143,075	72,556
Investment in Subsidiaries	-	-	417,000	417,000
Investment in Associates	2,507,285	2,838,545	1,186,201	2,818,221
Investment Property	70,536	105,943	70,536	105,943
Property and Equipment	1,808,446	1,395,356	1,719,816	1,335,674
Goodwill and Intangible assets	74,603	91,422	73,830	76,490
Deferred tax assets	-	-	-	-
Other Assets	563,514	1,702,873	315,068	1,653,543
Total Assets	177,657,625	156,471,748	172,586,515	152,240,860
Liabilities				
Due to Bank and Financial Institutions	5,109,778	4,190,280	3,570,479	2,826,268
Due to Nepal Rastra Bank	2,569,073	4,364,945	2,569,073	4,364,945
Derivative financial instruments	363,508	6,050,418	363,508	6,050,418
Deposits from customers	139,692,615	116,490,857	137,147,381	114,605,492
Borrowing	6,433,106	3,591,573	6,433,106	3,591,573
Current Tax Liabilities	382	8,656	-	-
Provisions	-	-	-	-
Deferred tax liabilities	291,349	171,047	291,416	888,955
Other liabilities	1,278,115	1,342,591	1,134,982	1,008,229
Debt securities issued	4,016,219	2,008,219	4,016,219	2,008,219
Subordinated Liabilities	-	-	-	-
Total Liabilities	159,754,145	138,218,586	155,526,165	135,344,099
Equity				
Share Capital	11,551,345	10,695,690	11,551,345	10,695,690
Share Premium	-	-	-	-
Retained Earning	1,593,581	3,951,075	1,255,201	1,262,938
Reserves	4,514,550	3,398,745	4,253,804	4,938,133
Total equity attributable to equity holders	17,659,477	18,045,509	17,060,351	16,896,761
Non Controlling Interests	244,003	207,653	-	-
Total equity	17,903,480	18,253,162	17,060,351	16,896,761
Total Liabilities and Equity	177,657,625	156,471,748	172,586,515	152,240,860



लक्ष्मी बैंक लिमिटेड
Laxmi Bank Limited

Condensed Consolidated Statement of Profit or Loss
For the Quarter ended 32 Ashadh 2079 (16 July 2022)

Amount in Rs '000

Particulars	Group				Bank			
	Current Year		Previous Year Corresponding		Current Year		Previous Year Corresponding	
	This Quarter	Upto This	This Quarter	Upto This	This Quarter	Upto This	This Quarter	Upto This
Interest Income	4,638,826	14,144,368	2,777,747	10,107,780	4,420,584	13,311,902	2,559,696	9,377,431
Interest Expenses	(2,981,657)	(9,534,477)	(1,503,464)	(6,122,746)	(2,888,007)	(9,223,506)	(1,455,530)	(5,920,591)
Net Interest Income	1,657,169	4,609,890	1,274,283	3,985,034	1,532,577	4,088,396	1,104,166	3,456,840
Fees & commission Income	316,152	1,363,140	308,928	1,176,788	273,916	1,149,882	265,489	979,859
Fees & commission Expenses	(53,737)	(199,462)	(24,992)	(104,297)	(53,737)	(199,462)	(24,992)	(104,297)
Net Fee and Commission Income	262,415	1,163,678	283,936	1,072,491	220,179	950,420	240,497	875,562
Net Interest, Fee and Commission Income	1,919,584	5,773,569	1,558,219	5,057,525	1,752,756	5,038,816	1,344,663	4,332,402
Net Trading Income	44,308	277,398	90,471	340,542	44,308	277,398	90,471	340,542
Other operating income	42,714	337,378	552,164	972,802	34,415	307,814	94,449	500,368
Total Operating income	2,006,606	6,388,345	2,200,854	6,370,868	1,831,480	5,624,028	1,529,583	5,173,312
Impairment (Charge)/ reversal for loans and other losses	181,582	(592,764)	(298,009)	(538,688)	197,860	(518,500)	(268,199)	(492,214)
Net Operating Income	2,188,187	5,795,581	1,902,845	5,832,181	2,029,339	5,105,529	1,261,384	4,681,098
Operating Expenses	-	-	-	-	-	-	-	-
Personnel Expenses	(803,347)	(2,118,326)	(663,371)	(1,840,710)	(714,326)	(1,798,342)	(577,266)	(1,573,586)
Other Operating Expenses	(273,103)	(900,532)	(242,999)	(741,071)	(244,571)	(820,884)	(225,008)	(682,482)
Depreciation & Amortization	(56,954)	(215,805)	(41,336)	(201,106)	(52,539)	(201,617)	(38,080)	(188,941)
Operating profit	1,054,783	2,560,917	955,139	3,049,293	1,017,903	2,284,686	421,030	2,236,089
Non Operating Income	9,703	10,489	(2,678)	4,452	9,688	10,457	261	4,452
Non Operating Expenses	(36,487)	(36,903)	0	(11,447)	(36,487)	(36,903)	0	(11,447)
Profit before Income Tax	1,027,999	2,534,503	952,461	3,042,297	991,103	2,258,240	421,291	2,229,093
Income Tax Expenses	-	-	-	-	-	-	-	-
Current Tax	(265,314)	(745,295)	(154,379)	(758,707)	(246,499)	(654,669)	(133,615)	(653,333)
Deferred Tax	-	-	-	-	-	-	-	-
Profit /(loss) for the period	762,684	1,789,208	798,082	2,283,590	744,604	1,603,571	287,676	1,575,761



लक्ष्मी बैंक लिमिटेड
Laxmi Bank Limited

Statement of Comprehensive Income

Amount in Rs '000

Particulars	Group				Bank			
	Current Year		Previous Year Corresponding		Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)
Profit or loss for the period	762,684	1,789,208	798,082	2,283,590	744,604	1,603,571	287,676	1,575,761
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	(284,689)	(1,227,483)	474,772	2,249,154	(576,398)	(1,991,797)	474,772	2,249,154
Gains/ (losses) on revaluation								
Actuarial gains/ (losses) on defined benefit plans								
Income Tax relating to above items	85,407	597,539	(142,431)	(674,746)	172,919	597,539	(142,431)	(674,746)
Net other comprehensive income that will not be reclassified to profit or loss	(199,282)	(629,944)	332,340	1,574,408	(403,478)	(1,394,258)	332,340	1,574,408
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 comprehensive income that are or may be reclassified to profit or loss								
c) Share of other comprehensive income of associate accounted as per equited method								
Other comprehensive income for the period, net of income tax	(199,282)	(629,944)	332,340	1,574,408	(403,478)	(1,394,258)	332,340	1,574,408
Total comprehensive income for the period	563,402	1,159,264	1,130,422	3,857,998	341,126	209,313	620,017	3,150,169
Profit Attributable to:								
Equity holders of the Bank	516,292	1,112,154	1,072,558	3,800,134	341,126	209,313	620,017	3,150,169
Non-controlling interest	47,111	47,111	57,864	57,864	-	-	-	-
Total	563,402	1,159,264	1,130,422	3,857,998	341,126	209,313	620,017	3,150,169
Earnings per share								
Basic Earnings per share	26.41	15.49	29.85	21.35	25.78	13.88	10.76	14.73
Annualized Basic Earnings per share	26.41	15.49	29.85	21.35	25.78	13.88	10.76	14.73
Diluted Earning per share	26.41	15.49	29.85	21.35	25.78	13.88	10.76	14.73

Ratios as per NRB Directive

Particulars	Group				Bank			
	Current Year		Previous Year Corresponding		Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)
Capital Fund to RWA		12.68%		12.10%		12.76%		12.15%
Non Performing Loan (NPL) to total loan		1.01%		0.88%		0.89%		0.75%
Total Loan Loss Provision to total NPL		216.45%		246.09%		236.38%		278.17%
Cost of Funds		7.72%		4.70%		7.62%		4.61%
Credit to Deposit Ratio*		92.41%		82.81%		88.99%		79.66%
Base Rate		10.70%		7.35%		9.99%		7.08%
Interest Rate Spread		4.15%		3.67%		3.94%		3.42%

*Credit to Deposit Ratio for previous year denotes CCD ratio as per the prevalent NRB Directives.



लक्ष्मी बैंक लिमिटेड
Laxmi Bank Limited

Condensed Consolidated Statement of Changes in Equity
For the period from 1 Shrawan 2078 to 32 Ashadh 2079 (16 July 2021 to 16 July 2022)

Amount in Rs '000

Particulars	Group										Non-controlling interest	Total equity
	Attributable to equity holders of the Bank											
	Share Capital	Share premium	General reserve	Exchange Equalisation Reserve	Regulatory reserve	Fair Value Reserve	Revaluation Reserve	Retained earning	Other reserve	Total		
Balance at Shrawan 1, 2077	9,812,560	-	1,836,826	31,742	419,405	626,407	-	3,399,380	15,789	16,142,108	157,841	16,299,949
Profit for the period	-	-	-	-	-	-	-	2,225,726	-	2,225,726	57,864	2,283,590
Other comprehensive income	-	-	-	-	-	(112,871)	-	13,475	21,893	(77,503)	-	(77,503)
Total comprehensive income	-	-	-	-	-	(112,871)	-	2,239,202	21,893	2,148,224	57,864	2,206,088
Contributions from and distributions to owners	-	-	-	-	-	-	-	-	-	-	-	-
Share issued	-	-	-	-	-	-	-	-	-	-	-	-
Share based payment	-	-	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-	-
Bonus shares issued	883,130	-	-	-	-	-	-	(883,130)	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	(245,096)	-	(245,096)	(6,811)	(251,907)
Others (Transfer to/from reserve)	-	-	358,907	209	(32,786)	-	-	(559,281)	233,224	274	(1,241)	(967)
Total contributions by and distributions	883,130	-	358,907	209	(32,786)	(112,871)	-	551,695	255,117	1,903,401	49,812	1,953,213
Balance at Ashadh end, 2078	10,695,690	-	2,195,733	31,951	386,619	513,536	-	3,951,075	270,906	18,045,509	207,653	18,253,162
Balance at Shrawan 1, 2078	10,695,690	-	2,195,733	31,951	386,619	513,536	-	3,951,075	270,906	18,045,509	207,653	18,253,162
Profit for the period	-	-	-	-	-	-	-	1,742,098	-	1,742,098	47,111	1,789,208
Other comprehensive income	-	-	-	-	-	(1,394,258)	-	-	-	(1,394,258)	-	(1,394,258)
Total comprehensive income	-	-	-	-	-	(1,394,258)	-	1,742,098	-	347,840	47,111	394,951
Contributions from and distributions to owners	-	-	-	-	-	-	-	-	-	-	-	-
Share issued	-	-	-	-	-	-	-	-	-	-	-	-
Share based payment	-	-	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-	-
Bonus shares issued	855,655	-	-	-	-	-	-	(855,655)	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	(376,374)	-	(376,374)	(10,761)	(387,135)
Others (Transfer to/from reserve)	-	-	380,681	200	102,005	1,800,134	-	(2,867,562)	227,044	(357,498)	(10,761)	(368,259)
Total contributions by and distributions	855,655	-	380,681	200	102,005	405,876	-	(2,357,493)	227,044	(386,032)	36,350	(349,682)
Balance at Poush end 2078	11,551,345	-	2,576,414	32,151	488,624	919,413	-	1,593,581	497,949	17,659,477	244,003	17,903,480

Amount in Rs '000

Bank

Attributable to equity holders of the Bank

Particulars	Share Capital	Share premium	General reserve	Exchange Equalisation Reserve	Regulatory reserve	Fair Value Reserve	Revaluation Reserve	Retained earning	Other reserve	Total
Balance at Shrawan 1, 2077	9,812,560	-	1,771,556	31,742	419,405	626,407	-	1,310,244	3,149	13,975,062
Profit for the period	-	-	-	-	-	-	-	1,575,761	-	1,575,761
Other comprehensive income	-	-	-	-	-	1,552,515	-	13,475	21,893	1,587,883
Total comprehensive income	-	-	-	-	-	1,552,515	-	1,589,236	21,893	3,163,644
Contributions from and distributions to owners	-	-	-	-	-	-	-	-	-	-
Share issued	-	-	-	-	-	-	-	-	-	-
Share based payment	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-
Bonus shares issued	883,130	-	-	-	-	-	-	(883,130)	-	-
Cash dividend paid	-	-	-	-	-	-	-	(245,314)	-	(245,314)
Others (Transfer to/from reserve)	-	-	318,521	209	(32,786)	-	-	(508,097)	225,522	3,369
Total contributions by and distributions	883,130	-	318,521	209	(32,786)	1,552,515	-	(47,305)	247,415	2,921,699
Balance at Ashad end, 2078	10,695,690	-	2,090,077	31,951	386,619	2,178,922	-	1,262,938	250,564	16,896,761
Balance at Shrawan 1, 2078	10,695,690	-	2,090,077	31,951	386,619	2,178,922	-	1,262,938	250,564	16,896,761
Profit for the period	-	-	-	-	-	-	-	1,603,571	-	1,603,571
Other comprehensive income	-	-	-	-	-	(1,394,258)	-	-	-	(1,394,258)
Total comprehensive income	-	-	-	-	-	(1,394,258)	-	1,603,571	-	209,313
Contributions from and distributions to owners	-	-	-	-	-	-	-	-	-	-
Share issued	-	-	-	-	-	-	-	-	-	-
Share based payment	-	-	-	-	-	-	-	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-
Bonus shares issued	855,655	-	-	-	-	-	-	(855,655)	-	-
Cash dividend paid	-	-	-	-	-	-	-	(374,349)	-	(374,349)
Others (Transfer to/from reserve)	-	-	380,681	200	102,005	-	-	(381,303)	227,044	328,626
Total contributions by and distributions	855,655	-	380,681	200	102,005	(1,394,258)	-	(7,737)	227,044	163,590
Balance at Poush end 2078	11,551,345	-	2,470,758	32,151	488,624	784,664	-	1,255,201	477,607	17,060,351



लक्ष्मी बैंक लिमिटेड
Laxmi Bank Limited

Condensed Consolidated Statement of Cash Flows

For the period from 1 Shrawan 2078 to 32 Ashadh 2079 (16 July 2021 to 16 July 2022)

Amount in Rs '000

Particulars	Group		Bank	
	Upto This Quarter	Corresponding Previous Year Upto This Quarter	Upto This Quarter	Corresponding Previous Year Upto This Quarter
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	12,769,415	9,831,256	11,936,949	9,117,967
Fees and other income received	1,363,140	1,176,788	1,149,882	979,859
Dividend received	-	-	-	-
Receipts from other operating activities	236,321	52,264	206,726	(726,546)
Interest paid	(10,396,102)	(5,923,003)	(10,085,131)	(5,720,849)
Commission and fees paid	(199,462)	(104,297)	(199,462)	(104,297)
Cash payment to employees	(1,867,411)	(1,891,135)	(1,547,426)	(1,599,881)
Other expense paid	(901,085)	(1,381,594)	(857,787)	(1,220,833)
Operating cash flows before changes in operating assets and liabilities	1,004,817	1,760,278	603,751	725,421
(Increase)/Decrease in operating assets	(17,983,650)	-	(15,685,197)	-
Due from Nepal Rastra Bank	923,841	2,178,121	929,186	2,187,141
Placement with bank and financial institutions	161,506	44,735	-	-
Other trading assets	(10,090)	16,120	(10,090)	16,120
Loan and advances to bank and financial institutions	(2,072,913)	(478,388)	(2,675,529)	(1,709,703)
Loans and advances to customers	(23,836,446)	(19,468,296)	(22,610,352)	(17,429,190)
Other assets	6,850,453	64,301	8,681,588	66,173
		-		-
Increase/(Decrease) in operating liabilities	20,609,245	-	20,747,051	-
Due to bank and financial institutions	919,498	(159,770)	744,212	(153,119)
Due to Nepal Rastra Bank	(1,795,872)	3,864,485	(1,795,872)	3,864,485
Deposit from customers	24,063,382	16,865,591	23,403,514	16,234,735
Borrowings	2,841,533	(43,227)	2,841,533	(43,227)
Other liabilities	(5,419,295.57)	312,825	(4,446,334.93)	1,181,600
Net cash flow from operating activities before tax paid	3,630,413	4,956,774	5,665,606	4,940,436
Income taxes paid	(823,705)	(700,331)	(725,188)	(633,074)
Net cash flow from operating activities	2,806,708	4,256,443	4,940,417	4,307,362
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment securities	(3,115,103)	(3,142,135)	(5,206,410)	(3,179,122)
Receipts from sale of investment securities	-	391,100	-	362,678
Purchase of property and equipment	(621,905)	(113,536)	(578,769)	(106,858)
Receipt from the sale of property and equipment	-	258	-	257
Purchase of intangible assets	9,829	(28,585)	(4,330)	(12,246)
Receipt from the sale of intangible assets	-	-	-	-
Purchase of investment properties	35,407	3,034	35,407	3,034
Receipt from the sale of investment properties	-	-	-	-
Interest received	678,910	467,850	678,910	462,988
Dividend received	388,944	66,198	388,944	123,565
Net cash used in investing activities	(2,623,918)	(2,355,815)	(4,686,249)	(2,345,706)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipt from issue of debt securities	-	-	-	-
Repayment of debt securities	-	-	-	-
Receipt from issue of subordinated liabilities	-	-	-	-
Repayment of subordinated liabilities	-	-	-	-
Receipt from issue of shares	-	-	-	-
Dividends paid	-	(245,096)	-	(245,314)
Interest paid	-	(199,747)	-	(199,747)
Other receipt/payment	-	-	-	-
Net cash from financing activities	-	(444,843)	-	(445,061)
Net increase (decrease) in cash and cash equivalents	182,790	1,455,784	254,169	1,516,595
Cash and cash equivalents at Shrawan 1 2076	11,020,224	9,564,440	10,940,570	9,423,975
Effect of exchange rate fluctuations on cash and cash equivalents held	-	-	-	-
Cash and cash equivalents at Ashadh end 2077	11,203,014	11,020,224	11,194,738	10,940,570



लक्ष्मी बैंक लिमिटेड
Laxmi Bank Limited

Statement of Distributable Profit/Loss

Particulars	Amount (NPR Thousand)
Opening Retained Earning	32,934
Net Profit/(Loss) as per Statement of Profit or Loss	1,603,571
1. Appropriations	
1.1 Profit required to be appropriated to statutory reserve	(279,298)
a. General Reserve	(320,714)
b. Debenture Redemption Reserve	(222,222)
c. Exchange Fluctuation Fund	(200)
d. Corporate Social Responsibility Fund	(1,821)
e. Others	265,659
1.2 Profit required to be transferred to Regulatory Reserve	(102,005)
a. Transfer to Regulatory Reserve	(124,311)
b. Transfer from Regulatory Reserve	22,307
Net Profit/(Loss) for the period end available for distribution	1,255,201

Notes to Interim Financial Statements

For the interim period ended 32 Ashadh 2079 (16 July 2022)

1. Basis of Preparation

The interim financial statements of the Bank have 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 as per the format issued by Nepal Rastra Bank. The carve-outs issued by the Institute of Chartered Accountants of Nepal (ICAN) have been applied wherever applicable.

The interim financial statements comprise the Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Profit or Loss and Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the Notes to the Interim Financial Statements.

2. Statement of Compliance

The financial statements have been prepared and approved by the Board of Directors in accordance with 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. The carve-outs issued by the Institute of Chartered Accountants of Nepal (ICAN) have been applied wherever applicable.

These policies have been consistently applied to all the years presented except otherwise stated.

3. Use of Estimates, Assumptions and Judgments

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

The accounting policies have been included in the relevant notes for each item of the interim financial statements and the effect and nature of the changes, if any, have been disclosed.

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 interim financial statements. The Bank applies estimates in preparing and presenting the interim 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.

4. Changes in Accounting Policies

The Bank is required to adopt and apply the accounting policies in conformity with Nepal Financial Reporting Framework (NFRS). The accounting policies are applied consistently with changes, if any and are disclosed with the financial impact to the extent possible. When policies are not guided by the reporting framework, NFRS, other reporting standards and generally accounting principles are followed.

5. Significant Accounting Policies

5.1 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:

- derivative financial instruments are measured at fair value.
- financial instruments at fair value through profit or loss are measured at fair value
- investment property is measured at fair value.
- liabilities for cash-settled share-based payment arrangements are measured at fair value
- the liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

5.2 Basis of Consolidation

a. Business Combination

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Bank. Control is the power to govern the financial and operating policies of an entity to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Bank measures goodwill at the acquisition date as:

- the fair value of the consideration transferred, plus
- the recognized amount of any non-controlling interests in the acquire, plus
- if the business combination is achieved in stages, the fair value of the preexisting equity interest in the acquire, less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.
- When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.
- The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.
- Transaction costs, other than those associated with the issue of debt or equity securities, that the Bank incurs in connection with a business combination are expensed as incurred.
- Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured, and settlement is

accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

b. Non-Controlling Interest (NCI)

For each business combination, the Bank elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquire identifiable net assets, which are generally at fair value.

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

c. Subsidiaries

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

The Bank reassesses whether it has control if there are changes to one or more of the elements of control. In preparing the consolidated financial statements, the financial statements are combined line by line by adding the like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiary. The carrying amount of the parent's investment in subsidiary and the parent's portion of equity of subsidiary are eliminated in full. All intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group (such as interest income and technical fee) are eliminated in full while preparing the consolidated financial statements.

d. Loss of Control

Upon the loss of control, the Bank derecognizes the assets and liabilities of the subsidiary, carrying amount of non-controlling interests and the cumulative translation differences recorded in equity related to the subsidiary. Further parent's share of components previously recognized in Other Comprehensive Income (OCI) is reclassified to profit or loss or retained earnings as appropriate. Any surplus or deficit arising on the loss of control is recognized in the profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

e. Special Purpose Entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank and the SPE's risks and rewards, the Bank concludes that it controls the SPE.

The following circumstances may indicate a relationship in which, in substance, the Bank controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Bank according to its specific business needs so that the Bank obtains benefits from the SPE's operation.
- The Bank has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Bank has delegated these decision-making powers.
- The Bank has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- The Bank retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

f. Transaction Elimination on Consolidation

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

5.3 Cash and Cash equivalent

Cash and cash equivalents include cash in hand, balances with B/FIs, money at call & short notice and highly liquid financial assets with original maturities of three months or less from the acquisition dates 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.

5.4 Financial Assets and Financial Liabilities

A. Recognition

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

B. Classification**I. Financial Assets**

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

The two classes of financial assets are as follows;

i. Financial assets measured at amortized cost

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

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

ii. Financial asset measured at fair value

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

- **Financial assets at fair value through profit or loss.**

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

- **Financial assets at fair value through other comprehensive income**

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

II. Financial Liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as follows:

- **Financial Liabilities at Fair Value through Profit or Loss**

Financial liabilities are classified as fair value through profit or loss if they are held for trading or are designated at fair value through profit or loss. Upon initial recognition, transaction costs

are directly attributable to the acquisition are recognized in Statement of Profit or Loss as incurred. Subsequent changes in fair value is recognized at profit or loss

- **Financial Liabilities measured at amortized cost**

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

C. Measurement

i. 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.

ii. Subsequent Measurement

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

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

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

5.4.1 Derecognition

Derecognition of Financial Assets

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

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

been recognized in other comprehensive income is recognized in profit or loss.

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

Derecognition of Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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 recognized in Statement of Profit or Loss.

5.4.2 Determination of Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The fair value of a liability reflects its non-performance risk

The fair values are determined according to the following hierarchy:

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

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

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognized in profit or loss on initial

recognition of the instrument. In other cases, the difference is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

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

5.4.3 Impairment

At each reporting date the Bank assesses whether there is any indication that an asset may have been impaired. If such indication exists, the recoverable amount is determined. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank considers the following factors in assessing objective evidence of impairment:

- Whether the counterparty is in default of principal or interest payments.
- When a counterparty files for bankruptcy and this would avoid or delay discharge of its obligation.
- Where the Bank initiates legal recourse of recovery in respect of a credit obligation of the counterpart.
- Where the Bank consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments.
- Where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics. Impairment test is done on annual basis for trade receivables and other financial assets based on the internal and external indication observed.

In assessing collective impairment, the Bank uses statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss

rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

a) *Impairment losses on assets measured at amortized cost*

As per NAS 39

Financial assets carried at amortized cost (such as amounts due from Banks, loans and advances to customers as well as held-to-maturity investments) is impaired, and impairment losses are recognized, only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset. The amount of the loss is measured as the difference between the asset's carrying amount and the deemed recoverable value of loan.

Loans and advances to customers with significant value (Top 50 borrowers and borrowers classified as bad as per Nepal Rastra Bank Directive) are assessed for individual impairment test. The recoverable value of loan is estimated on the basis of realizable value of collateral and the conduct of the borrower/past experience of the bank. Assets that are individually assessed and for which no impairment exists are grouped with financial assets with similar credit risk characteristics and collectively assessed for impairment. The credit risk statistics for each group of the loan and advances are determined by management prudently being based on the past experience. For the purpose of collective assessment of impairment bank has categorized assets into six broad products as follows:

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the other reserves and funds (impairment reserve) in other comprehensive income and statement of changes in equity. If a future write-off is later recovered, the recovery is credited to the 'Income Statement'.

As per Loan Loss Provision of Nepal Rastra Bank

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 guidelines. Provision is made for possible losses on loans and advances including bills purchased at 1% to 100% on the basis of classification of loans and advances, overdraft and bills purchased in accordance with NRB directives.

Policies Adopted

As per the Carve out notice issued by ICAN, the Bank has measured impairment loss on loan and advances as the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per paragraph 63 of NAS 39.

b) *Impairment of investment in equity instrument classified as fair value through other comprehensive income*

Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the amortized cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of profit or loss) is

reclassified from equity and recognized in the profit or loss. A significant or prolonged decline in the fair value of an equity security below its cost is considered, among other factors in assessing objective evidence of impairment for equity securities.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of profit or loss. Impairment losses recognized in the profit or loss on equity instruments are not reversed through the profit or loss.

5.5 Trading Assets

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

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

5.6 Derivatives Assets and Derivative Liabilities

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

Considering the requirement of NAS 39 for qualification of hedge accounting and cost benefits along with materiality, Bank has not adopted hedge accounting for certain derivatives held for risk management.

5.7 Property and Equipment

a. Recognition and Measurement

The cost of an item of property and equipment shall be recognized as an asset, initially recognized at cost, if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labor;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;

- when the Bank has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- Capitalized borrowing costs.

The Bank adopts cost model for entire class of property and equipment. Neither class of the property and equipment is measured at revaluation model nor is their fair value measured at the reporting date. The items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Subsequent expenditure is capitalized if it is probable that the future economic benefits from the expenditure will flow to the Bank. Ongoing repairs and maintenance to keep the assets in working condition are expensed as incurred. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized within other income in profit or loss.

Assets with a value of less than NPR 10,000 are charged off to revenue irrespective of their useful life in the year of purchase.

b. Capital Work in Progress

Fixed assets under construction and cost of assets not ready for use are shown as capital work in progress.

c. Depreciation

Depreciation on other assets is calculated using the straight- line method to allocate their cost to their residual values over their estimated useful life as per management judgment as follows:

Nature of Assets	Useful Life (years)
Furniture	5
Equipment	5
Vehicles*	5
Computers	5
Building	40
Leasehold	Lower of 5 years or lease period

* *Residual Value of Vehicles is expected to remain at 30% of Cost at the end of estimated useful life.*

Depreciation on new assets shall commence from the month subsequent to the month in which the assets is acquired or capitalized. Where assets are disposed off, depreciation shall be calculated upto the month preceding the month of such disposal.

d. Derecognition

The carrying amount of Property and Equipment shall be derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an item of property and equipment shall be included in profit or loss when the item is derecognized (unless on a sale & lease back). The gain shall not be classified as revenue.

Depreciation method, useful lives and residual value are reviewed at each reporting date and adjusted, if any.

5.8 Intangible Assets/ Goodwill

Goodwill

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired in Business Combination is recognized as goodwill. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Acquired Intangible Assets

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

Computer software

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 on the basis of expected useful life. Costs associated with maintaining software are recognized as an expense as incurred.

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

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software for the current and comparative periods is five years. Software assets with costs less than Rs. 5,000 are charged off on purchases as revenue expenditure.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

5.9 Investment Property/Non-Current Assets Held for Sale

Investment Property

Investment properties include land or land and buildings other than those classified as property and equipment and non-current assets held for sale. Generally, it includes land, land and building acquired by the Bank as non-banking assets but not sold as on the reporting date.

The Bank holds investment property that has been acquired through enforcement of security over the loans and advances.

Non-Current Assets Held for Sale

Non-current assets (such as property) and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when: (i) their carrying amounts will be recovered principally through sale; (ii) they are available-for-sale in their present condition; and (iii) their sale is highly probable.

Immediately before the initial classification as held for sale, the carrying amounts of the assets (or assets and liabilities in a disposal group) are measured in accordance with the applicable accounting policies described above.

5.10 Income Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

a. Current Tax

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

b. Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is determined using tax rate applicable to the Bank as at the reporting date which is expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

5.11 Deposits, debts securities issued and subordinated liabilities

a. Deposits

The Bank accepts deposits from its customers under account, current, term deposits and margin accounts which allows money to be deposited and withdrawn by the account holder. These

transactions are recorded on the bank's books, and the resulting balance is recorded as a liability for the Bank and represents the amount owed by the Bank to the customer.

b. Debt Securities Issued

It includes debentures, bonds or other debt securities issued by the Bank. Deposits, debt securities issued, and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss. However, debentures issued by the bank are subordinate to the deposits from customer.

c. 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 of such subordinated liabilities.

5.12 Provisions

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.

5.13 Revenue Recognition

Revenue is the gross inflow of economic benefits during the period arising from the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. Revenue is recognized to the extent it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Revenue is not recognized during the period in which its recoverability of income is not probable. The Bank's revenue comprises of interest income, fees and commission, foreign exchange income, cards income, remittance income, bancassurance commission, etc. and the bases of incomes recognition are as follows:

a. Interest Income

Interest income on available-for-sale assets and financial assets held at amortized cost shall be recognized using the bank's normal interest rate which is very close to effective interest rate using effective interest rate method.

For income from loans and advances to customers, initial charges are not amortized over the life of the loan and advances as the income so recognized closely approximates the income that would have been derived under effective interest rate method. The difference is not considered material. The Bank considers that the cost of exact calculation of effective interest rate method exceeds the benefit that would be derived from such compliance.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. As per the Carve-out Notice issued by ICAN, the calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts unless it is immaterial or impracticable to determine reliably, between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

b. Fees & Commission

Fees and commissions are recognized on an accrual basis when the service has been provided or significant act performed whenever the benefit exceeds cost in determining such value. Whenever, the cost of recognizing fees and commissions on an accrual basis exceeds the benefit in determining such value, the fees and commissions are charged off during the year.

All the commission incomes are accounted for on accrual basis except for the commission income less than NPR 100,000 or having tenure of less than 1 year which is recognized on cash basis.

c. Dividend Income

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

d. Net Trading Income

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

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

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

5.14 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.

5.15 Employees 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 Plan

A defined contribution plan is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as personnel expenses in profit or loss in the periods during which related services are rendered.

Contributions to a defined contribution plan that are due more than 12 months after the end of the reporting period in which the employees render the service are discounted to their present value.

All employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan, in which both the employee and the Bank contribute monthly at a pre-determined rate of 10% of the basic salary. The Bank does not assume any future liability for provident fund

benefits other than its annual contribution.

ii. Defined Benefit plan

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 the 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 Bank recognizes all actuarial gains and losses net of deferred tax arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefit expense in profit or loss.

The Bank recognizes gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and any past service cost that had not previously been recognized.

iii. 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.

5.16 Leases

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

(a) 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

(b) 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 which the management assumes are in line with the lessor's expected inflationary cost increases.

5.17 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 statement of financial position date.

Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost, or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognized in either the statement of profit or loss or shareholders' equity depending on the treatment of the gain or loss on the asset or liability.

5.18 Financial guarantee and loan commitment

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

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

5.19 Share Capital and Reserves

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity is defined as residual interest in total assets of the Bank after deducting all its liabilities. Common shares are classified as equity of the Bank and distributions thereon are presented in statement of changes in equity.

Dividends on ordinary shares and preference shares classified as equity are recognized in equity in the period in which they are declared.

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments considering the tax benefits achieved thereon.

The reserves include retained earnings and other statutory reserves such as general reserve, debenture redemption reserve, foreign exchange equalization reserve, regulatory reserve, investment adjustment reserve, CSR reserve etc.

5.20 Earnings per share including diluted earning per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. The basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

6. Segmental Information

6.1.1 General Information

The bank has identified its segments on the basis of its geographical business presence in seven provinces of the country. Province 5, Karnali Province and Sudur Paschim Province have been combined into a single segment as the total business/revenue of each taken separately is less than 10% and also considering their proximity to each other.

6.1.2 Information about profit or loss, assets and liabilities

Amount in Rs '000

Particulars	Province 1		Madhesh Province		Bagmati Province	
	Current Quarter	Corresponding PY Quarter	Current Quarter	Corresponding PY Quarter	Current Quarter	Corresponding PY Quarter
Revenues from external customers	1,503,756	978,540	666,440	473,604	2,250,007	2,803,615
Intersegment Revenues	(551,924)	(361,293)	(502,036)	(225,244)	1,186,773	552,257
Segment Profit/ (loss) before tax	950,322	732,073	371,661	134,323	339,324	891,448
Segment Assets	23,430,874	20,584,982	12,349,631	10,922,961	111,480,846	101,943,070
Segment Liabilities	12,480,264	11,030,339	7,010,818	6,380,468	117,028,385	101,417,009

Amount in Rs '000

Particulars	Gandaki Province		Others		Total	
	Current Quarter	Corresponding PY Quarter	Current Quarter	Corresponding PY Quarter	Current Quarter	Corresponding PY Quarter
Revenues from external customers	414,195	384,308	789,629	533,245	5,624,028	5,173,312
Intersegment Revenues	(97,635)	(87,411)	(35,178)	121,691	0.00	0.00
Segment Profit/ (loss) before tax	275,037	263,737	321,896	207,512	2,258,240	2,229,093
Segment Assets	9,553,575	7,508,350	15,771,590	11,281,497	172,586,515	152,240,860
Segment Liabilities	7,808,640	4,877,635	11,198,058	11,638,647	155,526,165	135,344,099

6.1.3 Reconciliation of reportable segment profit or loss

Particulars	Amount in Rs '000	
	Current Quarter	Corresponding Previous Year Quarter
Total Profit before tax for reportable segments	2,258,240	2,229,093
Profit before tax for other segments	-	-
Elimination of inter-segment profit	-	-
Elimination of discontinued operation	-	-
Unallocated Amounts	-	-
-Other Corporate Expenses	-	-
Profit before tax	2,258,240	2,229,093

7. Concentration of Deposits and Borrowings
A. Concentration of Borrowings

Particulars	Amount in Rs '000	
	Current Year	Previous Year
Total Deposit from ten largest lenders	8,911,465	9,209,461
Percentage of Total Deposit from ten largest lenders to total depositors	6.37%	7.87%

B. Concentration of Credit Exposures

Particulars	Amount in Rs '000	
	Current Year	Previous Year
Total Exposures to twenty largest borrowers		
a. As per group (related party)	36,861,958	34,367,501
b. As per individual customer	24,420,647	22,188,563
Percentage of exposures to twenty largest borrowers to Total Loans and Advances		
a. As per group (related party)	33.93%	25.92%
b. As per individual customer	22.48%	16.74%

C. Concentration of Deposits

Particulars	Amount in Rs '000	
	Current Year	Previous Year
Total Exposures to twenty largest depositors		
a. Group-wise	28,113,650	21,387,936
b. As per individual customer	28,113,650	21,387,936
Percentage of exposures to twenty largest depositors to Total Deposits		
a. As per group (related party)	20.09%	18.28%
b. As per individual customer	20.09%	18.28%

8. Related Party Disclosures

The Bank identifies its Board of Directors, Key Management Personnel comprising of the CEO and other executive officials and its Subsidiary Companies as the related parties under the requirements of NAS 24.

All members of the Board of Directors are non-executive directors and no executive compensation is paid to the directors. The directors are paid Meeting Fees for their attendances in meeting of the Board of Directors and other Board Level Committees. In addition, the directors are reimbursed with telephone expenses and travelling expenses incurred for attending the meetings of the Board of Directors and other Board Level Committees in case of directors other than those based in Kathmandu.

The Key Management Personnel including the CEO are paid monetary and non-monetary compensations according to the bank's Human Resource Policy and employment terms and conditions.

The bank's subsidiaries include Laxmi Laghubitta Bittiya Sanstha Ltd (LLBS) and Laxmi Capital Market Ltd (LCML). The bank holds 70% share ownership in LLBS and 100% share ownership in LCML. All transactions between the bank and its subsidiaries are executed at arm's length principle. The bank has extended loan facility to its subsidiary LLBS. Both the subsidiaries maintain deposit balances with the bank. The bank has undergone various Service Level Agreements (SLA) with LCML for RTS and other services. The bank has deputed its staff as Chief Executive Officer of LCML.

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

The Bank has not proposed or paid any dividends upto the end of the interim period during the current Financial Year.

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

The Bank has issued 8.5% Laxmi Bank Debentures, 2088 worth NPR 2 Billion for a period of 10 years on 26th July, 2021 (11th Shrawan, 2078).

11. Events after reporting period

The Bank monitors and assesses events that may have potential impact to qualify as adjusting and/or non-adjusting events after the end of the reporting period. All adjusting events are adjusted in the books with additional disclosures and non-adjusting material events are disclosed in the notes with possible financial impact, to the extent ascertainable.

There are no other material events that have occurred subsequent to the reporting date till the publication of this interim financial statement.

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

There has been no change in the composition of the bank during the interim period including that from merger and acquisition.

13. Additional Disclosure

Other Operating Income in the Statement of Profit or Loss includes loss on sale of investment securities amounting NPR 118 Million towards the difference between carrying value of the sold investment securities as of FYE 2077-78 and their sales proceeds. Gross gain on such sale amounting NPR 358 Million has been transferred directly from Fair Value Reserve to Retained Earning after allocating 20% to General Reserve as per NRB Directives.