

**Shine Resunga Development Bank Ltd.**  
**Condensed Statement of Financial Position**  
**As on Quarter ended 30<sup>th</sup> Ashwin 2077**

<b>Assets</b>	<b>Figures in NPR</b>	
	<b>This Quarter Ending</b>	<b>Immediate Previous Year Ending</b>
Cash and cash equivalent	5,739,190,292	6,186,260,238
Due from Nepal Rastra Bank	1,199,008,343	1,855,214,141
Placement with Bank and Financial Institutions	-	-
Derivative financial instruments	-	-
Other trading assets	-	-
Loan and advances to B/FIs	1,221,163,978	531,164,224
Loan and advances to Customers	25,688,202,057	24,357,037,994
Investment Securities	2,343,025,627	1,638,795,541
Current Tax Assets	-	5,665,193
Investment in Subsidiaries	-	-
Investment in Associates	-	-
Investment Property	-	-
Property & equipment	405,719,328	410,526,142
Goodwill and Intangible assets	11,683,760	12,416,511
Deferred tax assets	31,308,049	34,063,098
Other assets	200,934,323	181,215,448
<b>Total Assets</b>	<b>36,840,235,756</b>	<b>35,212,358,529</b>
<b>Liabilities</b>		
Due to Bank and Financial Institutions	233,729,840	423,310,160
Due to Nepal Rastra Bank	-	-
Derivative Financial Instruments	-	-
Deposit from customer	32,093,531,650	30,209,159,247
Borrowings	-	-
Current Tax Liabilities	3,327,747	-
Provisions	-	-
Deferred Tax Liabilities	-	-
Other Liabilities	293,897,115	388,590,506
Debt Securities Issued	-	-
Subordinated Liabilities	-	-
<b>Total Liabilities</b>	<b>32,624,486,352</b>	<b>31,021,059,913</b>
<b>Equity</b>		
Share Capital	3,016,339,742	3,016,339,742
Share Premium	2,465,454	2,465,454
Retained Earnings	306,227,023	365,747,478
Reserves	890,717,184	806,745,942
<b>Total Equity Attributable to equity holders</b>	<b>4,215,749,404</b>	<b>4,191,298,616</b>
<b>Non-controlling interest</b>	<b>-</b>	<b>-</b>
<b>Total Equity</b>	<b>4,215,749,404</b>	<b>4,191,298,616</b>
<b>Total Liabilities and equity</b>	<b>36,840,235,756</b>	<b>35,212,358,529</b>

**Condensed Statement of Profit or Loss**  
**For the Quarter ended 30<sup>th</sup> Ashwin, 2077**

Particulars	Current year		Previous Year corresponding	
	This Quarter	Upto this quarter (YTD)	This Quarter	Upto this quarter(YTD)
Interest income	789,097,061	789,097,061	875,419,775	875,419,775
Interest Expenses	515,319,469	515,319,469	547,852,548	547,852,548
<b>Net Interest income</b>	<b>273,777,592</b>	<b>273,777,592</b>	<b>327,567,227</b>	<b>327,567,227</b>
Fees and commission income	39,512,141	39,512,141	45,107,568	45,107,568
Fees and commission expenses	-	-	-	-
<b>Net Fees and commission income</b>	<b>39,512,141</b>	<b>39,512,141</b>	<b>45,107,568</b>	<b>45,107,568</b>
<b>Net Interest, fee and commission income</b>	<b>313,289,733</b>	<b>313,289,733</b>	<b>372,674,795</b>	<b>372,674,795</b>
Net trading income	-	-	-	-
Other operating income	4,343,189	4,343,189	5,707,767	5,707,767
<b>Total operating income</b>	<b>317,632,922</b>	<b>317,632,922</b>	<b>378,382,563</b>	<b>378,382,563</b>
Impairment charge/(reversal) for loans and other losses	149,617,170	149,617,170	48,805,846	48,805,846
<b>Net operating income</b>	<b>168,015,752</b>	<b>168,015,752</b>	<b>329,576,717</b>	<b>329,576,717</b>
<b>Operating expense</b>				
Personnel expenses	65,305,109	65,305,109	88,340,110	88,340,110
Other operating expense	49,148,510	49,148,510	50,605,598	50,605,598
Depreciation & Amortisation	13,072,293	13,072,293	8,529,706	8,529,706
<b>Operating profit</b>	<b>40,489,840</b>	<b>40,489,840</b>	<b>182,101,303</b>	<b>182,101,303</b>
Non operating income	-	-	-	-
Non operating expenses	-	-	-	-
<b>Profit before income tax</b>	<b>40,489,840</b>	<b>40,489,840</b>	<b>182,101,303</b>	<b>182,101,303</b>
Income Tax Expense				
Current Tax	11,611,056	11,611,056	54,630,391	54,630,391
Deferred Tax	-	-	-	-
<b>Profit/(loss) for the period</b>	<b>28,878,784</b>	<b>28,878,784</b>	<b>127,470,912</b>	<b>127,470,912</b>

**Condensed Statement of Comprehensive Income**

Profit/(loss) for the period	28,878,784	28,878,784	127,470,912	127,470,912
Other Comprehensive Income	6,428,448	6,428,448	(2,078,841)	(2,078,841)
<b>Total Comprehensive Income</b>	<b>35,307,231</b>	<b>35,307,231</b>	<b>125,392,071</b>	<b>125,392,071</b>
Basic earnings per share		3.83		19.12
Diluted earnings per share		3.83		19.12
<b>Profit attributable to:</b>				
Equity holders of the Bank	35,307,231	35,307,231	125,392,071	125,392,071
Non-controlling interest	-	-	-	-
<b>Total</b>	<b>35,307,231</b>	<b>35,307,231</b>	<b>125,392,071</b>	<b>125,392,071</b>

**Ratios as per NRB Directive**

Particulars	Current year		Previous Year corresponding	
	This Quarter Ending	Upto this quarter(YTD)	This Quarter Ending	Upto this quarter(YTD)
Capital fund to RWA		14.76%		17.00%
Non-performing loan (NPL) to Total Loan		2.68%		0.45%
Total Loan loss provision to Total NPL		81.47%		277.47%
Cost of Funds		6.88%		7.90%
Credit to Deposit Ratio		74.68%		77.49%
Base Rate		8.50%		10.29%
Interest Rate Spread		4.88%		5.47%

**Statement of Cash Flows**  
As on Ashwin 30, 2077 (16 Oct 2020)

Figures in NPR

Particulars	FY 2077-78	FY 2076-77
<b>Cash flows from operating activities</b>		
Interest Received	776,762,071	3,435,186,157
Fee and other income received	39,512,141	138,272,373
Dividend Received		4,569,941
Receipts from other operating activities		285,817
Interest paid	(523,343,063)	(2,074,192,050)
Commission and fee paid	-	(9,902,536)
Cash payments to employee	(178,591,811)	(309,896,991)
Other expense paid	35,376,456	(5,838,724)
<b>Operating cash flows before change in operating assets and liabilities</b>	<b>149,715,795</b>	<b>1,178,483,987</b>
<b>(Increase)/Decrease in operating assets</b>	<b>(11,336,304,770)</b>	<b>(9,979,889,313)</b>
Due from Nepal Rastra Bank	(308,579,918)	(964,785,716)
Placement with bank and financial institutions	-	-
Other Trading assets	-	-
Loan and advances to bank and financial institutions	(958,775,381)	(268,775,627)
Loan and advances to customer	(9,958,136,853)	(8,699,840,033)
Other Assets	(110,812,619)	(46,487,937)
<b>Increase/(Decrease) in operating liabilities</b>	<b>13,417,607,762</b>	<b>11,680,038,589</b>
Due to bank and financial institutions	173,734,790	363,315,110
Due to Nepal Rastra Bank	-	-
Deposits from customers	13,243,515,884	11,316,366,391
Borrowings	-	-
Other Liabilities	357,088	357,088
<b>Net Cash flow from operating activities before tax paid</b>	<b>2,231,018,787</b>	<b>2,878,633,263</b>
Income taxes paid	(17,526,534)	(214,415,178)
<b>Net Cash flow from operating activities</b>	<b>2,213,492,253</b>	<b>2,664,218,085</b>
<b>Cash flows from investing activities</b>		
Purchase of investment securities	(1,115,231,733)	(419,133,156)
Receipts from sale of investment securities	168,520,567	-
Purchase of plant and equipment	(157,977,703)	(200,626,692)
Receipt from sale of property and equipment	-	2,384,063
Purchase of intangible assets	(4,183,878)	(4,491,695)
Receipt from sale of intangible assets		
Purchase of investment properties	-	-
Receipt from the sale of investment properties		
Interest received		
Dividend received	4,343,189	4,569,941
<b>Net cash used in investing activities</b>	<b>(1,104,529,558)</b>	<b>(617,297,539)</b>
<b>Cash flows from financing activities</b>		
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	1,393,674,482	1,393,674,482
Dividend paid	-	-
Interest paid	-	-
Other receipt/payment	408,534,523	(82,353,381)
<b>Net cash from financing activities</b>	<b>1,802,209,006</b>	<b>1,311,321,101</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,911,171,701</b>	<b>3,358,241,647</b>
Cash and Cash Equivalents at Shrawan 01 (Beginning of the Year)	2,828,018,592	2,828,018,592
Effect of exchange rate fluctuations on cash and cash equivalents held	-	-
<b>Closing Cash and Cash Equivalents</b>	<b>5,739,190,293</b>	<b>6,186,260,239</b>

**Notes to the Interim Financial Statements  
For the Quarter ended 30<sup>th</sup> Ashwin, 2077**

Shine Resunga Development Bank Limited (referred to as “the Bank” hereinafter) is a “B” class National level Development bank domiciled in Nepal, registered as a Public Limited Company under Companies Act 2063 & Banking and Financial Institution Act, 2073. The registered address of the Bank is located at Siddhartha Road, Butwal Nepal. Shine Resunga Development Bank Limited is listed on Nepal Stock Exchange.

**1. Basis of Preparation**

The interim financial statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) issued by the Accounting Standards Board of Nepal on 20<sup>th</sup> September 2018. The disclosures made in the condensed interim financial information have been limited based on the format prescribed by Nepal Rastra Bank through NRB Directive 2077.

**2. Statement of Compliance with NFRs**

The financial statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) and carve-outs issued by the Institute of Chartered Accountants of Nepal on 20<sup>th</sup> September 2018 on NFRS requirement, which allowed alternative treatments. NFRS conform, in all material respect, to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

**3. Use of Estimates, assumption and judgments**

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

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

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

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

**4. Changes in Accounting policies**

There has been no significant change in the accounting policies adopted by the bank since the preparation of Financial Statement of Ashwin end 2077.

**5. Significant Accounting Policies**

The principal accounting policies applied in the preparation of Interim financial statements applied and is in consistent with the accounting policies and method of computation followed in the preparation of annual financial statement of Ashwin end 2077.

## **5.1 Basis of Measurement**

The financial statements have been prepared on a historical cost basis, except for available – for-sale investments, assets held for sale and discontinued operations, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss (FVTPL), all of which have been measured at fair value.

The financial statements have been prepared on a going concern basis where the accounting policies and judgments as required by the standards are consistently used and in case of deviations disclosed specifically.

## **5.2 Basis of Consolidation**

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

## **5.3 Cash & Cash Equivalent**

Cash and cash equivalent represent the amount of cash in hand, balances with other bank and financial institutions, money at short notice and highly liquid financial assets that are subject to an insignificant risk of changes in their value and used by the Bank in the management of short-term commitment.

## **5.4 Financial Assets and Financial Liabilities**

### **5.4.1 Recognition**

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

### **5.4.2 Classification**

#### **I. Financial Assets**

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

- The assets is held within 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 assets 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 the 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 (FVTPL) if they are held for trading or are designated at fair value through profit or loss. Upon initial recognition, transaction cost are directly attributable to the acquisition are recognized in statement profit or loss as incurred. Except for particular designated as at FVTPL, the amount of the changes in the fair value that is attributable to changes in the liability's credit risk is recognized in other comprehensive Income.
- ✓ **Financial liabilities measured at amortized cost**  
All Financial liabilities other than measured at fair value through profit or loss are classified as subsequently measured at amortized cost using effective interest rate method.

## C. **Measurement**

- ✓ **Initial measurement**  
All financial instruments are initially recognized at fair value plus transaction cost except in case of financial assets and financial liabilities recorded at fair value through profit or loss.
- ✓ **Subsequent measurement**  
Financial assets and liabilities designated at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the statement of profit or loss. Interest and dividend income or expense is recorded in revenue according to the terms of the contract, or when the right to payment has been established.

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

### 5.4.3 **De-recognition**

#### **De-recognition of Financial Assets**

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

#### **De-recognition of Financial Liabilities**

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

#### 5.4.4 **Determination of Fair Value**

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

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

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

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

#### 5.4.5 **Impairment of Loans and Advances**

The Bank reviews its individually significant loans and advances at each Reporting date to assess whether an impairment loss should be provided in the Statement of Profit or loss. In particular, the Management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgments about a borrower's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

Individual assessment of impairment of exposures means establishing whether objective evidence of impairment exists, estimation of the present value of future cash flows, and calculation of the value of impairment for each individual receivable from the borrower included in this assessment.

The bank has considered all loans and advances above NRs. 50 million for individual assessment of impairment. The bank determines, for each individual loan to be assessed for individual impairment, whether they expect to collect their receivables from expected future cash flows (going concern) or from collateral realization (gone concern). If a bank identifies objective evidence of impairment, the bank indicates, at single debtor level, the most realistic sources of repayment (collection approach/strategy) based on all available information regarding such borrower's financial position and performances. The bank assesses whether collection will be made from the borrower's expected future operating cash flows (borrower continues to perform business activities – going concern) or on the basis of collateral enforcement and realization (expectation that the borrower ceases to exist – gone concern). In both cases, bank uses conservative assumptions relating to the estimation of the expected cash flows, taking into account current economic conditions and the Bank's own economic forecasts.

When estimating impairment based on collateral realization, the recoverable amount is the present value of the net inflow from collateral realization (taking into account the priority of claims), discounted by applying the original effective interest rate to the expected time to realization.

A collective impairment provision is established for:

- Groups of homogeneous loans and advances that are not considered individually significant; and
- Groups of assets that are individually significant but that were not found to be individually impaired

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

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

**Size, concentrations and economic factors.**

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

**5.4.6 Impairment of Financial Investments – Available-for-Sale**

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

Refer Note 4.8 for details.

**5.4.7 Impairment of Non-Financial Assets**

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

**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 terms or holds as part of portfolio that is managed together for short-term profit or position taking.

Trading assets & 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 and loss account.

**5.6 Derivatives Assets and Derivative Liabilities**

Bank doesn't deal with any derivative financial instruments.



## 5.7 Property and Equipment

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

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

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

- Computer and Accessories 3 Years
- Furniture and Fixtures 7 Years
- Machinery and Equipment 9 Years
- Office Equipment 5 Years
- Vehicles 6 Years
- Leasehold 10 Years
- Other Assets 4 Years

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

The bank has adopted SLM basis from the F/Y 2075/76, unlike prior practice of depreciation under WDV valuation. The life has been estimated as above and depreciation has been charged on the basis of given life. Assets whose useful life has been elapsed, however, still recognized at certain value as fixed assets at start of reporting period has been written off and charged under depreciation for the year. This is the change in estimate, hence, the effect is of prospective nature.

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

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

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

## 5.8 Intangible Assets

### Acquired Intangible Assets

Intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the Bank and are 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 over the period of 5 years in Straight Line method (SLM). 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.

## **5.9 Investment Property**

Land or Land and Building other than those classified as property and equipment and non-current assets held for sale under relevant accounting standard are presented under this account head. The Non-Banking Assets acquired by the company is classified as assets held for sale and presented under investment property.

Further land which is rented and held for capital appreciation motive is classified as investment property. Non-Banking Assets which are not intended to be sold within a period of next one year is also classified as Investment Property. The bank does not have any investment property.

## **5.10 Income Tax**

### **5.10.1.1 Current tax**

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

### **5.10.1.2 Deferred Tax Liabilities**

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

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

## **5.11 Deposits, Debt securities issued and subordinate Liabilities**

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

## **5.12 Provisions**

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

## **5.13 Revenue Recognition**

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

### **5.13.1 Interest Income**

Interest Income include interest income on loan and advance, investment securities except on those investment securities measure at fair value through profit or loss, cash and cash equivalent, due from Nepal Rastra Bank, due from BFIs, loan and advances to staff etc.

Interest income on loans and advances is recognized on amortized principal which is nearer to the effective interest method suggested by NFRS. The adoption of effective interest method is not possible due to constraints of time, effort and cost in short term compared to the benefits it provides. Benefit of carve-out has been applied to this effect. Interest of loans and advances which are significantly impaired are not recognized.

Interest income on government bond, treasury bills and bank balances are recognized under effective interest method.

#### **5.13.2 Fees and commissions**

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

#### **5.13.3 Dividend Income**

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

#### **5.13.4 Net Trading Income**

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

#### **5.13.5 Net income from other financial instrument at fair value through Profit or Loss**

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

#### **5.14 Interest Expense**

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

### **5.15 Employee Benefits**

#### **5.15.1 Retirement Benefits**

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

#### **Retirement benefit obligations**

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

#### **Provident Fund**

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

#### **Gratuity**

The bank has been providing gratuity as per its employee's bye laws which is in the nature of defined benefit plan therefore actuarial valuation has been conducted and provided accordingly.

#### **Accumulated Leave**

The Bank provides accumulated leave benefit under its staff byelaw. The Home Leave is accumulated up to 90 days and there is no limit for the accumulation of Sick Leave.

Accumulated leave benefits are treated as long term benefit liability. Accumulated leave obligations are estimated on the basis of actuarial Valuation. Long term benefit liability is not subject to same degree of uncertainty as defined benefit plan.

The bank has no further payment obligations once the contributions have been paid.

#### **5.16 Leases**

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

- ✓ **Bank as a lessee**  
Leases that do not transfer to the Bank substantially the entire risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement **on a straight-line basis** over the lease term.
- ✓ **Bank as a lessor**  
Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in other operating income.

#### **5.17 Foreign Currency Translation**

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

#### **5.18 Financial Guarantee and Loan Commitment**

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

#### **5.19 Share Capital and Reserves**

##### **5.19.1 Share Capital**

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue available number of own equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as deduction net of taxes from the proceeds.

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

The share issue expenses which can be avoided for the issue was charged in the year of issue directly through equity and disclosed in statement of changes in equity. Tax impact is also disclosed.

##### **5.19.2 Reserves**

The reserves include regulatory and free reserves.

- ✓ **General Reserve**  
20% of the net profit is set aside to general reserve until the reserve is twice the paid of share capital as per Banking Financial Institutions Act. The reserve is the accumulation of setting aside profits over the years.  
  
No Dividend (either cash dividend or bonus share) are distributed from the amount in General/ Statutory Reserve.
- ✓ **Exchange Equalization Reserve**  
25% of the revaluation gain on foreign currency is set aside to exchange equalization reserve as per Banking Financial Institutions Act.  
  
The Reserve is cushion against adverse movement in foreign currency.
- ✓ **Assets Revaluation Reserve**  
Any Reserve created from revaluation of assets (such as Property & Equipment, Intangible Assets, Investment Property) shall be presented under this heading. The Bank has followed cost model therefore no assets revaluation reserve is created.
- ✓ **Capital Reserve**  
The capital reserve represents the amount of those reserves which are in nature of capital and which shall not be available for distribution of cash dividend. The amount from share forfeiture due to non-payment of remaining amount for the unpaid shares, capital grants received in cash or kind, capital reserve arising out of merger and acquisition etc are presented under this heading.
- ✓ **Special Reserve**  
Any special reserve that is created as per the specific requirement of NRB directive or special instruction of NRB are represented as special reserve. The amount allocated to this reserve by debiting retained earning account are presented under this heading.
- ✓ **Corporate Social Responsibility Fund**  
The fund created for the purpose of corporate social responsibility by allocating 1% of Net profit as per NRB Directive is presented under this account head.
- ✓ **Investment Adjustment Reserve**  
It is a reserve created on investment such as investment in subsidiary or unlisted investment in equity for more than two years as per the investment directive of Nepal Rastra Bank.
- ✓ **Regulatory Reserve**  
The amount that is allocated from profit or retained earnings of the Bank to this reserve as per the *Directive of NRB for the purpose of implementation of NFRS* and which shall not be regarded as free for distribution of dividend (cash as well as bonus shares) shall be presented under this account head. The regulatory reserve of the bank includes the reserve net of tax created relating to Accrued Interest Receivable not recovered till Ashwin end 2077., Reserve on Deferred Tax Assets, Non-Banking Assets, reduction in fair value of investment in equity below cost price, actuarial loss etc.
- ✓ **Fair Value Reserve**  
The amount that is allocated from profit or retained earnings of the Bank to this reserve as per the *Directive of NRB for the purpose of implementation of NFRS* and which shall not be regarded as free for distribution of dividend (cash as well as bonus shares) shall be presented under this account head. The fair value reserve of the bank includes the reserve net of tax created relating to Market Value of Share investment.

- ✓ **Actuarial Gain/(Loss) Reserve**  
The amount that is allocated from profit or retained earnings of the Bank both positive or negative to this reserve as per the *Directive of NRB for the purpose of implementation of NFRS* and which shall not be regarded as free for distribution of dividend (cash as well as bonus shares) shall be presented under this account head. This reserve includes actuarial gain/(loss) net of tax on defined benefit plan and long-term employee benefits.
- ✓ **Other reserve**  
Any reserve created with specific or non-specific purpose (except stated in above) are presented under thus by disclosing accounting heads.

#### 5.20 **Earnings per share**

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

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

#### 5.21 **Segmental Reporting**

The Bank's segmental reporting is in accordance with NFRS 8 Operating Segments. Operating segments are reported in a manner consistent with the internal reporting provided to the bank's management, which is responsible for allocating resources and assessing performance of the operating segments. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in Head Office. Income and expenses directly associated with each segment are included in determining business segment performance.

The Bank has determined segments based on the district of operation by the management for decision making purpose. Such segmental information has been provided under Disclosures & Additional Information (Point No. 5.3).

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the bank's total revenue in any of the periods reported.

#### 5.22 **Interim Financial Reporting**

Interim reports corresponding to the financial statements had been reported in accordance with the regulatory reporting requirements. Those statements have been published quarterly in national level newspaper. The bank has utilized the benefits provided by Carve-out on NFRS for reinstatement of earlier year figures.

#### 6. **Related Parties Disclosures**

<b>Directors</b>		<b>Key Management Team</b>
Rajendra Prasad Shrestha	Chairmen	Prakash Poudel –CEO
Thaneswor Poudel	Director	Prakash Gurung-DCEO
Er.Suraj Upreti	Director	Puskar Raj Joshi –DCEO
Dr. Tara Prasad Updhyaya Gyawali	Director	Lokraj Paneru – DCEO
Mohan Chapagain	Director	Sarjan Bhattarai- DGM
Sudarshan Gautam (Representative : Shree Ganesh Properties & Investment Pvt.Ltd.)	Director	

**Transaction during the Year**

<b>Particulars</b>	<b>Upto Ashwin End 2077</b>
<b>Directors</b>	
Directors Sitting Fees	120,000.00
Interest Paid to directors on deposits	713,849.82
Other directors' expenses (if any)	65,839.00
<b>Total</b>	<b>899,688.82</b>

7. **Dividends paid (aggregate or per share) separately for ordinary shares and other shares**  
No Such transaction took place during the first quarter end Ashwin end 2077.
8. **Issues, repurchases and repayments of debt and equity securities**  
No Such transaction took place during the first quarter end Ashwin end 2077.
9. **Events after interim period**  
No Such transaction took place during the first quarter end Ashwin end 2077.
10. **Effect of changes. in the composition of the entity during the interim period merger including and acquisition**  
No Such transaction took place during the first quarter end Ashwin end 2077.

**Disclosure as per Securities Registration and Issuance Regulation, 2073**  
**Related to Rule 26(1) of Annexure 14**  
**For 1<sup>st</sup> Quarter of F/Y 2077-78**

**1. Financial Statement**

Statement of Financial Position and Statement of Profit or Loss as per Nepal Financial Reporting Standard (NFRS) has been published including key financial indicators and ratios along with this report. There has been no any related party transaction during the period.

**Key Financial Indicators and Ratios:**

Earnings per share	: NPR 3.83 (Annualize)	P/E Ratio	: 68.67 Times
Net Worth per share	: NPR 139.76	Net Asset Value per Share	: NPR 1,221.36
Liquidity Ratio	: 28.10 %	Capital Adequacy Ratio	: 14.98%

**2. Management Analysis**

- a. Because of the adverse impact created in all sectors of the economy due to COVID-19, which have been reflected in the businesses of the clients. So, working on revival of the businesses of the client, different privileges have been provided. And maintaining sufficient impairment charges to mitigate the possible risk, also have affected the financial indicators of the Development Bank during the period.

And such charges after gradual revival of the client businesses will be back to positively impact on the profitability and major financial indicators in the coming periods.

- b. After successful merger/acquisition, growth of business along with the expansion of network, development of new business plan, identifying the new sector for lending with diversified products including investment in productive sector shall be continued.
- c. There was no incident, which could have material effect on cash position, profit or cash flow position of the bank during the period.

**3. Details relating to Legal Action**

- a. During the period there were no any cases that have been filed by or against Development Bank.
- b. No cases have been filed by or against the promoter or director of Development Bank for disobedience of prevailing laws or commission of criminal offence.
- c. No cases have been filed against any promoter or director for financial crime.

**4. Analysis of Stock Performance of Development Bank**

- a. Development Bank's share price and transaction are determined as per open market competition.
- b. Maximum, minimum and closing share price including total share transaction number and days of transaction during the period are;

Max. Share Price : NPR 267.00 Min. Share Price : NPR 230.00

Closing price of the Share : NPR 263.00 Number of days traded : 64 days

Total volume of trading of shares : 1,736,053 share

*(As per Nepal Stock Exchange Limited Website)*



## **5. Problems and Challenges**

### **5.1 Internal**

Lending policy has been proportionately based on the collection of resources in order to manage the liquidity position. Deposit plan has been continuously revised for the expansion of business as per the existing market scenario and loans & advances have been made identifying the productive sectors & rural areas.

### **5.2 External**

The COVID 19 pandemic has caused an unprecedented health and financial crisis and it is expected that the severity of the impact of the pandemic would negatively hit financial sector as well.

We are supporting for the revival of the businesses of the clients that have been affected by COVID-19 pandemic with sufficient risk mitigates. We are also closely monitoring its effect on banking sector where some risks are inevitable and require equally meticulous plans to take them head on. We are concentrating to mitigate these unwanted risks.

## **6. Corporate Governance**

To meet the provision regarding Corporate Governance, Development Bank has strictly followed all the rules & regulation issued to BFIs through Unified Directives, Circulars, BAFIA, Companies Act, SEBON Rules & Regulation and all other rules/regulations issued to BFIs. Development Bank has setup different committees like Board of Director, Audit Committee, Risk Management Committee, Employee Benefit Committee, Anti-money Laundering Committee, Recruitment Committee, and Corporate Governance Cell which are active in their respective field. Issues raised & recommendations made by NRB, internal & external auditor have been followed up strictly & in effective manner for better performance of Development Bank.

## **7. Declaration by CEO**

I, as at the date, hereby individually accept responsibility for the accuracy of the information and details contained in this report, Also hereby declare that to the best of my knowledge and belief, the information contained in this report are true, accurate and complete. No material information for the investors has been concealed.