

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of *Karnali Development Bank Ltd.*

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Karnali Development Bank Ltd**, which comprise the statement of financial position as at 31 Ashad 2078 (15 July 2021), and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Karnali Development Bank Ltd.** as at 31 Ashad 2078 (15 July 2021), and its financial performance and its cash flows for the year then ended in accordance with Nepal Financial Reporting Standards (NFRSs).

Basis for Opinion

We conducted our audit in accordance with Nepal Standards on Auditing (NSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Development Bank in accordance with ICAN's Handbook of Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matters	How our Audit addressed the Key Audit Matters
Impairment of loans and advances to customers including interest income recognition	
(Refer Note 4.35 "Loan impairment allowance charge/(reversal)", Note 4.7.4 and Note 3.4.5 of the financial statements for impairment of loans and advances to customers)	
(Refer Note 4.29 "Interest income" and Note 3.13 of the financial statements for the interest income recognition	
<p>Allowances for impairment of loans and advances to customers have been made based on incurred loss model. The development bank is required to apply its judgement and estimation to determine allowances for impairment. In addition, the assessment of impairment is significant as carve out by ICAN provides for higher of incurred loss model or as per NRB directive for determining the impairment allowance.</p>	<p>Our audit procedures include the following:</p> <ul style="list-style-type: none"> • We planned and tested the operating effectiveness of key controls established by the development bank to identify loss events and for determining the extent of provisioning required against non-performing loans and advances to customers. • The testing of controls includes testing of controls over correct identification and classification of non-performing loans and advances to customers on time-based criteria, control over statistical models used to calculate the incurred loss in accordance with incurred loss model; control over monitoring of loans and advances to customers with higher risk default; control over accurate computation and recording of provisions; control over the governance and approval process related to provisions including continuous reassessment by management.
<p>The carrying value of loans and advances to the customers can be materially misstating if the development bank's judgement and estimation are inappropriate.</p> <p>In addition to above, interest income on loans and advances to customers has been recognized on accrual basis and following the interest</p>	


<p>income recognition guidelines 2019 issued by NRB. Recognition of interest income on non-performing loans and advances involves estimation and judgements. Considering the significance of above matters, we have identified this as a key audit matter for the current year audit.</p>	<ul style="list-style-type: none"> • We selected a sample of loans and advances to customers, checked installments of repayments and tested classification of non-performing loans and advances to customers based on number of days overdue; evaluated the development bank's assessment for classification of loans and advances to customers as performing and non-performing based on repayment pattern, documentation, inspection, and thorough discussion with management; assessment of control over mortgage value of loans and advances to customers. • We selected sample of loans and advances to customers and independently performed and reassessed whether there was need to classify loans and advances to customers as non-performing and compared our outcome to that prepared by the development bank and challenged various assumptions and judgements which were used by management. • We assessed the appropriateness and adequacy of disclosures against the relevant accounting standards and NRB requirements relating to allowances and interest recognition and considered it to be acceptable.
<p>Information technology system and control impacting financial reporting in relation to the development bank</p>	
<p>The development bank's information technology environment is complex and involves a large number of independent and inter-dependent information technology systems used in operations of the development bank for processing and recording a large volume of transactions at numerous locations. Due to this, there is high degree of reliance and dependency on such information technology systems for the development bank's financial reporting process.</p> <p>Due to the importance of the impact of the information technology systems and related control environment on financial reporting process of the development bank, we have identified testing of such information technology system and related control environment as a key audit matter for the current year audit.</p>	<p>Our audit procedures include the following:</p> <ul style="list-style-type: none"> • In assessing the integrity of the IT systems, we involved our team to obtain understanding of IT infrastructure and IT systems relevant to development bank's financial reporting process. • Access rights were tested over applications, operating systems, networks, and databases, which are relied upon for financial reporting. We also assessed the operating effectiveness of controls over granting, removal, and periodic review of access rights. • We further tested segregation of duties, including preventive controls to ensure that the access to change applications, the operating system or databases were granted only to authorized personnel. • Other areas such as security configurations and controls around the change management were also assessed. • We also evaluated the design and tested the operating effectiveness of the key automated controls within various business processes. This included testing the integrity of system interfaces, the completeness and accuracy of data feeds and automated calculations and considered to be acceptable.

Information other than the financial statement and auditor's report thereon

The management of the development bank is responsible for the other information. The other information comprises the information included in the statement of the Board of Directors and Chairman.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion there on.

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

Signature 

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with NFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Development Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Development Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Development bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

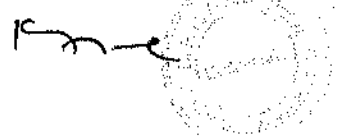
As part of an audit in accordance with NSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Development bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Development bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of our auditor's report. However, further events or conclusions may cause the Development bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that they may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.


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Report on Other Legal and Regulatory Requirements

We further report that;

- We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of audit,
- The accounts and records of the Development bank has been maintained as required by law,
- Financial statements are in agreement with the books of account maintained by the Development bank,
- The Capital Fund, Risk Bearing Fund and the provision for possible impairment of assets of the Development bank are adequate as per the directives issued by the Nepal Rastra bank,
- In our opinion and to the best of our information and according to explanation given to us, the Board of Directors, the representative or any employee of the Development bank has not acted contrary to the legal provisions relating to accounts nor caused direct loss or damage to the Development bank deliberately or acted in a manner that would jeopardize the interest and security of the Development bank,
- The operations of the Development bank were within its jurisdiction,
- The Development bank has not acted in a manner to jeopardize the interest and security of the depositors and investors,
- The Development bank has a centralized core accounting system and details received from branches though the statements are not independently audited, were adequate for the purpose of our audit, and
- We have not come across any fraudulence in accounts, so far as it appeared from our examination of books of account.

Date: 2080/11/21
Place: Dillibazar, Kathmandu
UDIN: 240304CA00469vPvdW


CA. Keshab Prasad Neupane
Principal
K.P.N. & Associates
Chartered Accountants



KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Year ended Ashad 31, 2078 (July.15, 2021)

1. Reporting entity

Karnali Development Bank Limited (*hereinafter referred to as the "the Bank"*) is a public limited company registered under Companies Act of Nepal. The Bank is licensed as per the Nepal Rastra Bank (NRB) as "B" class financial institution to perform financial services as per the Bank and Financial Institutions Act (BAFIA) and its Memorandum and Articles of Association.

The head office of the bank is located at Nepalgunj, Banke, Nepal and carries out its financial services through its branches.

The bank accepts deposits, issues loans, issues and processes debit cards, is engaged in investing and trading securities, as well as performs other activities set forth in the BAFIA and the Memorandum and Articles of Association of the bank. The company offers range of financial products and services to wide range of clients encompassing individuals, mid markets and corporates.

The bank's shares are listed with Nepal Stock Exchange Ltd and its symbol is KRBL.

2. Basis of preparation of financial statements

These financial statements, which comprise the statement of financial position, statement of profit or loss, statement of other comprehensive income, statement of changes in equity, statement of cash flows and notes thereto have been prepared in all material aspects in accordance with requirements of applicable Nepal Financial Reporting Standards (NFRS) issued by the Institute of Chartered Accountants of Nepal and in the format issued by Nepal Rastra Bank. These are prepared under accrual basis of accounting in accordance with the historical cost convention, except for certain items as follows:

- a. Liability for defined benefit obligations is recognised at present value of the defined benefit obligation as determined by actuary.

The bank presents its statement of financial position broadly in the order of liquidity.

The significant accounting policies applied in the preparation of financial statements are set out below in Note 3. These policies are consistently applied to all the years presented, except for the changes in accounting policies disclosed specifically.

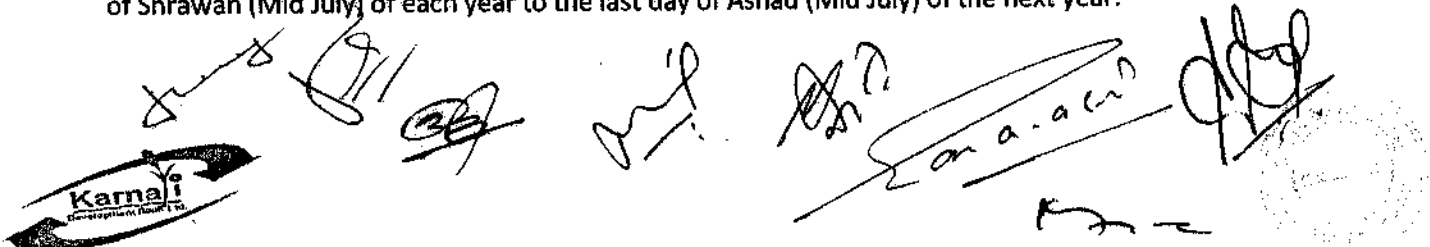
2.1 Statement of compliance

The Financial Statement of the company which comprise of component mentioned above have been prepared in accordance with Nepal Financial Reporting Standard (hereafter referred as NFRS) issued by Accounting Standard Board of Nepal authorized by Institute of Chartered Accountants of Nepal and Nepal Rastra Bank and in compliance of requirement of the Companies Act 2006 and Generally Accepted Accounting Principles in the Banking industry in Nepal.

2.2 Reporting Period and approval of financial statements

a. Reporting Dates

The Bank follows the Nepalese financial year based on the Nepalese calendar starting from first day of Shrawan (Mid July) of each year to the last day of Ashad (Mid July) of the next year.



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Year ended Ashad 31, 2078 (July 15, 2021)

Relevant financial statements date/ period	Nepalese calendar date period	English calendar
Reporting date	Ashad 31, 2078	July 15, 2021
Comparative reporting date	Ashad 31, 2077	July 15, 2020
Reporting period	Shrawan 01, 2077 to Ashad 31, 2078	July 16, 2020 to July 15, 2021
Comparative reporting period	Shrawan 01, 2076 to Ashad 31, 2077	July 17, 2019 to July 15, 2020

b. Approval of Financial Statements

The accompanying financial statements have been approved and authorized for issue by the Board of Directors in its meeting held on

2.3 Functional and presentation Currency

The financial statements are presented in Nepalese Rupees (Rs.), which is the functional and presentation currency of the company. Amounts in the financial statements are rounded off to the nearest rupee.

2.4 Use of Estimates, assumptions and judgements

The preparation of the financial statements in accordance with NFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from these estimates. Estimates, judgements and assumptions are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized prospectively.

Further information about key assumptions concerning the future, and other key sources of estimation uncertainty and judgement, are set out in the relevant disclosure notes for the following areas:

- Impairment of loans and advances
- Provisions, commitments and contingencies
- Retirement benefit obligations

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.

2.5 Changes in Accounting Policies

The Bank has consistently applied the accounting policies to all periods presented in these financial statements except for new or revised statements and interpretations implemented during the year. The nature and effect of new standards and interpretations are discussed in note that follows.

2.6 New Standards issued but not yet effective

For the reporting of financial instruments, NAS 32 Financial Instruments Presentation, NAS 39 Financial Instruments Recognition and Measurements and NFRS 7 Financial Instruments -



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Disclosures have been applied. NFRS 9 has been complied for the classification of Financial Instruments. Few carve-outs on applicable accounting standards as provided by the Institute of Chartered Accountants of Nepal have been used by the Bank, the quantitative and qualitative impact of the same have been disclosed in detail in Notes to the Accounts. Further, several new standards and amendments to the existing standards and interpretations have been issued by International Accounting Standard Board after the pronouncements of NFRS with varying effective dates. Those become applicable when Accounting Standard Board Nepal incorporates them within NFRS.

2.7 New standards and interpretations not adopted

There have been amendments to the standards issued by IASB and applicability of the new standards have been notified for International Financial Reporting Standards (IFRS). These amendments and new standards become applicable only when ICAN pronounces them.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement.

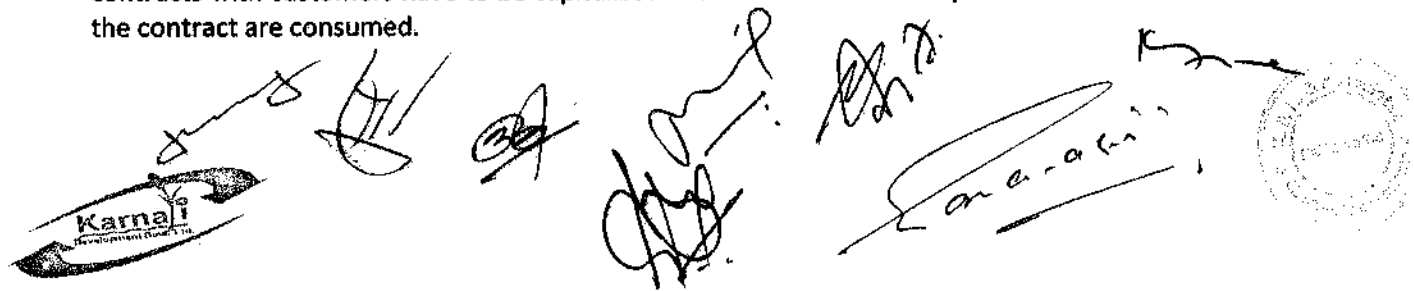
IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach, resulting in earlier recognition of credit losses. The IFRS 9 impairment model has three stages. Entities are required to recognize a 12-month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk (stage 2). The assessment of whether a significant increase in credit risk has occurred is a key aspect of the IFRS 9 methodology and involves quantitative measures, such as forward-looking probabilities of default, and qualitative factors and therefore requires considerable management judgment. Stage 3 requires objective evidence of impairment, which is similar to the guidance on incurred losses in IAS 39. IFRS 9 requires the use of more forward-looking information including reasonable and supportable forecasts of future economic conditions. The need to consider multiple economic scenarios and how they could impact the loss allowance is a very subjective feature of the IFRS 9 impairment model. Loan commitments and financial guarantees not measured at fair value through profit or loss are also in scope.

These changes may result in a material increase in the bank's impairment allowances for credit losses although the extent of any increase will depend upon, amongst other things, the composition of the bank's lending portfolios and forecast economic conditions at the date of implementation. The requirement to transfer assets between stages and to incorporate forward looking data into the expected credit loss calculation, including multiple economic scenarios, is likely to result in impairment charges being more volatile when compared to the current IAS 39 impairment model.

The IFRS 9 expected credit loss model principally differs from the regulatory model of incurred loss model.

a. IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. The new standard introduces the core principle that revenue must be recognized when the goods are transferred or services are rendered to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.



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Financial instruments, leases and insurance contracts are out of scope of IFRS 15, and so this standard is not expected to have a significant impact on the bank. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

b. IFRS 16 Leases

On 13 January 2016 the IASB issued IFRS 16 to replace IAS 17 Leases. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and instead, introduces a single lessee accounting model.

2.8 Discounting

When the realisation of assets and settlement of obligations is for more than one year, the bank considers discounting of such assets and liabilities where is impact is material.

2.9 Provisions of carve-out adapted by the bank

The Institute of Chartered Accountants of Nepal (ICAN) issued "Notice regarding Decision on Carve-outs in NFRS with Alternative Treatments" on September 20, 2018 and alternative treatments as per carve-outs has been adapted while preparing the financial statements. The detail of carve-out provisions adapted by the bank is given hereunder:

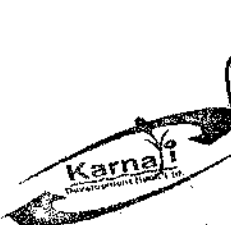
a. Operating lease in the financial statements of Lessees (NAS 17 Leases, Para 33)

As per carve out prescribed by ICAN for fiscal year 2017-18, "Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless either:

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

b. Incurred loss model to measure the impairment loss on loan and advances (NAS 39: Financial Instruments, Para 58: Recognition and Measurement)

As per carve out prescribed for fiscal year 2017-18, 2018-19 and 2019-20, "An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 of to determine the amount of any impairment loss unless the entity is bank or bank registered as per Bank and Financial Institutions Act, 2073. Such entities shall measure impairment loss on loan and advances at the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per paragraph 63 and shall apply paragraph 63 to measure the impairment loss on financial assets other than loan and advances. The entity shall disclose the impairment loss as per this carve-out and the amount of impairment loss determined as per paragraph 63.



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c. *Impracticability to determine transactions cost of all previous years which is the part of effective interest rate (NAS 39, Para 9: Financial Instruments: Recognition and Measurement)*

As per carve out prescribed for fiscal year 2017-18 and 2018-19, "The effective interest rate is the rate that exactly 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, an entity shall estimate cash flows considering all contractual terms of the financial instruments (for example, prepayment call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received, unless it is immaterial or impracticable to determine reliably, between parties to the contract that are an integral part of the effective interest rate (see NAS 18 Revenue), transaction costs and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments)."

d. *Impracticability to determine interest income on amortized cost (NAS 39, Para AG93: Financial Instruments: Recognition and Measurement)*

As per carve out prescribed for fiscal year 2017-18, 2018-19 and 2019-20, "Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset unless the financial asset is written off either partially or fully."

2.10 Standards applied

Standards as pronounced by the Institute of Chartered Accountants of Nepal (ICAN) has been used in the preparation of financial statements. Any departure from the requirements of NFRS, if any, has been separately disclosed in the explanatory notes.

A number of new standards and amendments to the existing standards and interpretations have been issued by International Accounting Standards Board (IASB) after the pronouncements of NFRS with varying effective dates. Those become applicable when ICAN incorporates them within NFRS.

3. Significant accounting policies

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

3.1 Basis of Measurement

The Financial Statements of the Bank have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position:

- Liabilities for defined benefit obligations are recognised at the present value of the defined benefit obligation less the fair value of the plan assets.

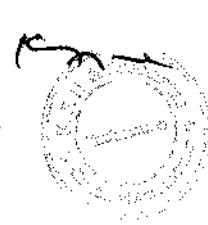


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- Financial assets and financial liabilities held at Amortised cost at measured using a rate that is a close approximation of effective interest rate.

3.2 Basis of Consolidation

a. Business Combination and Goodwill

Business combinations are accounted for using the acquisition method as per the requirements of Nepal Financial Reporting Standard - NFRS 03 (Business Combinations). The Bank measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquire, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date, where the excess is negative, a bargain purchase gain is immediately recognised in the profit or loss.

The Bank elects on a transaction-by transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date. The consideration transferred does not include amount related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transactions 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.

The bank does not have any transaction associated to business combination.

b. Non-Controlling Interest

The Bank presents non-controlling interests in its consolidated statement of financial position within equity, separately from the equity of the owners of the parent. The group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The proportion allocated to the Bank and non-controlling interests are determined on the basis of present ownership interests.

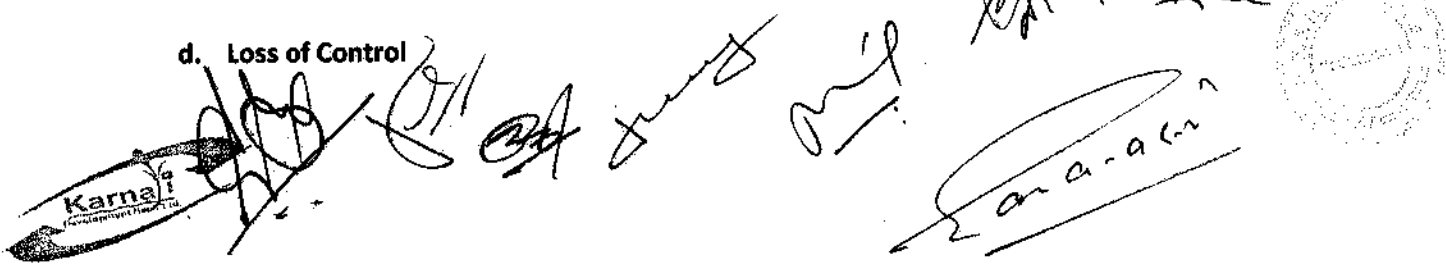
However, Bank does not have a Subsidiary. So, the non-controlling interest has not been calculated separately.

c. Subsidiaries

Subsidiaries are entities that are controlled by the Bank. The Bank is presumed to control an investee when 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. At each reporting date the Bank reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more elements of control mentioned above. The Financial Statements of Subsidiaries are fully consolidated from the date on which control is transferred to the Bank and continue to be consolidated until the date when such control ceases. The Financial Statements of the Bank's Subsidiaries are prepared for the same reporting year as per the Bank, using consistent accounting policies.

However, Bank does not have any subsidiary.

d. Loss of Control

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When the Bank loses control over a Subsidiary, it derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position. The Bank recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant NFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with relevant NFRS or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. The Bank recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

However, Bank does not have any subsidiary.

e. Special Purpose Entity (SPE)

An entity may be created to accomplish a narrow and well-defined objective (eg. to effect a lease, research and development activities or a securitization of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Examples of SPEs include entities set up to effect a lease, a securitization of financial assets, or R&D activities. Nepal Financial Reporting Standard 10 Consolidated Financial Statement is applicable in relation to consolidation of special purpose entity.

The Bank does not have any special purpose entity.

f. Transaction elimination on consolidation

In consolidating a subsidiary, the group eliminates full intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the subsidiary and the Bank (profits or losses resulting from intra-group transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full).

The Bank does not have any subsidiary.

3.3 Cash and cash equivalent

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

Cash and cash equivalents are measured at amortized cost in the statement of financial position.

3.4 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 an 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 institution becomes party to



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the contractual provisions of the instruments. Investments in equity instruments, units of mutual funds, bonds, debenture, government securities and NRB bond are recognized on trade date at which the bank commits to purchase/acquire the financial assets. Regular purchase and sale of financial assets are recognized on trade date.

b. Classification

The bank classifies its financial assets and financial liabilities as per NFRS 9 into the following measurement categories:

Financial assets

- Financial assets held at fair value through profit or loss;
- Financial assets held at fair value through other comprehensive income, and
- Financial assets held at amortized cost.

Financial liabilities

- Held at fair value through profit or loss, or
- Held at amortized cost.

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. Interest income from these financial assets is included in Interest Income using the effective interest rate method. The two classes of financial assets are as follows:

i. Financial assets recognized 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 assets recognized 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 costs that are 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*



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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 though other comprehensive income. Such assets are subsequently measured at fair value and changes in fair value are recognized in other comprehensive income.

Financial Liabilities

The bank classifies financial liabilities as follows:

i. Financial liabilities recognized 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 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 statement of profit or loss.

ii. Financial Liabilities recognized at amortized cost

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

c. Measurement

Initial Measurement

Financial assets and financial liabilities are recognised when the bank becomes party to the contractual provisions of the relevant instrument and are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value on initial recognition of financial assets or financial liabilities unless the same is measured at fair value through profit or loss. The transaction cost of financial assets and financial liabilities measured at fair value through profit or loss are expensed in profit or loss.

Subsequent Measurement

A financial asset or financial liability is subsequently measured either at fair value or at amortized cost based on the classification of the financial asset or liability.

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

In case of loans and advances measured at amortized cost, the processing charge and documentation charges received from customers which are directly attributable to the acquisition or issue of such financial assets are booked as income in the statement of profit or loss in the reporting period in which they are received. The effective interest rate method is not applied as it is impracticable to determine the amount.



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Further, once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter calculated by applying effective interest rate to the gross carrying amount of a financial asset. Interest income on financial assets (loans and advances) which has been individually impaired are not recognised.

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.

d. Derecognition

▪ *Derecognition of Financial Assets*

Financial assets are derecognised when the right to receive cash flows from the assets has expired, or has been transferred, and the bank has transferred substantially all of the risks and rewards of ownership. Financial assets are also derecognised upon write off. Any gain or loss arising on the disposal or retirement of an item of financial asset is determined as the difference between the sales proceeds and its carrying amount and is recognised in the statement of profit or loss. The cumulative gain or loss that was recognised in other comprehensive income, is recognised to statement of profit or loss except for investment in equity instruments measured at fair value through other comprehensive income.

▪ *Derecognition of Financial Liabilities*

A financial liability is derecognized when, and only when it is extinguished (i.e. when the obligation specified in contract is discharged, cancelled or expired). If the liability is renegotiated with the original lender on substantially different contractual terms, the original liability is derecognized and new liability is recognized.

The difference between the carrying amount of a liability (or portion) extinguished or transferred to another party (including related unamortized cost) and the amount paid for it (including any non-cash assets transferred or liability assumed), are included in statement of profit or loss.

e. Determination of Fair Value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the bank has access at that date.

The fair value of a liability reflects its non-performance risk. When available, the bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The fair value measurement hierarchy is as follows:

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Level 1: These are quoted prices in active markets for identical assets or liabilities that the bank can access at the measurement date.

Level 2: These are the inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly. These would include prices for the similar, but not identical, assets or liabilities that were then adjusted to reflect the factors specific to the measured asset or liability.

Level 3: These are unobservable inputs for the assets or liability.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. Where available, the bank measures the fair value of an instrument using quoted prices in an active market for that instrument. If a market for a financial instrument is not active, the bank, establishes fair value using an appropriate fair valuation technique.

For all unquoted investment in equity instruments, their cost has been considered as their fair value and accordingly these are recognised at cost, net of impairment if any.

f. Impairment

At each reporting date, the bank assesses whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through the Statement of Profit or Loss are impaired.

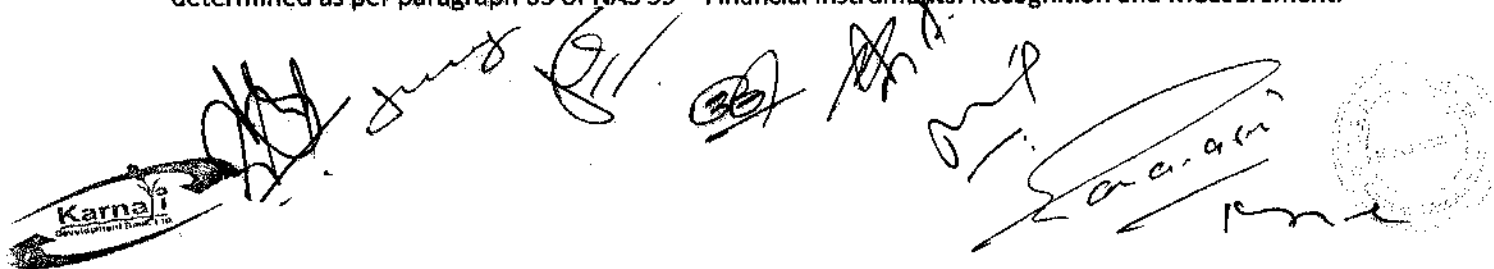
A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In case of financial difficulty of the borrower, the bank considers to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due.

Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

However, in case of loans and advances, impairment loss is measured 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 – Financial Instruments: Recognition and Measurement.

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i. Impairment of financial assets measured at amortized cost

Impairment of loans and advances portfolios is based on the judgements of past experience of portfolio behavior. In assessing collective impairment, the bank uses 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. Further, management has taken additional external risk (inflation, market risk and risk of data incompleteness) for the impairment of loans and advances.

Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate. Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the bank.

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 allowance account. If a write off is later recovered, the recovery is recognized in the 'recovery of loan written off' under Note no. 4.39.

However, in case of loans and advances, impairment loss is measured as the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per para 63 of NAS 39 – Financial Instruments: Recognition and Measurement.

ii. Impairment of investment in equity instrument classified as fair value through other comprehensive income

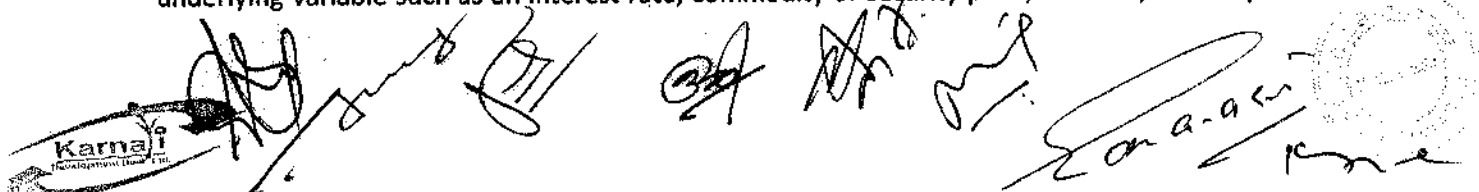
Objective evidence of impairment of investment in an equity instrument is a significant or prolonged decline in its fair value below its cost. Impairment losses are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and the current fair value, less any impairment loss recognized previously in profit or loss.

3.5 Trading assets

The bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking. Held for trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established. Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

3.6 Derivative Assets and Derivative Liabilities

A derivative is a financial instrument whose value changes in response to the change in an underlying variable such as an interest rate, commodity or security price, or index; that requires no



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initial investment, or one that is smaller than would be required for a contract with similar response to changes in market factors; and that is settled at a future date.

Forward contracts are the contracts to purchase or sell a specific quantity of a financial instrument, a commodity, or a foreign currency at a specified price determined at the outset, with delivery or settlement at a specified future date. Settlement is at maturity by actual delivery of the item specified in the contract, or by a net cash settlement.

All freestanding contracts that are considered derivatives for accounting purposes are carried at fair value on the statement of financial position regardless of whether they are held for trading or non-trading purposes. Changes in fair value on derivatives held for trading are included in net gains/ (losses) from financial instruments in fair value through profit or loss on financial assets/ liabilities at fair value through profit or loss.

3.7 Property, Plant and Equipment

All Property, plant and equipment is 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. At each balance sheet date, the assets' residual values and useful lives are reviewed, and adjusted if appropriate, including assessing 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 to the recoverable amount. Gains and losses on disposals are included in the statement of profit or loss.

Repairs and maintenance are charged to the statement of profit or loss in the year in which it is incurred.

Depreciation is calculated using the diminishing value method at the rate determined as follows:

Class of Assets	Depreciation Rate
Buildings	2%
Leasehold properties	5%
Computer and accessories	25%
Vehicles	20%
Furniture and fixtures	25%
Equipment and others - office equipment	25%
Equipment	15%

Land is not depreciated. Assets costing less than Rs. 5,000 are recognised in statement of profit or loss in the year of purchase.

Capital Work in Progress

The cost of property, plant and equipment which are not ready for their intended use till the date of statement of financial position, are disclosed under capital work-in-progress.

3.8 Goodwill Intangible Assets

The intangible assets include software purchased by the bank. All computer software costs incurred or licensed for use which are not integrally related to associated hardware, which can be clearly identified, reliably measured, and it's probable that they will lead to future economic benefits, are

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included in the statement of financial position under the category 'Intangible Assets'. Software is measured at cost less accumulated amortization and accumulated impairment loss if any. Software is amortized on a straight-line basis in profit or loss over its useful life, from the date that is available for use. The estimated useful life of software for the current and comparative periods is five years. Amortization method, useful lives and residual value are reviewed at each reporting date and adjusted, if any.

3.9 Investment property

Investment property is the land or building or both held either for rental income or for capital appreciation or for both, but not sold in ordinary course of business and owner-occupied property.

Investment property is initially measured at cost and subsequently at cost model. Accordingly, such properties are subsequently measured at cost less accumulated depreciation and impairment loss if any.

Any gain or loss on disposal of an investment property is recognized in statement of profit or loss. When the use of a property changes such that it is reclassified as property plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent reporting.

3.10 Income tax

a. Current tax

Current tax in the statement of profit or loss is provided as the amount of tax payable in respect of taxable income for the period using tax rates and tax laws applicable during the period, together with any adjustment to tax payable in respect of previous years.

Current tax, in so far as it relates to items disclosed under other comprehensive income or equity, are disclosed separately under the statement of other comprehensive income or equity, as applicable.

Current tax assets and liabilities are offset only when there is both a legal right of offset and the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

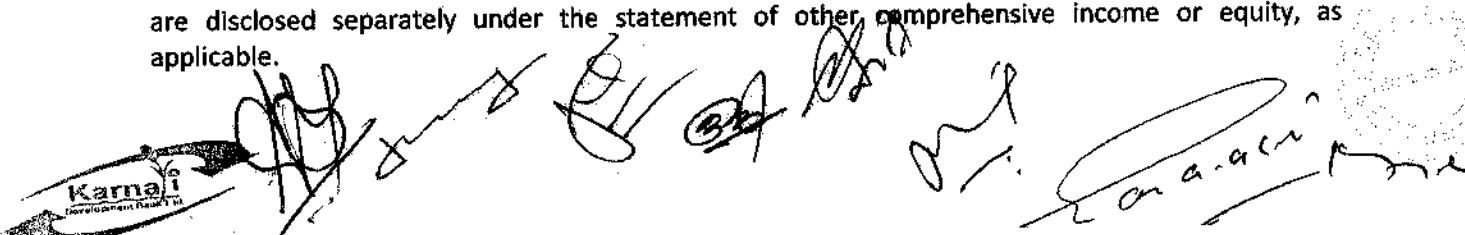
b. Deferred tax

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 financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses only if it is probable that the future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities.

Deferred tax, in so far as it relates to items disclosed under other comprehensive income or equity, are disclosed separately under the statement of other comprehensive income or equity, as applicable.



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3.11 Deposit, debt securities issued and subordinated liabilities

The estimated fair value of deposits with no stated maturity period is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity period.

Debentures are recognized at amortized cost using effective interest rates. The coupon rates of these instruments represent the effective interest rates. Effective interest rate is expected to cover for the credit risk and time value of money on these instruments as these are solely for the purpose of principal and interest.

3.12 Provisions

Provisions are recognized when the bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in statement of profit or loss net of any reimbursement in other operating expenses

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.

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.

3.13 Revenue Recognition

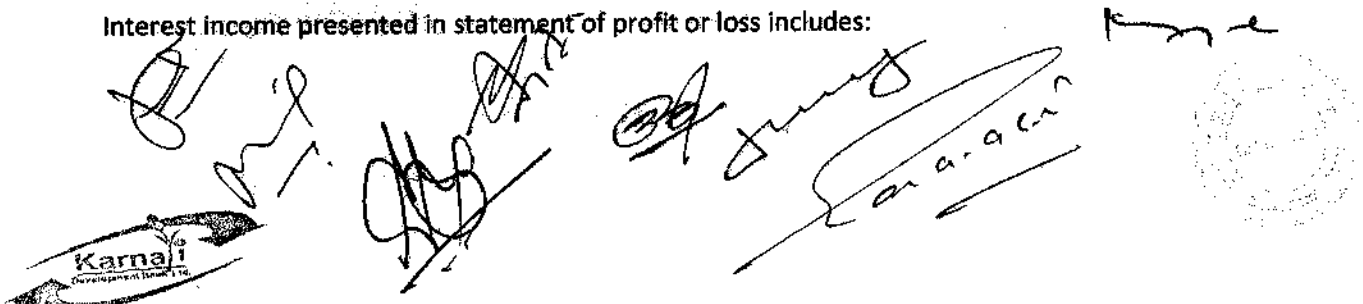
Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed.

Revenue comprises of interest income, fees and commission, disposal income, etc. 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 bases of income recognition are as below:

a. Interest income

Interest income is recognized in profit or loss using effective interest method. Effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of financial asset or liability to the carrying amount of the asset or liability. The calculation of effective interest rate includes all transactions cost and fee and points paid or received that are integral part of the effective interest. The transaction costs include incremental costs that are directly attributable to the acquisition or issue of financial assets.

Interest income presented in statement of profit or loss includes:

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- Interest income on financial assets measured at amortized cost is calculated on an effective interest rate to the gross carrying amount of financial assets unless the financial asset is written off either partially or fully. These financial assets include loans and advances including staff loans, investment in government securities, investment in corporate bonds, investment in NRB Bond and deposit instruments, etc.
- Interest income on loans and advances to customers which are individually impaired are not recognised as per the Guidelines on Recognition of Interest Income, 2019 issued by Nepal Rastra Bank.

b. Fees and Commission

Fees and commission income that are integral to the effective interest rate on a financial asset are included in measurement of effective interest rate. Other fees and commission income including management fee and service charges are recognized as the related services are performed.

c. Dividend Income

Dividend on investment in equity instruments and on units of mutual fund is recognized when the right to receive payment is established. Dividend income are presented in net trading income or other operating income based on the underlying classification of the equity instruments and units of mutual fund.

d. Net trading income

Net trading income comprises of gains less losses related to trading assets and liabilities and includes all realised and unrealized fair value changes, interest and dividends.

e. Net income from other financial instrument at fair value through profit or loss

Gains and losses arising from changes in the fair value of other 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.

3.14 Interest expenses

Interest expense on all financial liabilities including deposits are recognized in profit or loss using effective interest rate method. Interest expense on all trading liabilities are considered to be incidental to the bank's trading operations and are presented together with all other changes in fair value of trading assets and liabilities in net trading income.

3.15 Employees benefits

a. Short-term employee benefits

Expenses in respect of short-term benefits are recognised on the basis of amount paid or payable during which services are rendered by the employees. Liabilities for salary and allowances that are expected to be settled wholly within 12 months after the end of the financial year in which the employees render the related services are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.



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b. Post-employment benefits

The bank operates post-retirement benefit schemes for its employees including both defined benefit and defined contribution plans. A defined benefit scheme is a plan that defines an amount of gratuity benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and salary. A defined contribution plan is a plan into which the bank pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

i. Defined contribution plan

These are plans in which the bank pays pre-defined amounts to publicly administered funds as per local regulations and does not have any legal or informal obligation to pay additional sums. These comprise of contributions to the social security fund with the government on account of provident fund. The Company's payments to the defined contribution plans are recognised as employee benefit expenses when they are due.

ii. Defined benefit plan

The bank's defined benefit plans comprise of gratuity. The liability or asset recognised in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by actuaries using the projected unit credit method.

Service costs and net interest expense or income is reflected in the statement of profit or loss. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in actuarial gain/(loss) reserve in the statement of changes in equity and in the statement of financial position. Gratuity is non funded hence no any fund is deposited during the year.

c. Other long-term employee benefits obligations

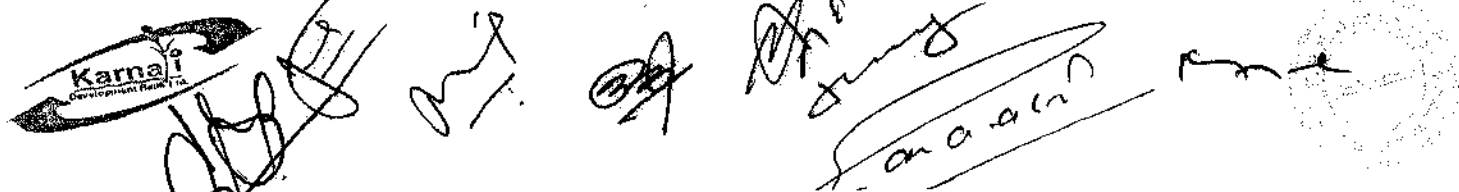
The liabilities for earned leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in statement of profit and loss. This benefit is unfunded.

3.16 Leases

Minimum lease payments made under finance lease are apportioned between the finance expense and reduction of outstanding liabilities. The finance expense is allocated to each period during the lease term so as to produce the constant periodic rate of interest on the remaining balance of liabilities.

The leases entered into by the bank are primarily operating leases. When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognized as an expense in the period of termination.

Actual lease payments as per the contract with lessor for the reporting period under operating lease are recognized as an expense in statement of profit or loss since the payment to the lessor are

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structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

3.17 Foreign currency translation

Foreign currency transactions are translated into the appropriate functional currency 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 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, except when recognized in other comprehensive income.

Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on equities and similar non-monetary items held at fair value through profit and loss are recognized in statement of profit or loss as part of the fair value gain or loss.

3.18 Financial guarantee and loan commitment

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflow of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognized in financial statements but are disclosed unless they are remote. 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. Detail of financial guarantee and commitments provided by the Bank on the reporting date is given as Note 4.28.

3.19 Share capital and reserve

The Bank applies NAS 32 – Financial Instruments: Presentation, to determine whether funding is either a financial liability (debt) or equity. Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in the bank having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument.

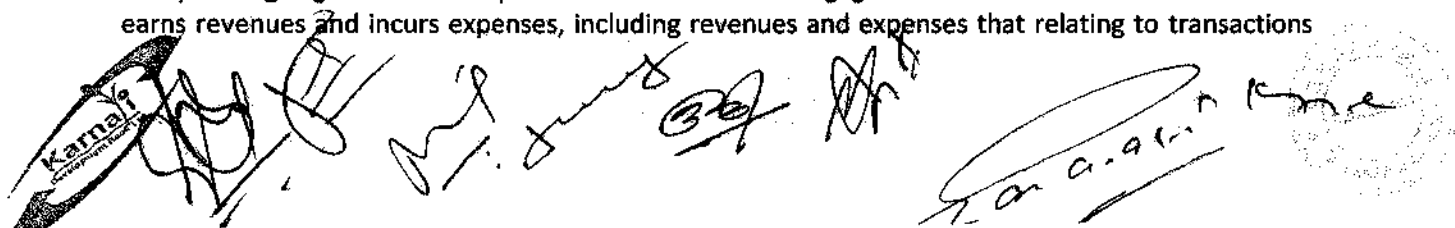
Expenses incurred of issue of share capital are deducted from equity. Dividends and other returns to equity holders are recognized in the period when they are declared by the members at the annual general meeting and are treated as a deduction from equity.

3.20 Earnings per share including diluted

Basic earnings per share are calculated by dividing the net profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per shares is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares that arise in respect of convertible preference shares. The bank does not have any convertible instruments and the diluted earning per share is same as the basic earnings per share.

3.21 Segment reporting

An operating segment is a component of the bank that engages in business activities from which it earns revenues and incurs expenses, including revenues and expenses that relating to transactions



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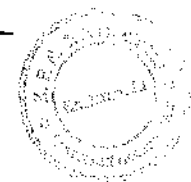

KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Year ended Ashad 31, 2078 (July 15, 2021)

with any of the bank's other components, whose operating results are reviewed by the management to make decision about resource allocation to each segment and assess its performance.

The bank manages its branch networks under regional demarcation for supervision, monitoring and control. Inter unit charges and revenues are applied to assess the performance of the business units. These charges are nullified at the overall bank's level. The bank has identified segments on the basis of each geographical presence in seven provinces of the country.

Segment results that are reported by the bank include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the bank's corporate building), head office expenses, and tax assets and liabilities that are categorized as banking assets/liabilities.

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KARNALI DEVELOPMENT BANK LTD.
STATEMENT OF FINANCIAL POSITION
As on Ashad end 2078

IN NPR


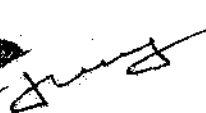


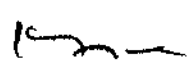
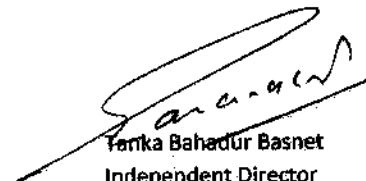


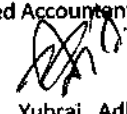

		AS AT	AS AT
		31/08/2077	31/08/2077
Cash and cash equivalent	4.1	1,706,835,268	1,736,268,305
Due from Nepal Rastra Bank	4.2	165,510,857	146,528,295
Placement with Bank and Financial Institutions	4.3	-	-
Derivative financial instruments	4.4	-	-
Other trading assets	4.5	-	-
Loans and advances to B/Fis	4.6	-	-
Loans and advances to customers	4.7	3,148,473,710	2,481,651,124
Investment securities	4.8	-	-
Current tax assets	4.9	22,980,177	14,601,150
Investment in subsidiaries	4.10	-	-
Investment in associates	4.11	-	-
Investment property	4.12	-	-
Property Plant and Equipment	4.13	123,913,727	116,069,227
Goodwill and Intangible assets	4.14	188,603	410,464
Deferred tax assets	4.15	113,622	-
Other assets	4.16	56,029,301	68,698,099

		AS AT	AS AT
		31/08/2077	31/08/2077
Due to Bank and Financial Institutions	4.17	-	-
Due to Nepal Rastra Bank	4.18	-	-
Derivative financial instruments	4.19	-	-
Deposits from customers	4.20	4,644,876,420	3,987,441,860
Borrowing	4.21	-	-
Current Tax Liabilities	4.9	-	-
Provisions	4.22	-	-
Deferred tax liabilities	4.15	-	42,085
Other liabilities	4.23	32,281,414	31,771,988
Debt securities issued	4.24	-	-
Subordinated Liabilities	4.25	-	-
TOTAL LIABILITIES		4,677,157,834	4,019,255,933

Share Capital	4.26	502,830,000	502,830,000
Share premium		-	458,926
Retained Earnings		(13,832,316)	(26,620,677)
Reserves	4.27	57,889,747	68,302,482
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS		546,887,431	544,970,731
NON-CONTROLLING INTEREST			
TOTAL EQUITY		546,887,431	544,970,731

Contingent liabilities and commitment	4.28	85,914,004	69,242,969
Net assets value per share		108.76	108.38

As per our report of even date

				
Saurav Khadka Account Officer	Niraj Bikram Shah Chief Executive Officer	Dr. Om Prakash Mishra Chairman	CA. Keshab Prasad Neupane Principal	
				
Yanka Bahadur Basnet Independent Director	Nishar Ahmad Darji Director	Usha Kumari Bhandari Director	Yubraj Adhik Director	

KARNALI DEVELOPMENT BANK LTD.
STATEMENT OF PROFIT OR LOSS
For the year ended Ashad 2078

IN NPR

		2078	2077
Interest income	4.29	423,280,826	388,978,065
Interest expense	4.30	294,875,620	317,957,301
Net Interest income		128,405,207	71,020,763
Fee and commission income	4.31	28,576,450	29,601,127
Fee and commission expense	4.32	5,003,491	-
Net fee and commission income		23,572,959	29,601,127
Net interest, fee and commission income		151,978,166	100,621,890
Net trading income	4.33	-	-
Other operating income	4.34	49,787	164,945
Total operating income		152,027,953	100,786,835
Impairment charge/(reversal) for loans and other losses	4.35	33,202,347	3,677,699
Net operating income		118,825,606	97,109,136
Operating expense			
Personnel expenses	4.36	59,252,278	61,587,831
Other operating expenses	4.37	45,919,483	40,430,690
Depreciation & Amortization	4.38	6,466,886	7,747,369
Operating Profit		7,186,959	(12,656,754)
Non operating income	4.39	-	-
Non operating expense	4.40	5,610,829	-
Profit before Income tax		1,576,130	(12,656,754)
Income tax expense	4.41		
Current Tax expenses		138,539	-
Deferred Tax (Expenses)/Income		(390,405)	(1,442,097)
Profit for the period		1,827,996	(11,214,657)
Profit attributable to:			
Equity holders of the Bank		1,827,996	(11,214,657)
Non-controlling interest		-	-
Profit for the period		1,827,996	(11,214,657)
Earnings per share			
Basic earnings per share		0.36	(2.23)
Diluted earnings per share		0.36	(2.23)

As per our report of even date

Saurav Khadka
Account Officer

Niraj Bikram Shah
Chief Executive Officer

Dr. Om Prakash Mishra
Chairman

CA. Keshab Prasad Neupane
Principal
K. P. N. & Associates
Chartered Accountants

Tanka Bahadur Basnet
Independent Director

Nishar Ahmad Darji
Director

Usha Kumari Bhandari
Director

Yubraj Adhikari
Director

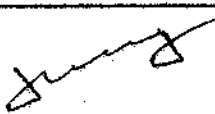
Date:


Place: Nepalgunj


KARNALI DEVELOPMENT BANK LTD.
STATEMENT OF COMPREHENSIVE INCOME
For the year ended Ashad 2078


IN NPR

Profit for the year	1,827,996	(11,214,657)
Other comprehensive income, net of income tax		
a) Items that will not be reclassified to profit or loss		
Gains/(Losses) from investments in equity instruments measured at fair value		
Gains/(Losses) on revaluation		
Actuarial gain/(loss) on defined benefit plans	782,328	37,111,164
Income tax relating to above terms	(234,698)	(11,133,349)
Net other comprehensive income that will not be reclassified to profit or loss	547,630	25,977,815
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 terms		
Reclassify to profit or loss		
Net other comprehensive income that are or may be reclassified to profit or loss		
c) Share of other comprehensive income of associate accounted as per equited method		
Other comprehensive income for the year, net of income tax	547,630	25,977,815
Total comprehensive income for the period	2,375,626	14,763,158
Total comprehensive income attributable to:		
Equity holders of the bank	2,375,626	14,763,158
Non-controlling interest	-	-
Total comprehensive income for the period	2,375,626	14,763,158


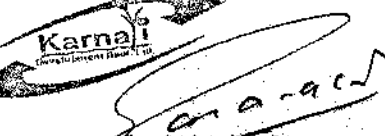

Saurav Khadka
 Account Officer



Niranjan Bhattarai
 Chief Executive Officer


Dr. Om Prakash Mishra
 Chairman

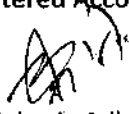

CA. Keshab Prasad Neupane
 Principal

K. P. N. & Associate
 Chartered Accountants



Tanka Bahadur Basnet
 Independent Director


Nishar Ahmad Darji
 Director


Usha Kumari Bhandari
 Director


Yubraj Adhikari
 Director

Date:


Place: Nepalgunj

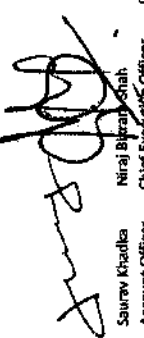
KARNALI DEVELOPMENT BANK LTD.


STATEMENT OF CHANGES IN EQUITY
For the year ended Ashad 2078

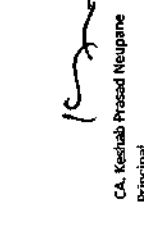
Balance as at Shrawan 1, 2076	502,550,000	17,247,599	458,926	32,004,056	(8,100,365)	530,207,573
Comprehensive Income for the year					(11,214,657)	(11,214,657)
Profit for the year						
Other Comprehensive Income, net of tax						
Gains/(losses) from investments in equity instruments measured at fair value						
Gains/(losses) on revaluation					25,977,815	25,977,815
Actuarial gains/(losses) on defined benefit plans					25,977,815	14,763,158
Total comprehensive income for the year				1,173,377	(1,373,377)	
Transfer to reserve during the year						
Transfer from reserve during the year						
Transactions with owners, directly recognised in equity						
Right shares issued						
Share issue expenses						
Bonus shares issued						
Cash dividend paid						
Others						
Total contributions by and distributions						
Comprehensive Income for the year					1,827,996	1,827,996
Profit for the year						
Other Comprehensive Income, net of tax						
Gains/(losses) from investments in equity instruments measured at fair value						
Gains/(losses) on revaluation						
Actuarial gains/(losses) on defined benefit plans						
Total comprehensive income for the year					1,827,996	547,630
Transfer to reserve during the year						547,630
Transfer from reserve during the year						18,280
Transactions with owners, directly recognised in equity						
Right shares issued						
Share issue expenses						
Bonus shares issued						
Cash dividend paid						
Others						
Total contributions by and distributions						(458,926)
Comprehensive Income for the year						(458,926)


* Chair Reserve Represents Staff Training Fund, Corporate Social Responsibility Fund and Actuarial Reserve




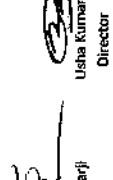
 Saurav Khadka, Account Officer

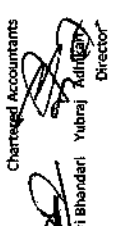
 Niraj Bhandari, Chief Executive Officer


 Dr. Om Prakash Mishra, Chairman

 CA. Keshab Prasad Neupane, Principal

 K. P. N. & Associates, Chartered Accountants

 Usha Kumari Bhandari, Director

 Nishar Ahmad Darji, Director

 Yubraj Adhikari, Director

Date:


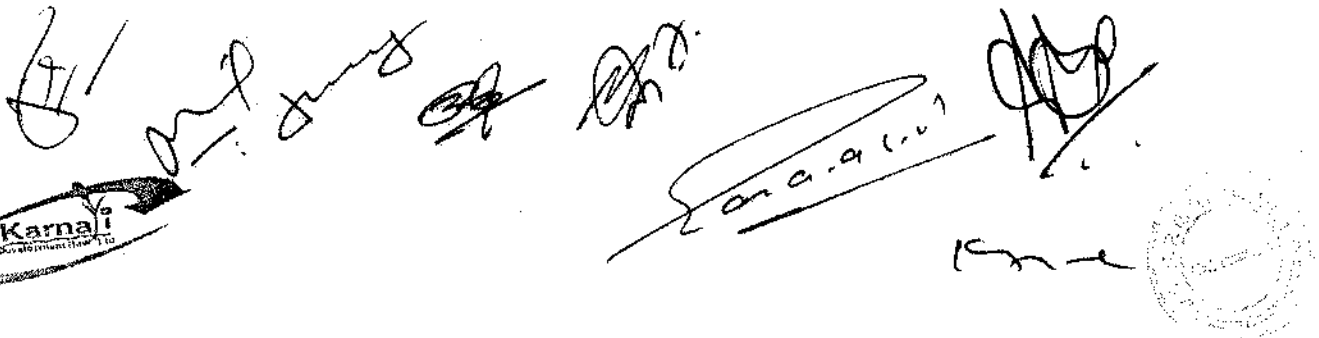
KARNALI DEVELOPMENT BANK LTD.
STATEMENT OF CASH FLOWS
For the year ended Ashad 2078

IN NPR

	ASHAD END 2078	ASHAD END 2077
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	426,963,567	374,381,085
Fees and other income received	28,576,450	29,601,127
Dividend received	-	-
Receipts from other operating activities	-	-
Interest paid	(293,832,533)	(317,393,630)
Commission and fees paid	(5,003,491)	-
Cash payment to employees	(56,510,317)	(54,803,196)
Other expenses paid	(51,530,312)	(40,430,690)
Operating cash flows before changes in operating assets and liabilities	48,663,363	(8,645,304)
(Increase)/ Decrease in operating assets		
Due from Nepal Rastra Bank	(18,982,562)	(9,728,612)
Placement with bank and financial institutions	-	-
Other trading assets	-	-
Loan and advances to bank and financial institutions	-	-
Loan and advances to customers	(699,396,754)	(356,359,918)
Other assets	7,898,952	(2,236,481)
(Increase)/ Decrease in operating liabilities		
Due to bank and financial institutions		
Due to Nepal Rastra Bank		
Deposits from Customers	657,434,560	614,730,585
Borrowings	-	-
Other Liabilities	(2,493,293)	4,287,845
Net Cash flow from operating activities before tax paid	(6,875,734)	242,048,115
Income taxes paid	(8,517,566)	(6,410,179)
Net Cash flow from operating activities	(15,393,300)	235,637,936

CASH FLOW FROM INVESTING ACTIVITIES

Purchase of investment securities		
Receipt from the sale of investment securities		
Purchase of property and equipment	(14,202,238)	(24,283,751)
Receipt from the sale of property and equipment	162,500	2,170,000

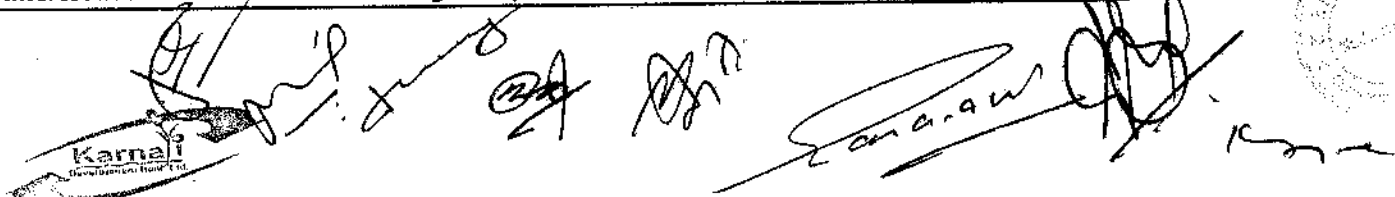
KARNALI DEVELOPMENT BANK LTD.
STATEMENT OF DISTRIBUTABLE PROFIT OR LOSS
For the year ended Ashad 2078
(As per NRB Regulation)

IN NPR

For the year ended Ashad 2078		
Opening restated retained earning	(26,620,677)	(14,232,643)
Less: Dividend distributed		
Less: Bonus Share issued		
Less: Share issue expenses		
Add: Gain from sale of investment securities measured at fair value through OCI		
Remaining balance of Retained Earnings	(26,620,677)	(14,232,643)
Net profit or (loss) as per statement of profit or loss	1,827,996	(11,214,657)
Appropriations:		
a. General reserve	(365,599)	-
b. Foreign exchange fluctuation fund		-
c. Capital redemption reserve		-
d. Corporate social responsibility fund	(18,280)	-
e. Employees' training fund		-
f. Other		-
Transfer from Staff Training Fund		-
Transfer from CSR Fund	139,614	-
Transfer from Deferred Tax Reserve		-
Profit or (loss) before regulatory adjustment	1,583,731	(11,214,657)
Regulatory adjustment :		
a. Interest receivable (-)/previous accrued interest received (+)	11,318,252	(19,522,703)
b. Short loan loss provision in accounts (-)/reversal (+)		
c. Short provision for possible losses on investment (-)/reversal (+)		
d. Short loan loss provision on Non Banking Assets (-)/reversal (+)		
e. Deferred tax assets recognised (-)/ reversal (+)	(113,622)	9,649,167
f. Goodwill recognised (-)/ impairment of Goodwill (+)		
Bargain purchase gain recognised (-)/reversal (+)		
h. Actuarial loss recognised (-)/reversal (+)		8,700,159
i. Other (+/-)		
Distributable profit or (loss)	(13,832,316)	(26,620,677)

Workings for Regulatory Reserve

Accrued Interest receivable as per Trial Balance excluding bad loan a	34,697,113	50,829,800
Interest received till Bhadra 15, 2078 out of Interest Receivable		(19,841,382)
Interest not received but already booked income (As per NFRS)	34,697,113	30,988,418
Notional Bonus Amount (@ 10%)	(3,469,711)	(3,098,842)
Interest Income after Notional Bonus	31,227,402	27,889,576
Notional Tax Amount (@ 30%)	(9,368,221)	(8,366,873)
Total This Year	21,859,181	19,522,703
Less upto Previous Year	(33,177,433)	
Interest not received transferred to Regulatory Reserve	(11,318,252)	19,522,703



KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Cash & Cash equivalent

NOTE 4.1
IN NPR

	ASHAD END 2078	ASHAD END 2077
Cash in hand	181,202,752	182,609,216
Balances with B/FIs	1,525,632,516	1,553,659,089
Money at call and short notice	-	-
Other	-	-
TOTAL	1,706,835,268	1,736,268,305

Due from Nepal Rastra Bank

NOTE 4.2
IN NPR

	ASHAD END 2078	ASHAD END 2077
Statutory balances with NRB	165,510,857	146,528,295
Securities purchased under resale agreement	-	-
Other deposit and receivable from NRB	-	-
TOTAL	165,510,857	146,528,295

Placements with Bank and Financial Institutions



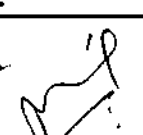
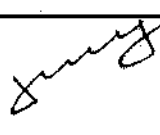

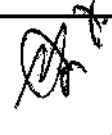
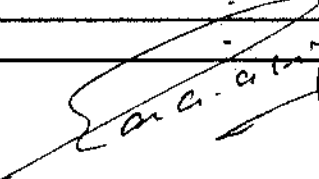
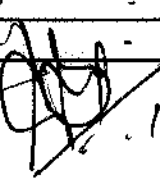
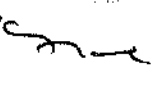
NOTE 4.3
IN NPR

	ASHAD END 2078	ASHAD END 2077
Placement with domestic B/FIs	-	-
Placement with foreign B/FIs	-	-
Less: Allowances for impairment	-	-
TOTAL	-	-

Derivative financial instruments

NOTE 4.4
IN NPR

	ASHAD END 2078	ASHAD END 2077
Held for Trading		
Interest rate swap	-	-
Currency swap	-	-
Forward exchange contract	-	-
Others	-	-
Held for risk management		
Interest rate swap	-	-
Currency swap	-	-
Forward exchange contract	-	-
Others	-	-
TOTAL	-	-

KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Other trading assets

NOTE 4.5
IN NPR

	ASHAD END 2078	ASHAD END 2077
Treasury bills	-	-
Government bonds	-	-
NRB Bonds	-	-
Domestic Corporate bonds	-	-
Investment in equity instruments	-	-
Other - Investment in units of mutual funds	-	-
TOTAL	-	-
<i>Pledged</i>	-	-
<i>Non-pledged</i>	-	-

Loan and advances to B/FIs

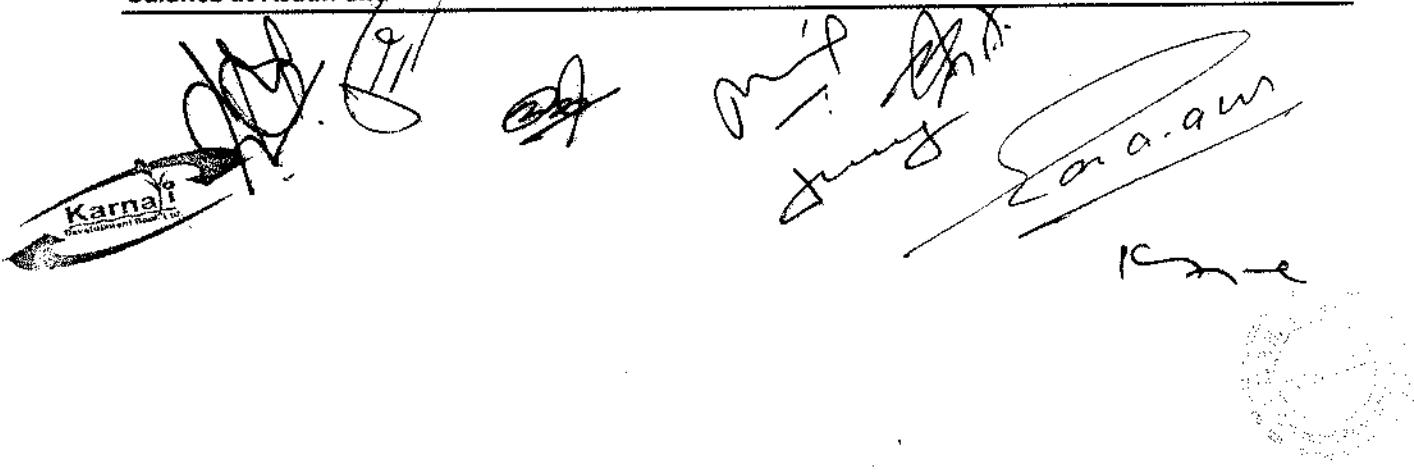
NOTE 4.6
IN NPR


	ASHAD END 2078	ASHAD END 2077
Loans to microfinance institutions	-	-
Other	-	-
Less: Allowances for impairment	-	-
TOTAL	-	-


Allowances for impairment

NOTE 4.6.1
IN NPR

	ASHAD END 2078	ASHAD END 2077
Balance at Shrawan 1	-	-
Impairment loss for the year	-	-
Charge for the year	-	-
Recoveries/reversal	-	-
Amount written off	-	-
Balance at Asadh end	-	-







KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Loans and advances to customers

NOTE 4.7
IN NPR

	ASHAD END 2078	ASHAD END 2077
Loans and advances measured at amortized cost	3,220,390,663.00	2,520,365,730.00
Less: Impairment allowances		
Collective impairment	(42,241,897.00)	(24,164,022.00)
Individual Impairment	(29,675,056.00)	(14,550,584.00)
Net amount	3,148,473,710.00	2,481,651,124.00
Loan and advances measured at FVTPL		
TOTAL	3,148,473,710.00	2,481,651,124.00

Analysis of loan and advances - By Product

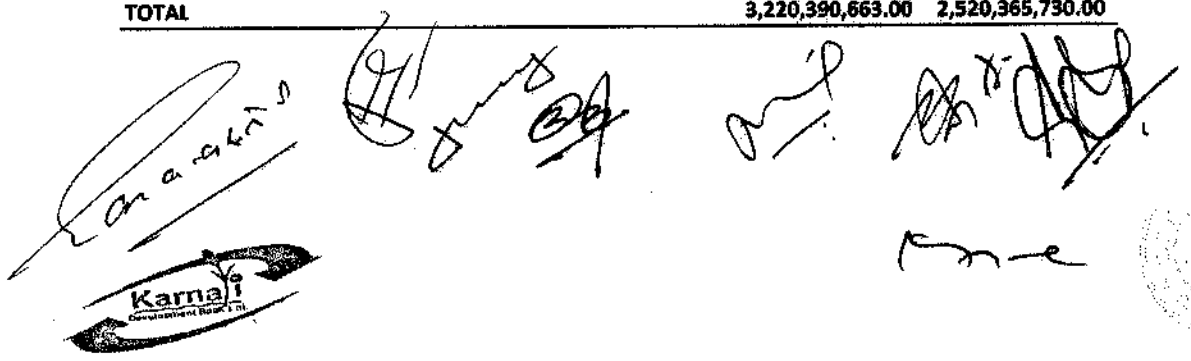
NOTE 4.7.1
IN NPR

Product	ASHAD END 2078	ASHAD END 2077
Term Loans	427,482,152.00	503,567,079.00
Overdraft	1,384,196,996.00	945,261,031.00
Trust Receipt/Import loans	-	-
Demand and other working capital loans	-	-
Personal residential loans	100,519,006.00	100,866,718.00
Real estate loans	200,000,000.00	-
Margin lending loans	-	-
Hire purchase loans	254,175,016.00	236,464,707.00
Deprived sector loans	134,369,904.00	133,591,954.00
Bills purchased	-	-
Staff loans	33,230,658.00	32,082,863.00
Other	651,719,818.00	517,701,578.00
Subtotal	3,185,693,550.00	2,469,535,930.00
Interest receivable	34,697,113.00	50,829,800.00
GRAND TOTAL	3,220,390,663.00	2,520,365,730.00

Analysis of loan and advances - By Currency

NOTE 4.7.2
IN NPR

	ASHAD END 2078	ASHAD END 2077
Nepalese rupee	3,220,390,663.00	2,520,365,730.00
Indian rupee	-	-
United State dollar	-	-
Great Britain pound	-	-
Euro	-	-
Japanese yen	-	-
Chinese Yuan	-	-
Other	-	-
TOTAL	3,220,390,663.00	2,520,365,730.00





KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Analysis of loan and advances - By Collateral

NOTE 4.7.3
IN NPR

	ASHAD END 2078	ASHAD END 2077
<u>Secured</u>		
Movable/immovable assets	3,183,884,282.00	2,482,715,887.00
Gold and silver		
Guarantee of domestic B/FIs		
Government guarantee		
Guarantee of international rated bank		
Collateral of export document		
Collateral of fixed deposit receipt	48,956,327.00	37,649,843.00
Collateral of Government securities		
Counter guarantee		
Personal guarantee		
Other collateral		
Subtotal	3,232,840,609.00	2,520,365,730.00
Unsecured		
GRAND TOTAL	3,232,840,609.00	2,520,365,730.00

Allowances for impairment

NOTE 4.7.4
IN NPR

	ASHAD END 2078	ASHAD END 2077
<u>Specific allowances for impairment</u>		
Balance at Shrawan 1	14,550,584.00	14,025,358.00
Impairment loss for the year:		
Charge for the year	15,124,472.00	525,226.00
Recoveries/reversal during the year		
Write-offs		
Exchange rate variance on foreign currency		
Other movement		
Balance at Asar end	29,675,056.00	14,550,584.00
<u>Collective allowances for impairment</u>		
Balance at Shrawan 1	24,164,022.00	21,011,549.00
Impairment loss for the year:		
Charge/(reversal) for the year	18,077,875.00	3,152,473.00
Exchange rate variance on foreign currency		
Other movement		
Balance at Asar end	42,241,897.00	24,164,022.00
Total allowances for impairment	71,916,953.00	38,714,606.00

Financial Indicators for Five Years

Institution Name: Karnal Bkash Bank Ltd

Statement of Principal Indicators Institution wise

FINANCIAL YEARS

Indicators	Unit	FINANCIAL YEARS				
		2077/78	2076/77	2075/76	2074/75	2073/74
		Amount	Amount	Amount	Amount	Amount
Adequacy of Capital Fund on Risk Weighted Assets	Percent	33.91	34.49	18.03	29.11	15.58
Core Capital	NPR	521,823,968.00	493,615,948	517,328,626	518,855,107.89	227,985,218.92
Total Capital Fund	NPR	564,075,456.00	516,079,300	538,398,185	529,973,154.89	237,947,282.92
Risk Weighted Exposure	NPR	3,750,780,106.78	3,489,607,887	2,763,186,765	1,873,045,795.02	1,526,872,040.37
Earning Per Share (Average share outstanding)	NPR	1.92	2.28	2.41	1.96	3.58
Market Value Per Share	NPR	384.00	160.00	114.00	106.00	317.00
Book Net Worth Per Share	NPR	133.32	308.39	105.81	103.17	150.97
Net Profit Per Share	NPR	63,591.93	(94,590.00)	94,792.53	(97,134.76)	69,063.32
Per Employee Staff Cost	NPR	426,289.87	466,574.48	421,764.30	367,372.96	343,769.78
Number of Promoter Equity Shares	Nos.	2,344,225.00	2,344,725.00	2,344,725.00	2,344,725.00	77,010,000.00
Number of Public Equity Shares	Nos.	2,889,375.00	2,638,375.00	2,683,375.00	2,683,375.00	73,990,000.00
Number of Permanent Staffs	Nos.	141	132	128	107.00	122.00
Number of Branches	Nos.	18	17	17	15.00	13.00
Number of Extension Counters	Nos.	0.00	0.00	0.00	-	-
Number of ATM Machines	Nos.	5.00	5.00	5.00	5.00	5.00
Price Earning Ratio	Times	184.05	(44.84)	47.30	(1.96)	5.58
Dividend (including bonus) on Share Capital	Percent					
Cash Dividend on Share Capital	Percent					
Net Profit / Gross Income	Percent	6.87	(0.05)	3.85	(4.14)	4.48
Net Profit / Loans and Advances	Percent	0.31	(0.00)	0.57	17.71	15.71
Return on Total Assets	Percent	0.18	(0.002)	0.31	(0.32)	0.37
Return on Equity	Percent	1.74	(0.02)	2.28	-1.68	5.48
Interest Income / Loans and Advances	Percent	13.78	15.67	14.88	17.71	15.71
Exchange Gain / Total Income	Percent	0.09	0.00	0.00	-	-
Interest Expenses / Total Deposits and Borrowings	Percent	6.35	7.97	6.88	6.61	4.99
Total Operating Expenses / Total Assets	Percent	2.16	2.40	2.62	2.49	3.17
Staff Expenses / Total Operating Expenses	Percent	53.59	56.11	51.99	48.19	41.19
Staff Bonus / Total Staff Expenses	Percent	2.35	-	2.56	-	4.26
Total Credit / Deposits	Percent	68.05	62.51	62.83	48.77	53.21
Non-Performing Loans / Total Loans	Percent	0.83	0.8352	1.18	3.48	NA
Base Rate	Percent	9.33	12.22	10.52	15.13	NA
Weighted Average Interest Rate Spread	Percent	6.59	7.70	6.43	7.04	10.98
Institutional Deposit/Total Deposit	Percent	14.92	18.32	14.98	15.36	17.37
CRR	Percent	3.56	3.67	6.01	6.07	5.59



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Investment Securities

NOTE 4.8
IN NPR

Investment securities measured at amortized cost	-	-
Investment in equity measured at FVTOCI	-	-
TOTAL	-	-

Investment securities measured at amortized cost

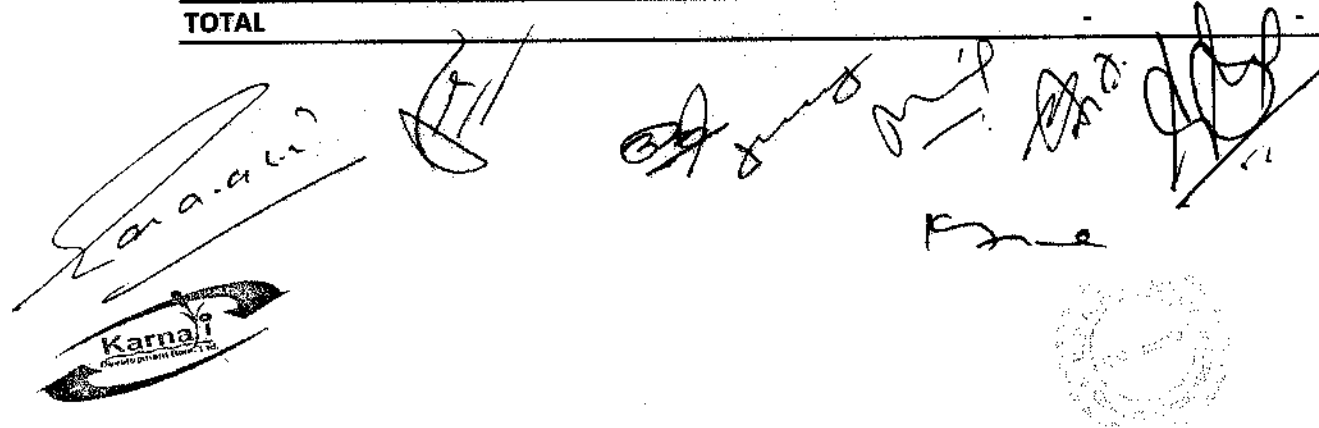
NOTE 4.8.1
IN NPR

Debt securities	-	-
Government bonds	-	-
Government treasury bills	-	-
Nepal Rastra Bank bonds	-	-
Nepal Rastra Bank deposits instruments	-	-
Other	-	-
Total	-	-
Less: specific allowances for impairment	-	-
TOTAL	-	-

Investment in equity measured at fair value through other comprehensive income

NOTE 4.8.2
IN NPR

Equity instruments	-	-
Quoted equity securities	-	-
Unquoted equity securities	-	-
TOTAL	-	-



KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
 For the year ended Ashad 2078

NOTE 4.8.3
IN NPR

Information relating to investment in equities



INVESTMENT IN EQUITY MEASURED AT FVOCI


Investment in quoted equity


Total Of Quoted Share - - - - -


Investment in unquoted equity

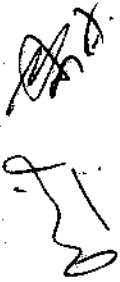
Total Of Unquoted Share - - - - -

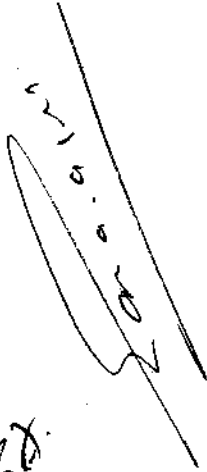
TOTAL - - - - -














KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Current tax assets		NOTE 4.9
		<i>IN NPR</i>
		<i>2077</i>
Current tax assets		
Current Year income tax assets	23,118,716	14,601,150
Tax assets of prior periods		-
Current tax liabilities		
Current year income tax liabilities	138,539	-
Tax liabilities of prior periods		-
TOTAL	22,980,177	14,601,150

Investment in subsidiaries		NOTE 4.10
		<i>IN NPR</i>
		<i>2077</i>
Investment in quoted subsidiaries		
Investment in unquoted subsidiaries		
Total investment		
Less: Impairment allowances		
Net Carrying Amount		

Investment in associates		NOTE 4.11
		<i>IN NPR</i>
		<i>2077</i>
Investment in quoted associates		
Investment in unquoted associates		
Total investment		
Less: Impairment allowances		
Net Carrying Amount		

Investment properties		NOTE 4.12
		<i>IN NPR</i>
		<i>2077</i>
Investment properties measured at fair value		
Balance as on Shrawan 1		
Addition/disposal during the year		
Net changes in fair value during the year		
Adjustment/transfer		
Net Amount		
Investment properties measured at cost		
Balance as on Shrawan 1		
Addition/disposal during the year		
Adjustment/transfer		
Accumulated depreciation		
Accumulated impairment loss		
Net amount		
TOTAL		



KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

NOTE 4.13
/IN NPR

Property and Equipment

Cost									
As on Shrawan 1, 2076	45,785,929	7,112,388	9,314,051	21,446,952	11,597,736	22,529,719	101,712,616		
Addition during the Year	-	-	-	-	-	618,048	27,974,119		
Acquisition	-	1,677,928	1,109,669	811,200	1,164,197	-	-		
Capitalization	-	-	-	(2,030,718)	-	-	(2,030,718)		
Disposal during the year	-	-	-	-	-	-	-		
Adjustment/Revaluation	-	-	-	-	-	-	-		
Balance as on Asar end 2077	45,785,929	8,790,276	10,422,720	20,227,434	12,761,933	23,147,767	127,656,017		
Acquisition	-	1,832,781	1,450,509	785,700	2,352,665	1,977,674	8,399,329		
Capitalization	-	-	-	-	-	-	-		
Disposal during the year	-	-	-	(127,370)	-	-	(127,370)		
Adjustment/Revaluation	-	-	-	-	-	-	-		
Balance as on Asar end 2078	45,785,929	10,623,057	11,873,229	20,885,764	15,114,598	25,125,441	135,927,976		
Depreciation and Impairment									
As on Shrawan 1, 2076	-	459,209	2,814,040	6,403,137	1,939,764	4,854,546	11,062,913		
Depreciation charge for the Year	-	1,375,123	688,205	2,716,536	968,870	1,776,774	7,525,508		
Impairment for the year	-	-	-	(25,663)	-	-	(25,663)		
Disposals	-	-	-	-	-	-	-		
Adjustment	-	-	-	-	-	-	-		
As on Asar end 2077	-	1,834,332	3,502,245	9,094,010	2,908,634	6,631,320	18,562,758		
Impairment for the year	-	-	-	-	-	-	-		
Depreciation charge for the Year	-	382,379	746,072	2,306,277	1,092,761	1,717,536	6,245,025		
Disposals	-	-	-	(14,657)	-	-	(14,657)		
Adjustment	-	-	-	-	-	-	-		
As on Asar end 2078	-	2,216,711	4,248,317	11,385,630	4,001,395	8,348,856	24,793,126		
Capital Work in Progress Net Book Value as on Asar end 2077	-	-	-	-	18,903,709	-	-		
Capital Work in Progress Net Book Value as on Asar end 2078	-	-	-	-	-	-	-		
As on Asar end 2076	45,785,929	6,653,139	6,500,011	15,043,815	9,657,972	17,675,173	101,316,039		
As on Asar end 2077	45,785,929	18,903,709	6,920,475	11,133,424	9,853,299	16,516,447	-		
As on Asar end 2078	45,785,929	24,706,618	7,624,912	9,500,134	11,113,203	16,776,585	-		



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

NOTE 4.14
IN NPR

Goodwill and Intangible Assets



Cost			
As on Shrawan 1, 2076	1,109,303	-	1,109,303
Addition during the Year	-	-	-
Acquisition	-	-	-
Capitalization	-	-	-
Disposal during the year	-	-	-
Adjustment/Revaluation	-	-	-
Balance as on Asar end 2077	1,109,303	-	1,109,303
Addition during the Year	-	-	-
Acquisition	-	-	-
Capitalization	-	-	-
Disposal during the year	-	-	-
Adjustment/Revaluation	-	-	-
Balance as on Asar end 2078	1,109,303	-	1,109,303
Amortization and Impairment			
As on Shrawan 1, 2076	476,978	-	476,978
Amortization charge for the Year	221,861	-	221,861
Impairment for the year	-	-	-
Disposals	-	-	-
Adjustment	-	-	-
As on Asar end 2077	698,839	-	698,839
Amortization charge for the Year	221,861	-	221,861
Impairment for the year	-	-	-
Disposals	-	-	-
Adjustment	-	-	-
As on Asar end 2078	920,700	-	920,700
Capital Work in Progress Net Book Value			
As on Asar end 2076	632,325	-	632,325
As on Asar end 2077	410,464	-	410,464
As on Asar end 2078	188,603	-	188,603



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078


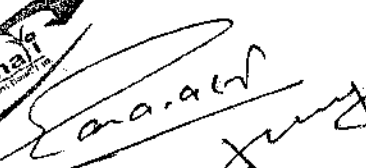
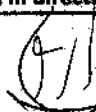

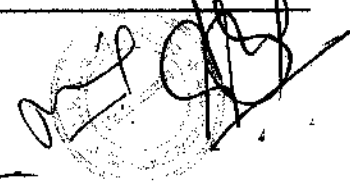
Deferred Tax

NOTE 4.15
IN NPR

Particulars	2078	2077	Deferred Tax Assets/(Liabilities)
Deferred tax on temporary differences on following items			
Loan and Advance to B/FIs	-	-	-
Loans and advances to customers	-	-	-
Interest Receivable on Loans and advances	-	-	-
Investment properties	-	-	-
Investment securities	-	-	-
Property & equipment	-	5,017,078	(5,017,078)
Employees' defined benefit plan	4,600,315	-	4,600,315
Lease liabilities	-	-	-
Provisions	-	-	-
Other temporary differences	530,385	-	530,385
Deferred tax on temporary differences	5,130,700	5,017,078	113,622
Deferred tax on carry forward of unused tax losses	-	-	-
Deferred tax due to changes in tax rate	-	-	-
Net Deferred tax asset/(liabilities) as on year end of 2078			113,622
Deferred tax (asset)/liabilities as on Shrawan 1, 2077			42,085
Origination/(Reversal) during the year			(155,707)
Deferred tax expense/(Income) recognised in profit or loss			(390,405)
Deferred tax expense/(Income) recognised in other comprehensive income			234,698
Deferred tax expense/(Income) recognised in directly in equity			-

IN NPR

Particulars	2077	2076	Deferred Tax Assets/(Liabilities)
Deferred tax on temporary differences on following items			
Loan and Advance to B/FIs	-	-	-
Loans and advances to customers	-	-	-
Interest Receivable on Loans and advances	-	-	-
Investment properties	-	-	-
Investment securities	-	-	-
Property & equipment	-	4,222,176	(4,222,176)
Employees' defined benefit plan	3,649,706	-	3,649,706
Lease liabilities	-	-	-
Provisions	-	-	-
Other temporary differences	530,385	-	530,385
Deferred tax on temporary differences	4,180,091	4,222,176	(42,085)
Deferred tax on carry forward of unused tax losses	-	-	-
Deferred tax due to changes in tax rate	-	-	-
Net Deferred tax asset/(liabilities) as on year end of 2077			(42,085)
Deferred tax (asset)/liabilities as on Shrawan 1, 2076			(9,649,167)
Origination/(Reversal) during the year			9,691,252
Deferred tax expense/(Income) recognised in profit or loss			(1,442,097)
Deferred tax expense/(Income) recognised in other comprehensive income			11,133,349
Deferred tax expense/(Income) recognised in directly in equity			-

KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Other assets

NOTE 4.16
IN NPR



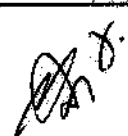

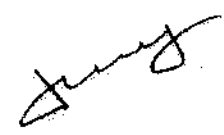

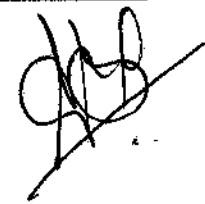
KARNALI DEVELOPMENT BANK LTD. 2077		
Assets held for sale	-	-
Other non banking assets	-	-
Bills receivable	-	-
Accounts receivable	20,597,720	27,697,864
Accrued income	-	-
Prepayments and deposit	795,445	1,297,244
Income tax deposit	-	-
Deferred employee expenditure	29,576,007	33,886,926
Other	5,060,129	5,816,065
TOTAL	56,029,301	68,698,099


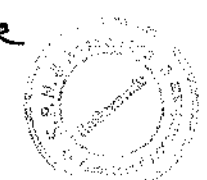
Due to Bank and Financial Institutions

KARNALI DEVELOPMENT BANK LTD. 2077		
Money market deposits	-	-
Interbank borrowing	-	-
Other deposits from BFIs	-	-
Settlement and clearing accounts	-	-
Other deposits from BFIs	-	-
TOTAL	-	-

Due to Nepal Rastra Bank

KARNALI DEVELOPMENT BANK LTD. 2077		
Refinance from Nepal Rastra Bank	-	-
Standing Liquidity Facility	-	-
Lender of last report facility from NRB	-	-
Securities sold under repurchase agreements	-	-
Other payable to NRB	-	-
TOTAL	-	-

KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Derivative financial instruments

NOTE 4.19
IN NPR

For the year ended Ashad 2078	
Held for trading	
Interest rate swap	-
Currency swap	-
Forward exchange contract	-
Others	-
Held for risk management	
Interest rate swap	-
Currency swap	-
Forward exchange contract	-
Other	-
TOTAL	-

Deposits from customers

NOTE 4.20
IN NPR

For the year ended Ashad 2078	
Institutions customers:	
Term deposits	367,400,000
Call deposits	693,171,987
Current deposits	126,438,989
Other	-
Individual customers:	
Term deposits	1,466,001,712
Call deposits	1,990,832,231
Current deposits	-
Other	1,031,501
TOTAL	4,644,876,420

Currency wise analysis of deposit from customers

NOTE 4.20.1
IN NPR

For the year ended Ashad 2078	
Nepalese rupee	4,644,876,420
Indian rupee	-
United State dollar	-
Great Britain pound	-
Euro	-
Japanese yen	-
Chinese yuan	-
Other	-
TOTAL	4,644,876,420



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Borrowing

NOTE 4.21
IN NPR

For the year ended Ashad 2078	
Domestic Borrowing	
Nepal Government	-
Other Institutions	-
Other	-
Sub total	-
Foreign Borrowing	
Foreign Bank and Financial Institutions	-
Multilateral Development Banks	-
Other Institutions	-
Sub total	-
TOTAL	-

Provisions


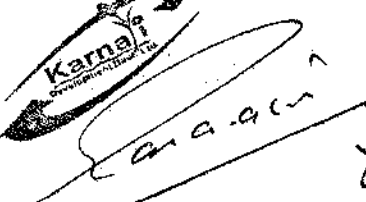
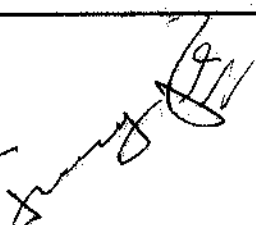
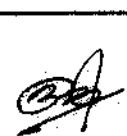
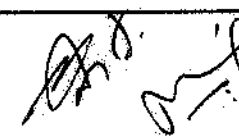
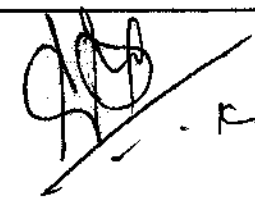

NOTE 4.22
IN NPR

For the year ended Ashad 2078	
Provisions for redundancy	-
Provision for restructuring	-
Pending legal issues and tax litigation	-
Onerous contracts	-
Other	-
TOTAL	-

Provisions

NOTE 4.22.1
IN NPR

For the year ended Ashad 2078	
Balance at Shrawan 1	-
Provisions made during the year	-
Provisions used during the year	-
Provisions reversed during the year	-
Unwind of discount	-
TOTAL	-

KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Other liabilities

NOTE 4.23

IN NPR

	ASHAD END 2078	ASHAD END 2077
Liability for employees defined benefit obligations	12,162,334	9,717,284
Liability for long-service leave	3,172,050	2,448,404
Short-term employee benefits	-	-
Bills payable	-	-
Creditors and accruals	10,931,941	15,342,785
Interest payable on deposit	2,823,349	1,780,262
Interest payable on borrowing	-	-
Liabilities on deferred grant income	-	-
Unpaid Dividend	-	-
Liabilities under Finance Lease	-	-
Employee bonus payable	175,126	1,384,189
Other	3,016,614	1,099,064
TOTAL	32,281,414	31,771,988

Defined benefit obligations

NOTE 4.23.1

The amounts recognised in the statement of financial position are as follows:

IN NPR

	ASHAD END 2078	ASHAD END 2077
Present value of unfunded obligations	-	-
Present value of funded obligations	12,162,334	9,717,284
Total present value of obligations	12,162,334	9,717,284
Fair value of plan assets	-	-
Present value of net obligations	12,162,334	9,717,284
Recognised liability for defined benefit obligations	12,162,334	9,717,284

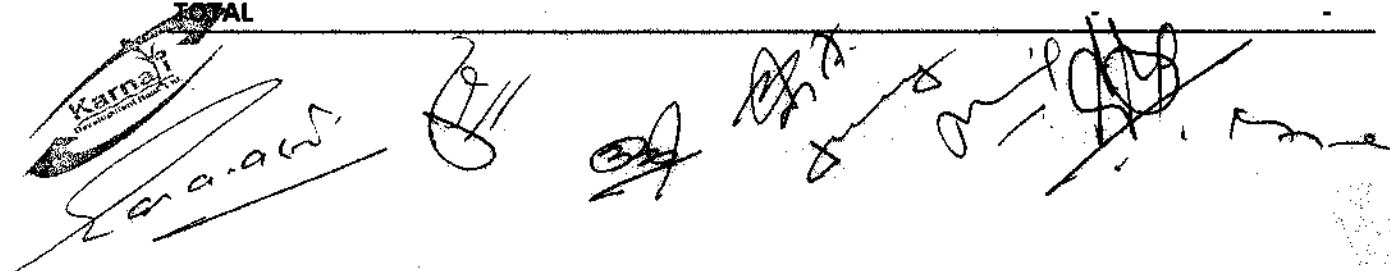
Plan assets

NOTE 4.23.2

Plan assets comprise

IN NPR

	ASHAD END 2078	ASHAD END 2077
Equity securities	-	-
Government bonds	-	-
Bank deposit	-	-
Other	-	-
TOTAL	-	-



KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Movement in the present value of defined benefit obligations

NOTE 4.23.3

IN NPR

	ASHAD END 2077	ASHAD END 2078
Defined benefit obligations at Shrawan 1	9,717,284	39,099,771
Actuarial losses	(782,328)	(37,111,164)
Benefits paid by the plan	-	(435,536)
Current service costs and interest	3,227,378	8,164,213
Defined benefit obligations at Ashad end	12,162,334	9,717,284

Movement in the fair value of plan assets

NOTE 4.23.4

IN NPR

	ASHAD END 2077	ASHAD END 2078
Fair value of plan assets at Shrawan 1	-	-
Contributions paid into the plan	-	-
Benefits paid during the year	-	-
Actuarial (losses) gains	-	-
Expected return on plan assets	-	-
Fair value of plan assets at Asar end	-	-

Amount recognised in profit or loss

NOTE 4.23.5

IN NPR

	ASHAD END 2077	ASHAD END 2078
Current service costs	2,352,822	5,636,883
Interest on obligation	874,556	2,527,330
Expected return on plan assets	-	-
TOTAL	3,227,378	8,164,213

Amount recognised in other comprehensive income

NOTE 4.23.6

IN NPR

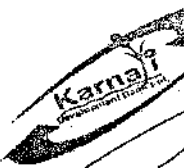
	ASHAD END 2077	ASHAD END 2078
Actuarial (gain)/loss	(782,328)	(37,111,164)
TOTAL	(782,328)	(37,111,164)

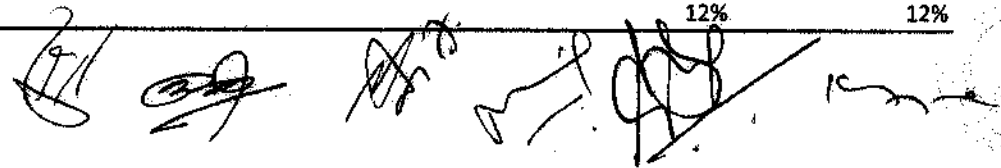
Actuarial assumptions

NOTE 4.23.7

IN NPR

	ASHAD END 2077	ASHAD END 2078
Discount rate	9%	9%
Expected return on plan asset	-	-
Future salary increase	5%	5%
Withdrawal rate	12%	12%


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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
 For the year ended Ashad 2078

Debt securities issued

NOTE 4.24
 IN NPR

Debt securities issued designated as at fair value through profit or loss	-
Debt securities issued at amortised cost	-
TOTAL	-



Subordinated Liabilities

NOTE 4.25
 IN NPR

Redeemable preference shares	-
Irredeemable cumulative preference shares	-
Other	-
TOTAL	-

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KARNALI DEVELOPMENT BANK LTD.

NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Share capital

	ASHAD END 2078	ASHAD END 2077	ASHAD END 2076	NOTE 4.26 IN NPR RESTATED ASHAD END 2075
Ordinary shares	502,830,000	502,830,000	502,830,000	502,830,000
Convertible preference shares (equity component)				
Irredeemable preference shares (equity component)				
Perpetual debt (equity component only)				
TOTAL	502,830,000	502,830,000	502,830,000	502,830,000

Ordinary shares

	ASHAD END 2078	ASHAD END 2077	ASHAD END 2076	NOTE 4.26.1 IN NPR RESTATED ASHAD END 2075
Authorized capital				
6,000,000 Ordinary share of Rs. 100 each	600,000,000	600,000,000	600,000,000	600,000,000
(2075-76: 6,000,000 Ordinary share of Rs. 100 each)				
(2074-75: 6000,000 Ordinary share of Rs. 100 each)				
Issued capital				
5,028,300 Ordinary share of Rs. 100 each	502,830,000	502,830,000	502,830,000	502,830,000
(2075-76: 5,028,300 Ordinary share of Rs. 100 each)				
(2074-75: 5,028,300 Ordinary share of Rs. 100 each)				
Subscribed and paid up capital				
5,028,300 Ordinary share of Rs. 100 each	502,830,000	502,830,000	502,830,000	502,830,000
(2075-76: 5,028,300 Ordinary share of Rs. 100 each)				
(2074-75: 1,510,000 Ordinary share of Rs. 100 each)				
TOTAL				

Ordinary share ownership

	ASHAD END 2078		ASHAD END 2077		RESTATED ASHAD END 2076		RESTATED ASHAD END 2075	
	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
Domestic ownership	100.00%	502,830,000	100.00%	823,397,859	100.00%	823,397,859	100.00%	735,363,350
Nepal Government								
"A" class licensed Institutions								
Other licensed institutions								
Other Institutions								
Public	48.76%	245,179,908	48.76%	401,488,796	48.76%	401,488,796	50.19%	369,097,870
Other	51.24%	257,650,092	51.24%	421,909,063	51.24%	421,909,063	49.81%	366,265,480
Foreign ownership								
TOTAL	100.00%	502,830,000		823,397,859	100.00%	823,397,859	100.00%	735,363,350

Reconciliation of number of shares outstanding

	ASHAD END 2078	ASHAD END 2077	ASHAD END 2076	RESTATED ASHAD END 2075
At the beginning of the year				
Add: ordinary shares issued as bonus shares during the year	502,830,000	502,830,000	502,830,000	208,131,000
Add: ordinary shares issued as right shares during the year				299,699,000
At the end of the year	502,830,000	502,830,000	502,830,000	502,830,000

Detail of shareholding under public and promoters group as on Asadh End, 2078

Shareholder's Group	Holding Percentage
Promoter Group	51%
Public Group	49%

List of Shareholder Holding 0.5% or More Shares as on Asadh End, 2078

Ordinary share ownership	Percentage	Share capital
RAJENDRA BIR RAYA	14.98%	75,340,400
SUNALU INVESTMENT pvt ltd	14.98%	75,321,100
TARA GURUNG	8.86%	44,560,500
PASHUPATI DAYAL MISHRA	1.63%	8,196,400
MOHD. IRFAN	1.41%	7,080,000
IMARAN RAI	0.50%	2,492,700
KAMALA BK	0.50%	2,492,700
MOHAMMAD KAMRAN RAI	0.50%	2,492,700



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Reserves	NOTE 4.27 IN NPR	
Statutory general reserve	17,613,198	17,247,599
Exchange equalisation reserve	-	-
Corporate social responsibility reserve	-	121,334
Capital redemption reserve	-	-
Regulatory reserve	21,972,803	33,177,433
Investment adjustment reserve	-	-
Capital reserve	-	-
Assets revaluation reserve	-	-
Fair value reserve	-	-
Dividend equalisation reserve	-	-
Debenture redemption reserve	-	-
Actuarial gain	17,825,286	17,277,656
Special reserve	-	-
Other reserve	478,460	478,460
TOTAL	57,889,747	68,302,482

Statutory general reserve

There is a statutory requirement of Bank and Financial Institution Act, 2073 which required to set aside 20% to general reserve to build up capital until the balance of the reserve is twice of the paid-up share capital. This and cannot be utilised for distribution of profit.

Bank has apportioned NPR 365,599 to general reserve during the year.

Corporate Social Responsibility Reserve

Corporate Social Responsibility Reserve has been created as per the circular issued by Nepal Rastra Bank, which 1% of net profit for the year to this reserve.

Regulatory reserve

Regulatory reserve has been created as per the directive issued by Nepal Rastra Bank and is not available for (cash as well as bonus shares). The amount that is allocated from profit or retained earnings for the purpose of which includes impact of interest receivable, short loan loss provision on Non Banking Assets, deferred tax as

During the year NPR 18,772,591 transferred from regulatory reserve to retained earnings (distributable profit)

Opening Balance	(33,177,433)	(32,004,056)
Regulatory adjustment :		
a. Interest receivable (-)/previous accrued interest received (+)	11,318,252	(19,522,703)
b. Short loan loss provision in accounts (-)/reversal (+)	-	-
c. Short provision for possible losses on investment (-)/reversal (+)	-	-
d. Short loan loss provision on Non-Banking Assets (-)/reversal (+)	-	-
e. Deferred tax assets recognised (-)/ reversal (+)	(113,622)	9,649,167
f. Goodwill recognised (-)/ impairment of Goodwill (+)	-	-
g. Bargain purchase gain recognised (-)/reversal (+)	-	-
h. Actuarial loss recognised (-)/reversal (+)	-	8,700,159
i. Other (+/-)	-	-
TOTAL	(21,972,803)	(33,177,433)

*As of Asadh end 2078 Regulatory Reserve pertains to Interest Receivable and Deferred Tax Assets of NPR 21.

Actuarial gain / (loss)

Actuarial gain or loss that represents change in actuarial assumptions used to determine the value employee obligations.

During the year, the bank has transferred Rs. 547,630 to this reserve.

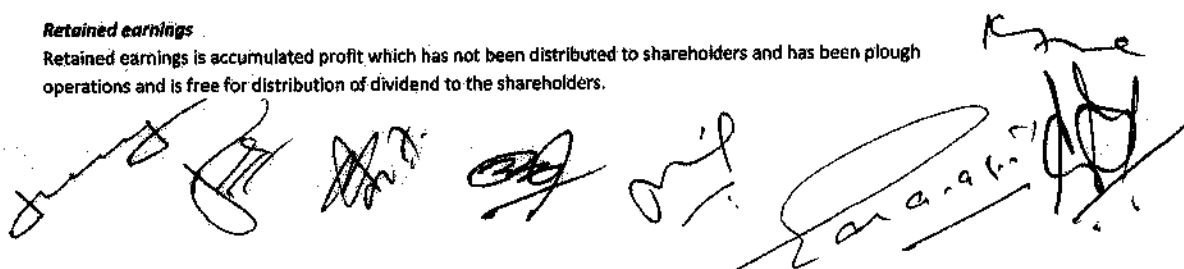
Other reserve

Other reserve represents staff training fund only. There is no movement in this fund during the year.

Retained earnings

Retained earnings is accumulated profit which has not been distributed to shareholders and has been plough operations and is free for distribution of dividend to the shareholders.





KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Contingent liabilities and commitments

NOTE 4.28

IN NPR

	ASHAD END 2078	ASHAD END 2077
Contingent liabilities	-	-
Undrawn and undisbursed facilities	85,914,004	69,242,969
Capital commitment	-	-
Lease Commitment	-	-
Litigation	-	-
TOTAL	85,914,004	69,242,969

Contingent liabilities

NOTE 4.28.1

IN NPR

	ASHAD END 2078	ASHAD END 2077
Acceptance and documentary credit	-	-
Bills for collection	-	-
Forward exchange contracts	-	-
Guarantees	-	-
Underwriting commitment	-	-
Other commitments	-	-
TOTAL	-	-

Undrawn and undisbursed facilities

NOTE 4.28.2

IN NPR

	ASHAD END 2078	ASHAD END 2077
Undisbursed amount of loans	-	-
Undrawn limits of overdrafts	85,914,004	69,242,969
Undrawn limits of credit cards	-	-
Undrawn limits of letter of credit	-	-
Undrawn limits of guarantee	-	-
TOTAL	85,914,004	69,242,969

Capital commitments

NOTE 4.28.3

Capital expenditure approved by relevant authority of the bank but provision has not been made in financial statements.

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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Interest income

NOTE 4.29

IN NPR

	2077/78	2078/79
Cash and cash equivalent	4,508,626	6,991,569
Due from Nepal Rastra Bank	-	-
Placement with bank and financial institutions	-	-
Loan and advances to bank and financial institutions	-	-
Loans and advances to customers	411,820,110	373,881,211
Investment securities	-	-
Loan and advances to staff	6,952,090	8,105,285
Other	-	-
Total interest income	423,280,826	388,978,065

Interest expense

NOTE 4.30

IN NPR

	2077/78	2078/79
Due to bank and financial institutions	-	-
Due to Nepal Rastra Bank	-	-
Deposits from customers	294,875,620	317,957,301
Borrowing	-	-
Debt securities issued	-	-
Subordinated liabilities	-	-
Other	-	-
Total interest expense	294,875,620	317,957,301

Fees and Commission Income

NOTE 4.31

IN NPR

	2077/78	2078/79
Loan administration fees	20,564,234	21,556,208
Service fees	178,068	139,818
Consortium fees	-	-
Commitment fees	-	-
DD/TT/Swift fees	-	-
Credit card/ATM issuance and renewal fees	742,952	1,276,804
Prepayment and swap fees	710,075	430,258
Investment banking fees	-	-
Asset management fees	-	-
Brokerage fees	-	-
Remittance fees	2,471,763	2,479,369
Commission on letter of credit	-	-
Commission on guarantee contracts issued	1,400	-
Commission on share underwriting/issue	-	-
Locker rental	-	-
Other fees and commission income	3,907,958	3,718,670
Total fees and commission income	28,576,450	29,601,127



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Fees and commission expense

NOTE 4.32
IN NPR

FOR THE YEAR ENDED 30/06/2077		
	2077	2076
ATM management fees	2,475,870	-
VISA/Master card fees	-	-
Guarantee commission	-	-
Brokerage	-	-
DD/TT/Swift fees	-	-
Remittance fees and commission	-	-
Other fees and commission expense	2,527,620	-
Total fees and commission expense	5,003,491	-

Net trading income

NOTE 4.33
IN NPR

FOR THE YEAR ENDED 30/06/2077		
	2077	2076
Changes in fair value of trading assets	-	-
Gain/loss on disposal of trading assets	-	-
Interest income on trading assets	-	-
Dividend income on trading assets	-	-
Gain/loss foreign exchange transaction	-	-
Other	-	-
Net trading income	-	-

Other operating income

NOTE 4.34
IN NPR

FOR THE YEAR ENDED 30/06/2077		
	2077	2076
Foreign exchange revaluation gain	-	-
Gain/loss on sale of investment securities	-	-
Fair value gain/loss on investment properties	-	-
Dividend on equity instruments	-	-
Gain/loss on sale of property and equipment	49,787	164,945
Gain/loss on sale of investment property	-	-
Operating lease income	-	-
Gain/loss on sale of gold and silver	-	-
Locker rent	-	-
Other	-	-
TOTAL	49,787	164,945



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Impairment charge/(reversal) for loan and other losses

NOTE 4.35

IN NPR

	2077/78	2078/79
Impairment charge/(reversal) on loan and advances to B/FIs	-	-
Impairment charge/(reversal) on loan and advances to customer	33,202,347	3,677,699
Impairment charge/(reversal) on financial Investment	-	-
Impairment charge/(reversal) on placement with banks and financial institutions	-	-
Impairment charge/(reversal) on property and equipment	-	-
Impairment charge/(reversal) on goodwill and intangible assets	-	-
Impairment charge/(reversal) on investment properties	-	-
TOTAL	33,202,347	3,677,699

Personnel Expense

NOTE 4.36

IN NPR

	2077/78	2078/79
Salary	42,116,222	41,027,509
Allowances	5,504,105	5,183,745
Gratuity expense	3,227,378	8,164,213
Provident fund	1,790,809	1,469,024
Uniform	761,500	686,000
Training & development expense	-	531,054
Leave encashment	1,672,998	329,678
Medical	1,921,506	1,159,500
Insurance	223,060	-
Employees incentive	-	-
Cash-settled share-based payments	-	-
Pension expense	-	-
Finance expense under NFRS	1,859,575	2,938,505
Other expenses related to staff	-	98,602
Sub total	59,077,152	61,587,831
Employees bonus	175,126	-
GRAND TOTAL	59,252,278	61,587,831



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Other operating expense **NOTE 4.37**
IN NPR

Directors' fee	342,000	303,000
Directors' expense	116,542	86,257
Auditors' remuneration	428,600	226,000
Other audit related expense	426,999	697,965
Professional and legal expense	460,808	1,055,753
Office administration expense	36,792,709	31,671,593
Operating lease expense	7,208,505	6,269,102
Operating expense of investment properties	-	-
Corporate social responsibility expense	143,321	121,020
Onerous lease provisions	-	-
Other	-	-
TOTAL	45,919,483	40,430,690

Office Administrative Expenses **NOTE 4.37.1**
IN NPR

Water & Electricity	1,744,533	1,578,999
Repair & Maintenance	2,501,608	2,295,484
a) Building	47,653	-
b) Vehicle	476,243	620,283
c) Computer & Accessories	1,398,738	856,788
d) Office Equipment & Furniture	548,628	818,413
e) Other	30,345	-
Insurance	3,637,817	3,299,242
Postage, telex, telephone, fax	1,175,167	1,387,536
Printing & Stationary	5,144,529	2,392,708
Newspaper, books and Journals	30,200	35,030
Advertisement	1,224,603	447,503
Donation	-	22,000
Security expenses	12,119,974	10,928,708
Deposite & loan guarantee premium	-	-
Travel Allowance and Expenses	2,219,685	1,790,650
Entertainment	953,387	791,168
Annual/Special general meeting Expenses	241,180	884,903
Others	5,800,026	5,817,663
TOTAL	36,792,709	31,671,593

Depreciation & Amortization **NOTE 4.38**
IN NPR

Depreciation on property and equipment	6,245,025	7,525,508
Depreciation on investment property	-	-
Amortization of intangible assets	221,861	221,861
TOTAL	6,466,886	7,747,369

Non operating income **NOTE 4.39**
IN NPR

Recovery of loan written off	-	-
Other income	-	-
TOTAL	-	-



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the year ended Ashad 2078

Non operating expense

NOTE 4.40
IN NPR

	ASHAD END 2078	ASHAD END 2077
Loan written off	-	-
Redundancy provision	-	-
Expense of restructuring	-	-
Other expense	5,610,829	-
TOTAL	5,610,829	-

Income tax expense


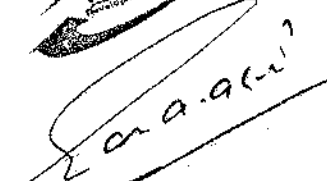
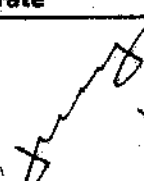


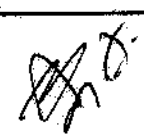
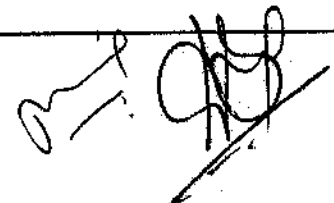

NOTE 4.41
IN NPR

	ASHAD END 2078	ASHAD END 2077
Current tax expense		
Current year	138,539	(2,407,954)
Adjustment for previous years	-	-
Deferred tax expense		
Origination and reversal of temporary differences	(390,405)	(1,442,097)
Changes in tax rate	-	-
Recognition of previously unrecognised tax losses	-	-
Total income tax expense	(251,866)	(3,850,051)

Reconciliation of tax expense and accounting profit

NOTE 4.41.1
IN NPR

	ASHAD END 2078	ASHAD END 2077
Profit before tax	1,576,130	(12,656,754)
Tax amount at tax rate of 30%	472,839	(3,797,026)
Add: Tax effect of expense that are not deductible for tax purpose	1,683,249	6,600
Less: Tax effect on exempt income	-	-
Add/Less: Tax effect on other items	-	-
Less: Loss of Previous Year Carried Forward	(2,407,954)	(59,625.00)
Total income tax expense	(251,866)	(3,850,051)
Effective tax rate		

Financial Indicator For Five Years

Institution Name: Karnal Bikash Bank Ltd

Statement of Principal Indicators institution wise

Indicators	Unit	FINANCIAL YEARS				
		2077/78	2076/77	2075/76	2074/75	2073/74
Adequacy of Capital Fund on Risk Weighted Assets		Amount	Amount	Amount	Amount	Amount
Core Capital	NPR	506,497,260	493,915,848	517,318,636	518,855,108	227,865,211
Total Capital Fund	NPR	548,739,157	518,079,870	538,330,185	529,973,155	237,947,233
Core Capital	Percent	0	0	0	0	0
Total Capital Fund	Percent	0	0	0	0	0
Risk Weighted Exposure	NPR	3,737,707,963	3,409,607,897	2,763,186,769	1,873,045,795	1,526,872,040
Earning Per Share (Average share outstanding)	NPR	0	(2)	2	(2)	6
Market Value Per Share	NPR	354	100	114	106	317
Book Net Worth Per Share	NPR	109	108	106	103	151
Net Profit Per Staff	NPR	12,965	(84,960)	94,793	(92,135)	69,061
Per Employee Staff Cost	NPR	420,229	466,574	421,784	367,373	343,770
Number of Promotor Equity Shares	Nos.	2,344,725	2,344,725	2,344,725	2,344,725	77,010,000
Number of Public Equity Shares	Nos.	2,683,575	2,683,575	2,683,575	2,683,575	73,990,000
Number of Permanent Staffs	Nos.	141	132	128	107.00	122.00
Number of Branches	Nos.	18	17	17	15.00	13.00
Number of Extension Counters	Nos.	0.00	0.00	0.00	-	-
Number of ATM Machines	Nos.	5.00	5.00	5.00	5.00	5.00
Price Earning Ratio	Times	973.75	(44.84)	47.30	(1.96)	5.58
Dividend (including bonus) on Share Capital	Percent					
Cash Dividend on Share Capital	Percent					
Net Profit / Gross Income	Percent	1.42	(0.03)	3.85	(4.14)	4.48
Net Profit / Loans and Advances	Percent	0.06	(0.00)	0.57	17.71	15.71
Return on Total Assets	Percent	0.03	(0.002)	0.31	(0.32)	0.37
Return on Equity	Percent	0.33	(0.02)	2.28	-1.68	5.48
Interest Income / Loans and Advances	Percent	13.44	15.67	14.88	17.71	15.71
Exchange Gain / Total Income	Percent	0.00	0.00	0.00	-	-
Interest Expenses / Total Deposits and Borrowings	Percent	6.35	7.97	6.88	6.61	4.99
Total Operating Expenses / Total Assets	Percent	2.14	2.40	2.62	2.49	3.17
Staff Expenses / Total Operating Expenses	Percent	53.08	56.11	51.99	48.19	41.19
Staff Bonus / Total Staff Expenses	Percent	0.30	-	2.56	-	4.26
Total Credit / Deposits	Percent	67.78	62.51	62.83	48.77	53.21
Non-Performing Loans / Total Loans	Percent	0.83	0.8352	1.18	3.48	
Base Rate	Percent	9.33	12.22	10.52	15.13	NA
Weighted Average Interest Rate Spread	Percent	6.59	7.70	6.43	7.04	10.98
Institutional Deposit/Total Deposit	Percent	14.92				
CRR	Percent	3.56	3.67	6.01	6.07	

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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Year ended Ashad 31, 2078 (July 15, 2021)

Note 5 – Disclosure and additional information

Note 5.1 – Risk Management

Board Level Risk Committee

The Board is the one who set policy, strategy and objectives, and oversee the executive function. It sets risk appetite and ensures that it is reflected in business strategy and cascaded throughout the organization.

The Company has a Risk Management Committee (RMC) comprising of 2 members of the board and 3 members from the management. RMC assists the board in setting risk strategy policies, including risk tolerance and appetite levels, as stipulated by Nepal Rastra Bank for effective risk management. It frames risk management policies for credit risk, market risk and operational risk including risk integration, implementation of best risk management practices and setting up various risk limits. The Committee receives reports from management and after discussion and deliberations reaches in a conclusion that existing action taken by the management are appropriate or elevate the situations to the Board where further action is required with its recommendation.

Risk Governance

The risk management framework consists of board set of risk appetite, clear organization setup, well defined roles, well developed tools and processes and well defined policy on each risk areas.

Risk management framework is supervised by Risk Management Committee (RMC), and supported by functional committee, namely, Asset and Liability Management Committee (ALCO). The finance company has separate risk management department for managing, mitigating and controlling different risks which acts as second line of defense whereas all business functions lies as first line of defense and internal audit function and audit committee as third line of defense. Further, the financial institution has different policies which directs/supplements the risk management framework. The finance company has Board approved operational instructions, book of instructions and clear role definition for each unit which makes the process simple and robust. The finance company has also set tolerance limits on different parameters above the regulatory requirement maintaining extra caution level in managing these risks.

Credit Risk

Credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. For measurement of credit risk, the company has adopted Simplified Standardized Approach (SSA) and for management of credit risk, has formulated various policies, procedure and internal guideline that is approved by the Board. The financial institution has a clear guiding document related to loaning power approved by the Board.

The credit risk department reviews all types of loan. Assessment ground for sanctioning of new loan, renewal of loan or enhancement of existing loan is defined in Credit Policy Guidelines and individual loan product paper. A separate vertical credit administration department in head office and branches are administrating loan related documents, examining loan repayment, record keeping of loan files and related security documents.

All revolving loans are reviewed/renewed annually. For overdraft loan facilities, stock verification is done quarterly. Credit administration department performs the recovery of loan.

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KARNALI DEVELOPMENT BANK LTD.
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Operational Risk

Operational risk is a risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risks. For management of operational risk, the company has policies in place, three line of defense in practice, risk identification, defined assessment and monitoring tools, risk control and mitigation tools. Formal channel is defined whereby various policies, procedure and internal guidelines are approved by Board in recommendation of Risk Management Committee (RMC).

The company has effective internal control system and information system for managing operational risk.

Risk events of the financial institution are compiled, and related function is instructed to take corrective measures wherever necessary. Such risk events are presented in RMC.

Market Risk

Market risk refers to the risk resulting from movements in market prices, in particular, changes in liquidity, interest rates, and equity prices. For measurement of market risk, the company has adopted net open position approach and for management of the market risk guidance, policies such as assets and liabilities management policy, investment policy and procedure are in place.

The company assesses interest rate risk, and equity price risk at a regular interval as per NRB guidelines and the internal policy in managing market risk and reporting to RMC and the Board.

Liquidity Risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial instruments as they fall due.

The company has been maintaining cash reserve ratio, statutory liquidity ratio, net liquidity ratio and credit to core capital and deposit ratios within the limit as prescribed by NRB and are being monitored on continuous basis. Further, maturity wise structural liquidity table are being prepared as per the regulatory guidelines on monthly basis and reported to the Board on quarterly basis.

Internal Control

Internal control system i.e. internal audit and compliance department has been reinforcing on the effective implementation of laid down policies and procedure. Regular financial activities are being closely monitored through internal control mechanism. The company has an appropriate control structure with well-defined control activities at every business level. Duties of officials and staff members are well defined at all level to avoid conflicting responsibilities. Members of the Board of Directors and management employees are required to pledge an oath for the Code of Ethics as per Staff Service Regulations. These laid down system are being monitored and reviewed periodically to identify the areas of potential conflicts of interest to minimize operational risk. Information system of the financial institution is upgraded continuously to cover activities of the company. Internal audit independently evaluates the adequacy and compliance of established guidelines for internal control system.

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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
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Note 5.2 – Capital Management

1. Qualitative disclosures

The Financial institution has developed its own internal policy and procedures and structures to manage credit, market and liquidity risk. For the purpose, the financial institution has regularly submitted report to NRB as per Internal Capital Adequacy Process (ICAAP), which acts as a guide for reporting the ongoing assessment of the bank's risks, how the financial institution intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

2. Quantitative disclosures

The Bank manages its capital to meet regulatory norms and current and future business needs considering the risks in its business. The board of directors on the frequent interval monitor the capital adequacy position and the risk weighted assets and take a necessary step as appropriate. The Bank capital comprise of the fully paid equity shares, statutory reserves, and other reserves. Up to the reporting period the Bank has not raised the capital through the hybrid capital instrument.

i. Capital structure and capital adequacy

(A) Tier 1 Capital and a breakdown of its components

	Current Period	Previous Period
Core Capital (Tier 1)	506,497,260	493,915,848
A Paid up Equity Share Capital	502,830,000	502,830,000
B Unpaid amount on non-voting shares and preference shares	-	-
C Share Premium	-	458,926
D Proposed Bonus Equity Shares	-	-
E Statutory General Reserves	17,613,198	17,247,599
F Retained Earnings	(13,842,316)	(26,620,677)
G Un-audited current year cumulative profit/(loss)	-	-
H Capital Redemption Reserve	-	-
I Capital Adjustment Reserve	-	-
J Dividend Equalization Reserve	-	-
K Other Free Reserve	-	-
L Less: Goodwill	-	-
M Less: Deferred Tax Assets	113,622	-
N Less: Fictitious Assets	-	-
O Less: Investment in equity in licensed Financial Institutions	-	-
P Less: Investment in equity of institutions with financial interest	-	-
Q Less: Investment in equity of institutions in excess of limits	-	-
R Less: Investments in equity of unlicensed financial institutions	-	-
S Less: Reciprocal crossholdings	-	-
T Less: Purchase of land or building in excess of limit and provisioned	-	-
U Less: Other Deductions	-	-
Adjustments under Tier 1	-	-
SRP 6.4a(1) Less: Shortfall in Provision	-	-
SRP 6.4a(2) Less: Capital in excess of regulatory requirement by other parties and restricted equity	-	-

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KARNALI DEVELOPMENT BANK LTD.
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(B) Tier 2 Capital and breakdown of its components 42,241,897 24,164,022

A	Cumulative and/or Non-cumulative Preference Share		
B	Subordinated Term Debt		
C	Hybrid Capital Instruments		
D	General loan loss provision	42,241,897	24,164,022
E	Exchange Equalization Reserve		
F	Investment Adjustment Reserve		
G	Asset Revaluation Reserve		
H	Other Reserves		

(C) Deduction From Capital

Nil

(D) Total Qualifying Capital	548,739,157	518,079,870
A Tier 1 Capital	506,497,260	493,915,848
B Tier 2 Capital	42,241,897	24,164,022
C Risk Exposures	3,737,707,963	3,409,607,897

(E) CAPITAL ADEQUACY RATIOS

	Current Period	Previous Period
Tier 1 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	13.55	14.49
Tier 1 and Tier 2 Capital to Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)	14.68	15.19

(F) Summary of the bank's internal approach to assess the adequacy of its capital to support current and future activities, if applicable

The bank assesses the adequacy of capital on a regular basis taking into consideration of the present total risk exposure and expected future increase in this respect. The current paid up capital of the bank stands at NPR 502,830,000/

(G) Summary of the terms and conditions and main features of all capital instruments specially in case of subordinated term debts including hybrid capital instruments

There is no subordinated term debts and hybrid capital instruments of the bank

1. 1 RISK WEIGHTED EXPOSURES

	Current Period	Previous Period
A Risk Weighted Exposure for Credit Risk	3,718,029,793	3,017,009,897
B Risk Weighted Exposure for Operational Risk	18,678,171	392,598,000
C Risk Weighted Exposure for Market Risk		
Total Risk Weighted Exposures (Before adjustments of Pillar II)	3,737,707,963	3,409,607,897
Adjustments under Pillar II		
SRP 6.4a (5) ALM policies & practices are not satisfactory, add 1% of net interest income to RWE		
SRP 6.4a (6) Add 1% of the total amount due to insufficient liquid assets		

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KARNALI DEVELOPMENT BANK LTD.
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SRP 6.4a (7)	Add RWE equivalent to reciprocal of capital charge of 2-5% of gross income		
SRP 6.4a (9)	If overall risk management policies and procedures are not satisfactory, Add% of RWE		
SRP 6.4a (10)	If desired level of disclosure requirement has not been achieved, Add% of RWE		
Total Risk Weighted Exposures (After Bank's adjustments of Pillar II)		3,737,707,963	3,409,607,897

ii. Risk Exposures

Karnali Development Bank Limited
Risk Weighted Exposure for Credit Risk
At the month end of Ashadh, 2078

A. Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
	a	b	c	d=a-b-c	e	f=d*e
Cash Balance	181,202,752			181,202,752	0%	-
Balance with Nepal Rastra Bank	163,510,857			163,510,857	0%	-
Gold					0%	-
Investment in Nepalese Government Securities					0%	-
All Claims on Government of Nepal					0%	-
Investment in Nepal Rastra Bank securities					0%	-
All claims on Nepal Rastra Bank					0%	-
Claims on Foreign Government and Central Bank (ECA-0)					0%	-
Claims on Foreign Government and Central Bank (ECA -2)					20%	-
Claims on Foreign Government and Central Bank (ECA -3)					50%	-
Claims on Foreign Government and Central Bank (ECA-4-6)					100%	-
Claims on Foreign Government and Central Bank (ECA -7)					150%	-
Claims On BIS, IMF, ECB, EC and MDB's recognized by the framework					0%	-
Claims on Other Multilateral Development Banks					100%	-
Claims on Domestic Public Sector Entities					100%	-
Claims on Public Sector Entity (ECA-0-1)					20%	-
Claims on Public Sector Entity (ECA 2)					50%	-
Claims on Public Sector Entity (ECA-3-6)					100%	-
Claims on Public Sector Entity (ECA 7)					150%	-
Claims on domestic banks that do not meet capital adequacy requirements					20%	305,126,503
Claims on domestic banks that do not meet capital adequacy requirements					100%	-
Claims on foreign bank (ECA Rating 0-1)					20%	-
Claims on foreign bank (ECA Rating 2)					50%	-


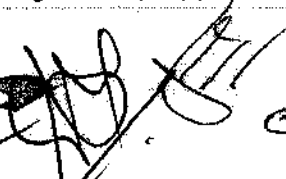
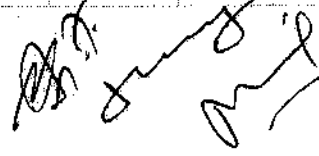
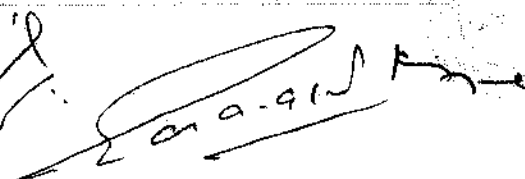


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NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Year ended Ashad 31, 2078 (July 15, 2021)

Claims on foreign bank (ECA Rating 3-6)				100%	-
Claims on foreign bank (ECA Rating 7)				150%	-
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement				20%	-
Claims on Domestic Corporates				100%	-
Claims on Foreign Corporates (ECA 0-1)				20%	-
Claims on Foreign Corporates (ECA 2)				50%	-
Claims on Foreign Corporates (ECA 3-6)				100%	-
Claims on Foreign Corporates (ECA 7)				150%	-
Regulatory Retail Portfolio (No Overdue)				75%	-
Claims fulfilling all criterion of regularity retail except granularity				100%	-
Claims secured by residential properties				60%	-
Claims not fully secured by residential properties				150%	-
Claims secured by residential properties (Overdue)	3,220,390,863		3,220,390,863	100%	3,220,390,863
Claims secured by Commercial real estate				100%	-
Paar due claims (except for claims secured by residential properties)				150%	-
High Risk claims				150%	-
Lending Against Securities (Bonds & Shares)				100%	-
Investments in equity and other capital instruments of institutions listed in stock exchange				100%	-
Investments in equity and other capital instruments of institutions not listed in stock exchange				150%	-
Staff loan secured by residential property				50%	-
Interest Receivable claim on government securities				0%	-
Cash in transit and other cash items in the process of collection				20%	-
Other Assets (as per attached)	150,555,625		150,555,625	100%	150,555,625
TOTAL (A)	5,243,292,413		5,243,292,413		3,676,072,791

B. Off Balance Sheet Exposures	Book Value	Specific Provision	Eligible CRM	Net Value	Risk Weight	Risk Weighted Exposures
Reversible Commitments					0%	-
Bills Under Collection					0%	-
Forward Commitments					10%	-
LC Commitments With Original Maturity Upto 6 months domestic counterparty					20%	-
Foreign counterparty (ECA Rating 3-7)					20%	-
Foreign counterparty (ECA Rating 2)					50%	-

KARNALI DEVELOPMENT BANK LTD.
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Foreign counterparty (ECA Rating 3-6)				100%	-
Foreign counterparty (ECA Rating 7)				150%	-
LC Commitments With Original Maturity Over 6 months domestic counterparty				50%	-
Foreign counterparty (ECA Rating 0-1)				20%	-
Foreign counterparty (ECA Rating 2)				50%	-
Foreign counterparty (ECA Rating 3-6)				100%	-
Foreign counterparty (ECA Rating 7)				150%	-
Bid Bond, Performance Bond and Counter guarantee domestic counterparty				50%	-
Foreign counterparty (ECA Rating 0-1)				20%	-
Foreign counterparty (ECA Rating 2)				50%	-
Foreign counterparty (ECA Rating 3-6)				100%	-
Foreign counterparty (ECA Rating 7)				150%	-
Underwriting commitments				50%	-
Lending of Bank's Securities or Posting of Securities as collateral				100%	-
Repurchase Agreements, Assets sale with recourse				100%	-
Advance Payment Guarantee				100%	-
Financial Guarantees				100%	-
Acceptances and Endorsements				100%	-
Unpaid portion of Early paid shares and Securities				100%	-
Irrevocable Credit commitments (short term)				20%	-
Irrevocable Credit commitments (long term)	85,914,004		85,914,004	50%	42,957,002
Claims on foreign bank incorporated in SAARC region operating with a buffer of 1% above their respective regulatory capital requirement				20%	-
Other Contingent Liabilities				100%	-
Unpaid Guarantee Claims				200%	-
TOTAL (B)	85,914,004		85,914,004		42,957,002
Total RWE for credit Risk Before Adjustment (A) +(B)	5,329,206,417		5,329,206,417		3,719,029,793
Adjustments Under Pillar II					
SRP 6.4a(3) - Add 10% of the loans & facilities in excess of Single Obligor Limits to RWE					
SRP 6.4a(4) - Add 1% of the contract (sale) value in case of the sale of credit with recourse to RWE					
Total RWE for Credit Risk after Bank's adjustments under Pillar II	5,329,206,417		5,329,206,417		3,719,029,793

C Risk Weighted Exposure For Operational Risk

75/76

76/77

77/78

Net Interest Income

83,170,888.00

71,020,763.00

128,405,206.55



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Year ended Ashad 31, 2078 (July 15, 2021)

Commission and Discount Income	52,574,196.00	28,601,127.00	28,576,450.00
Other Operating Income		164,945.00	49,787.37
Exchange Fluctuation Income			
Addition/Deduction in Interest Suspense during the period			
Gross Income (a)	115,745,196.00	100,786,835.00	157,031,443.92
Alfa (b)	15%	15%	15%
Fixed Percentage of Gross Income [(a*(b))]	17,361,770.40	15,118,025.25	23,554,716.59
Capital Requirement for operational risk (d) (average of c)	18,678,171		

SRP 6.4a (8) Adjustments under Pillar II (If Gross Income for the last three years is negative)

Total Credit and Investment (net of Specific Provisions) of related month			
Capital Requirement of operational risk			
Risk Weight in Times			
Equivalent Risk Weight Exposure			
Total Operational Risk	18,678,171		

Amount of Non-Performing Assets (Gross and Net Amount)

Particulars	Amount in NPR			
	ASHAD 2078		ASHAD 2077	
	Gross NPA	Net NPA	Gross NPA	Net NPA
Restructured/Rescheduled loan				
Sub-standard loan	26,226,391	19,669,793	-	-
Debtual loan	13,812,538	8,305,919	13,000,651	6,500,326
Loss Loan	13,812,538	-	8,050,258	-
Total	53,851,467	27,975,712	21,050,910	6,500,326

Ratio of non-performing assets as per regulatory classification

Particulars	%	%
Gross NPA to Gross Loan and Advance	1.81%	0.84%
Net NPA to Net Loan and Advance	0.90%	0.26%

Details of loan loss provision

Particulars	Amount in NPR	
	ASHAD END 2078	ASHAD END 2077
Pass Loan	295,000,000	24,164,022

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Watchlist	27,32,891-	-
Rescheduled / Restructured	-	-
Sub-Standard	6,556,597-	-
Doubtful	9,305,920	6,500,326
Loss	13,812,538	8,050,258
Additional	-	-
Total	71,916,952	38,714,606

Compliance with external requirement

The regional development bank of 3 district is required to maintain a paid-up capital of Rs. 500,000,000 as per Monetary Policy 2015/16. The paid-up share capital is Rs. 502,830,000 as on Ashad 31, 2078 which is as per the NRB requirement.

Note 5.3 – Classification of financial assets and financial liabilities

1. The following presents the classification of financial assets and liabilities.

Particulars	Note	ASHAD END 2078		Amount in NPR ASAHD END 2077	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets					
Measured at amortized cost					
Cash and cash equivalent	4.1	1,736,268,305	1,736,268,305	1,736,268,305	1,736,268,305
Due from Nepal Rastra Bank	4.2	165,510,857	165,510,857	146,528,295	146,528,295
Other Trading Assets	4.3	-	-	-	-
Government Bonds	-	-	-	-	-
Loans and advances to BFIs	4.6	-	-	-	-
Loans and advances to customers	4.7	3,146,473,710	3,146,473,710	2,481,651,124	2,481,651,124
Government bonds	4.8	-	-	-	-
Account receivable	4.15	20,697,720	20,697,720	27,697,864	27,697,864
Sub-total		5,041,417,555	5,041,417,555	4,392,145,588	4,392,145,588
Measured at fair value through profit and loss (FVTPL)					
Investment in equity instruments	4.5	-	-	-	-
Investment in equity mutual fund	4.5	-	-	-	-
Sub-total		-	-	-	-
Measured at fair value through other comprehensive income (FVOCI)					
Investment in equity instruments	4.8	-	-	-	-
Sub-total		-	-	-	-
Total financial assets					
Financial liabilities					
Measured at amortised cost					
Due to BFIs	4.17	-	-	-	-
Due to Nepal Rastra Bank	4.18	-	-	-	-

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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Year ended Ashad 31, 2078 (July 15, 2021)

Particulars	Note	ASHAD END 2078		ASAHD END 2077	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Deposits from customers	4.20	4,644,876,420	4,644,876,420	3,987,441,860	3,987,441,860
Bills payable	4.23	-	-	-	-
Creditors and accruals	4.23	10,931,941	10,931,941	15,342,785	15,342,785
Interest payable on deposits	4.23	2,823,349	2,823,349	1,780,262	1,780,262
Interest payable on borrowings	4.23	-	-	-	-
Unpaid dividend	4.23	-	-	-	-
Total financial liabilities		4,658,631,710	4,658,631,710	4,004,564,906	4,004,564,906

2. The following presents the fair value hierarchy of financial assets and liabilities measured at fair value on a recurring basis

Particulars	Fair value hierarchy (level)	ASHAD END 2078	Amount in NPR ASHAD END 2077
Financial assets			
Measured at fair value through profit or loss			
Equity securities – quoted	1	-	-
Units of mutual fund – quoted	1	-	-
Sub-total		-	-
Measured at fair value through other comprehensive income			
Equity securities – quoted	1	-	-
Equity securities – unquoted	3	-	-
Sub-total		-	-
Measured at amortised cost			
Due from Nepal Rastra Bank	3	165,510,857	146,528,295
Government bonds	3	-	-
Loan and advances to BFs	3	-	-
Loans and advances to customers	3	3,148,473,710	2,481,651,124
Sub-total		3,313,984,567	2,628,179,419
Total financial assets		3,313,984,567	2,628,179,419
Financial liabilities			
Measured at amortised cost			
Due to Nepal Rastra Bank	3	-	-
Deposits from customers	3	4,644,876,420	3,987,441,860
Total financial liabilities		4,644,876,420	3,987,441,860

The carrying amounts of cash and cash equivalents, account receivable, due to bank and financial institutions, bills payables, creditors and accruals, interest payable on deposits and borrowings and unpaid dividend are same as their fair values, due to their short-term nature.

Note 5.4 – Operating segment information

1. General Information



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KARNALI DEVELOPMENT BANK LTD.
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Year ended Ashad 31, 2078 (July 15, 2021)

The development bank has identified segments on the basis of each geographical presence in seven provinces. The development bank has presence in Province 5 only.

2. Information about profit or loss, assets and liabilities

i. For the financial year 2077-78

	Province 5	Amount in NPR TOTAL
a. Revenues from external customers	451,907,064	451,907,064
b. Intersegment revenue/(expenses)	-	-
c. Gross Revenue	451,907,064	451,907,064
d. Interest Revenue	423,280,826	423,280,826
e. Interest Expenses	294,875,620	294,875,620
f. Net interest Revenue	128,405,207	128,405,207
g. Other Income	-	-
h. Other Expenses	110,782,590	110,782,590
i. Depreciation & Amortization	6,466,886	6,466,886
j. Segment Profit /(Loss)	1,576,130	1,576,130
k. Entity's interest in the profit or loss of associates, accounted for using equity method	-	-
l. Other material non-cash items	-	-
m. Impairment of assets	33,202,347	33,202,347
n. Segment assets	5,224,045,265	5,224,045,265
o. Segment liabilities	4,677,157,834	4,677,157,834

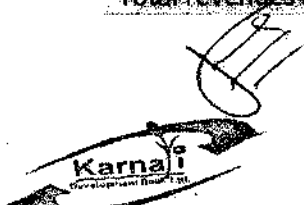
ii. For the financial year 2076-77

	Province 5	TOTAL
a. Revenues from external customers	418,744,137	418,744,137
b. Intersegment revenue/(expenses)	-	-
c. Gross Revenue	418,744,137	418,744,137
d. Interest Revenue	388,978,065	388,978,065
e. Interest Expenses	317,957,301	317,957,301
f. Net interest Revenue	71,020,763	71,020,763
g. Other Income	-	-
h. Other Expenses	102,018,521	102,018,521
i. Depreciation & Amortization	7,747,369	7,747,369
j. Segment Profit /(Loss)	(12,656,754)	(12,656,754)
k. Entity's interest in the profit or loss of associates, accounted for using equity method	-	-
l. Other material non-cash items	-	-
m. Impairment of assets	3,677,699	3,677,699
n. Segment assets	4,564,226,662	4,564,226,662
o. Segment liabilities	4,019,255,933	4,019,255,933

3. Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

i. Revenue

Particulars	Current year	Amount in NPR Previous year
Total revenues for reportable segments	451,907,064	418,744,137



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<i>Particulars</i>	<i>Current year</i>	<i>Previous year</i>
Other revenues	-	-
Elimination of intersegment revenues	-	-
Entity's revenues	451,907,064	418,744,137

ii. Profit or Loss

<i>Particulars</i>	<i>Current year</i>	<i>Amount in NPR Previous year</i>
Total profit or loss for reportable segments	1,576,130	(12,656,754)
Other profit or loss	-	-
Elimination of intersegment profit	-	-
Unallocated amounts	-	-
Profit before tax	1,576,130	(12,656,754)

iii. Assets

<i>Particulars</i>	<i>Current year</i>	<i>Amount in NPR Previous year</i>
Total assets for reportable segments	5,224,045,265	4,564,226,662
Other assets	-	-
Unallocated assets	-	-
Entity's assets	5,224,045,265	4,564,226,662

iv. Liabilities

<i>Particulars</i>	<i>Current year</i>	<i>Amount in NPR Previous year</i>
Total liabilities for reportable segments	4,677,157,834	4,019,255,933
Other liabilities	-	-
Unallocated liabilities	-	-
Entity's liabilities	4,677,157,834	4,019,255,933

4. Information about geographical areas

The development bank has revenue from following geographical areas:

<i>Particulars</i>	<i>Current year</i>	<i>Amount in NPR Previous year</i>
Domestic		
Province 5	451,907,064	418,744,137
Foreign		
Total	451,907,064	418,744,137

5. Information about major customers

The revenue from a single customer does not exceed 10% or more of the total revenue of the company.

Note 5.5 – Share option and share based payment

The bank does not have arrangements of share-based payment and share option as on reporting date.



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Note 5.6 – Contingent Liabilities and commitments

The details of contingent liabilities and commitments has been presented in notes 4.28 of the financial statement.

Note 5.7 – Related party disclosures

The Company does not have any holding, subsidiary company and associate companies.

1. Key management personnel

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the company. Key management personnel include the board of directors and chief executive officer of the finance company as follows:

<i>Name of key management personnel</i>	<i>Designation Current year</i>	<i>Designation Previous year</i>
Rajendra Bir Raya	Chairman	Chairman
Usha Kumari Bhandari	Director	Director
Tank Bahadur Basnet	Director	Director
Yubraj Adhikari	Director	Director
Dr. Om Prakash Mishra	Director	Director
Er. Nishar Ahamad Darji	Director	
Om Prakash Ajad		Director
Dinesh Kumar Rawat	Chief Executive Officer	Chief Executive Officer

The related party transactions are made at terms equivalent to those that prevail in an arm's length transactions. The following table provides the total amount of transaction that has been entered into with related parties for during the reporting period.

<i>Particulars</i>	<i>Current year</i>	<i>Amount in NPR Previous year</i>
With directors		
Director's sitting fees	342,000.00	203,000.00
Other Expenses	116,540.00	86,257.00
Interest paid on deposits	12,706.33	8,335.15
With chief executive officer		
Remuneration and benefits paid	2,220,500.00	1,898,451.00
Interest paid on deposits	1,854.19	640.97
Balance of deposits		
Payable to directors	369,121.18	175,715.06
Payable to chief executive officer	37,607.45	640.97

Note 5.8 – Merger and acquisitions

During the reporting period, the company has not gone into merger and acquisition nor is pursuing any merger and acquisition.

Note 5.9 – Additional disclosures on non-consolidated entities

The company does not have any subsidiary company and therefore consolidated financial statement as per NFRS is not required to be prepared.

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Note 5.10 – Events after reporting date

The events after the reporting date are all those events, whether favorable or unfavorable, which occurs between the reporting date and the date approval of the financial statements by the board of directors. During this period, there are no such events that require adjustment or additional disclosure in the financial statement.

Note 5.11 –Other Disclosures:

a. Loans & Advances Extended to Promoters

The bank has not extended any loans to promoters during the year.

b. Staff Training Fund

In accordance with the Directive No. 6, the Bank is required to spend at least 3% of the previous year employee expenses for the employee training and skill development. For the compliance of this regulation, the Bank during the current financial year has not incurred any expenses for employee training and skill development:

Particulars	Current year
Opening Staff Training Fund	478,460
3% of the previous year employee expenses as per previous year financials	-
Total amount incurred for employee training and skill development program	-
Excess/(Deficit) amount incurred for employee training and skill development program	-
Staff Training Fund Carried forward to next year	478,460

Out of total deficit amount only NRs. 478,460 has been carried forward as the central bank has suspended said provision for current year.

c. Corporate Social Responsibility Fund

Clause 13 of the NRB Directive No. 6 requires the Bank to allocate 1% of its net profit to the corporate social responsibility fund and spent the same for the social causes. The details of movement of the Corporate Social Responsibility Fund is presented below:

Particulars	Current year
Opening Corporate Social Responsibility Fund	123,354
Less: Amount incurred from CSR fund during the year	139,614
Add: Amount allocated to CSR fund from current year net profit	18,280
CSR Fund Carried forward to next year	0

d. Unpaid Dividend

The bank does not have any outstanding dividend to be paid till current year.

e. Earnings Per Share

The earning per share calculated based on NAS 33, Earnings per Share is as follows:

Particulars	Current year
Profit attributable to ordinary shareholders	1,877,996

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Particulars	Current year
Number of ordinary shares at the year End (Face Value NPR 100)	5,028,300
Basic earnings per equity share	0.36

f. Proposed Dividend

The board of the bank has not proposed dividend from retained earnings.

g. Non-Banking Assets

Non-Banking Assets are the assets obtained as security for loans & advances and subsequently taken over by the bank during loan recovery. Such assets are booked at fair market value or the total amount due from the borrower, whichever is lower. The bank has not taken any assets till current year as Non-Banking Assets.

h. Interest Capitalization

Interest accrued has not been capitalized during this year.

i. Loan Written off

There has been no any loans written off during this year.

j. Forbearance/relaxation

The impact of COVID-19 on people, communities and businesses across the world has been far-reaching and the Bank is no exception. Swift measures adopted by the Government and the Central Bank to revive the economy through comprehensive and co-ordinated support measures have accelerated business recovery. Despite the challenging environment posed by COVID-19 impact, the Bank has maintained the asset quality of its lending portfolio. Further, the Bank has been proactively assessing the impact of COVID-19 on its asset quality, profitability and capital adequacy and has taken the required measures as the circumstance demands. However, the future direct and indirect impact of COVID-19 on the Bank businesses, results of operations, financial position and cash flows remains uncertain. The bank has abided by the directives issued by central bank and has continued to provide enhancement of working capital and term loan as below during the fiscal year.

Particulars	Current Year	
	No of Customers	Amount
Accrued Interest Received for period from 2078-01-15 to Bhadra 2078	N/A	0
Additional 0.3% of Loan Loss provisions created on Pass Loan Portfolio	2,005	9,268,780
Extension of moratorium period of loan provided to industry to project under construction	NA	NA
Restructured/Rescheduled Loan with 5% Loan Loss Provision	NA	NA
Enhancement of Working Capital upto 10% to COVID affected borrowers	70	150,180,439
Enhancement of Term Loan by 10% to COVID affected borrowers	142	30,574,000
Expiry Date of additional 5% provisioning on term loan (COVID loan) extended for up to 1 year with 5% provisioning	NA	NA
Expiry Date of additional 10% Term Loan (COVID Loan) extended for up to 1 year with 5% provisioning	NA	NA



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Particulars	No of Customers	Amount
Time extension provided for repayment of principal and interest for up to two years as per clause 41 of NRB Directives	NA	NA

The refinance and business continuity loan detail is as follows:

Particulars	Current Year	
	No of Customers	Amount
Refinance Loan	NA	NA
Business Continuity Loan	NA	NA

The subsidized loans detail is as follows:

Particulars	Current Year	
	No of Customers	Amount
Subsidized Loan	NA	NA

The bank has complied all the COVID related circulars of Central Bank.

k. Disclosure on Accrued Interest Received after Ashad end 2078 till 15 Bhadra 2078

The bank has accrued interest of NRs 47,147,060 as on Ashad end 2078. The central bank has provided relaxation of not creating the regulatory reserve up to the amount of accrued interest received after Ashad end 2078 till Bhadra 15,2078. The bank has not opted the same relaxation of the provision provided vide NRB circular.

l. Disclosure on Interest Income Recognition.

The bank has booked the interest income as per interest recognition guidelines whereas out of total accrued interest receivable till Asadh end 2078 AIR receivable on Bad loan amounting NPR 12,449,946.47 has not been recognized as interest income. The detail is as follows:

Particulars	Amount
Total Accrued Interest Receivable as on Ashad end 2078	47,147,060
Less: Accrued Interest on Bad Loan	12,449,947
Net AIR recognized as income	34,697,113

m. Loans & Advances Classification.

The bank has following loans and advances (excluding staff loan and advances amounting NPR 33,230,657) including its related loan loss provision as per NRB directives as on Asadh end 2078 are as follows:-

Particulars	Loan Amount	Provision	Category	% Total
Good	3,152,462,892	71,916,952	Performing Loan	96.40
Watchlist	54,657,810	2,732,890	Performing Loan	1.74
Substandard	26,226,593	6,556,593	Non-Performing Loan	0.84
Doubtful	18,611,839	9,305,920	Non-Performing Loan	0.59%
Bad	13,812,533	13,812,533	Non-Performing Loan	0.43%
Total	3,152,462,892	71,916,952		100%

n. Components of Regulatory Reserve



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Regulatory Reserve is the statutory reserve made as per Directive No 4 of the Nepal Rastra Bank. The regulatory reserve comprises of the interest income recognized against interest receivables, difference in loan loss provision as per NRB directive & impairment on loan and advances as per NFRS, amount equal to deferred tax assets, actuarial loss recognized in other comprehensive income, difference in provision on investment securities as per Directive No8 and as per NFRS amount on the non-banking assets recognized and other adjustment occurred as a result of NFRS conversion.

Particulars	Interest Receivable	Differed Tax Assets	Actuarial Loss Recognized	FV loss recognized in OCI	Short LLP NBA	Total
Opening 2075 Sherwan 1						
Changes during the year	13,654,730	9,649,167	8,700,159			32,004,056
Closing As on Ashad end 2076	13,654,730	9,649,167	8,700,159			32,004,056
Changes during the year	19,522,703	(9,649,167)	(8,700,159)			(1,173,377)
Closing As on Ashad end 2077	33,177,433					33,177,433
Changes during the year	(11,318,252)	113,622				(11,204,630)
Closing As on Ashad end 2078	21,859,181	113,622				21,972,803

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