

# **Nepal SBI Bank Ltd**

## **Notes to Interim Financial Statements of Second Quarter ended Poush 29, 2076 of F.Y.2076/77**

### **1. Basis of Preparation**

The consolidated interim financial statement of the Group is prepared in accordance with Nepal Financial Reporting Standards (NFRSs). The Group represents the Bank (Nepal SBI Bank Ltd) and its wholly owned subsidiary Nepal SBI Merchant Banking Ltd (NSMBL). The interim financial statement comprises Condensed Statement of Financial Position, Condensed Statement of Profit or Loss and Condensed Statement of Other Comprehensive Income, the Condensed Statement of Changes in Equity, the Condensed Statement of Cash Flows and the Notes to the Accounts of the Group and Separate Financial Statements of the Bank. The Functional currency and representation currency is Nepalese Rupee (NPR) of the group.

### **2. Statement of Compliance with NFRSs**

The Financial Statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRSs) issued by Accounting Standard Board – Nepal (ASB) pronounced on 13 September 2013. These standards require financial statements to be prepared under accrual basis. The structure of the financial statements is in accordance with the Directive No. 4 of Nepal Rastra Bank revised on 14.11.2075.

### **3. Use of Estimates, assumptions and judgements**

In preparation of the financial statements, the Bank is required to make estimates and apply judgments for recognition and measurement of elements in the financial statements. Management's selection of the accounting policies, which contain critical estimates and judgments, is listed below. It reflects the materiality of the items to which the policies are applied, the high degree of judgment and estimation uncertainty involved:

- Impairment of loans and advances
- Valuation of financial instruments
- Provisions
- Estimation of useful lives of property plant and equipment and intangible assets

### **4. Changes in Accounting Policies**

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

### **5. Signification accounting Policies**

#### **5.1 Basis of Measurement**

The financial statements have been prepared under the historical cost convention modified to include the fair valuation to the extent required or permitted under NFRS as set out in the relevant accounting policies. Financial information recorded and reported to comply with Directive of

Nepal Rastra Bank and relevant business practices followed by the Bank are disclosed separately, where there have been deviations with recognition and presentation criteria of NFRS.

## **5.2 Basis of Consolidation**

### **a. Business Combination**

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

The Bank measures goodwill at the acquisition date as:

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

### **b. Non-Controlling Interest (NCI)**

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

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

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

### **c. Subsidiaries**

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

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

**d. Loss of Control**

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

**e. Special Purpose Entities**

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

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

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

**f. Transaction Elimination on Consolidation**

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

### 5.3 Cash and Cash Equivalent

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. Repurchase and reverse repurchase agreements and back to back foreign currency investment are not considered to be part of cash equivalents.

### 5.4 Financial Instruments: Financial Assets and Financial Liabilities

#### 5.4.1 Recognition

The Bank recognizes financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

Financial assets and liabilities

The Bank applies NAS 39 Financial Instruments: Recognition and Measurement the recognition, classification and measurement, and de-recognition of financial assets and financial liabilities, the impairment of financial assets, and hedge accounting.

Financial asset is any asset that is:

- a. Cash;
- b. an equity instrument of another entity;
- c. a contractual right:
  - to receive cash or another financial asset from another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or
- d. a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

A financial liability is any liability that is:

- a. contractual obligation:
  - to deliver cash or another financial asset to another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or
- b. a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

#### 5.4.2 Classification and measurement

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

	<b>NFRS 9 classification - Financial Assets</b>	<b>Subsequent measurement</b>
1	Held at fair value through Profit or Loss	At Fair Value – through Profit or Loss
2	Held at fair value through Other Comprehensive Income	Fair Value through Other Comprehensive Income
3	Held at amortized cost using effective interest rate	At Amortized cost using effective interest rate

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

	<b>NFRS 9 classification - Financial Liabilities</b>	<b>Subsequent measurement</b>
1	Held at fair value through Profit or Loss	At fair value through Profit or Loss
2	Held at amortized cost using effective interest rate	At Amortized cost using effective interest rate

At initial recognition, the Bank measures financial instruments (financial assets and liabilities) at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

#### **5.4.3 De-recognition**

The Bank derecognizes a financial asset, or a portion of a financial asset, from its financial statements where the contractual rights to cash flows from the asset have expired, or have been transferred, usually by sale, and with them either substantially all the risks and rewards of the asset or significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

Financial liabilities are derecognized when the liability has been settled, has expired or has been extinguished.

#### **5.4.4 Determination of fair value**

The Bank applies NAS 39. All financial instruments are initially recognized at fair value on the date of initial recognition and, depending on the classification of the asset or liability, may continue to be held at fair value either through profit or loss or other comprehensive income. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Wherever possible, fair value is determined by reference to a quoted market price for that instrument. For many of the Bank's financial assets and liabilities, quoted prices are not available, and valuation models are used to estimate fair value. The models calculate the expected cash flows under the terms of each specific contract, and then discount these values back to a present value based on interest rate yields and volatility of currency rates.

The financial liabilities are measured at amortized cost using effective interest rate.

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price.

Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the marketplace, the maturity

of market modeling and the nature of the transaction (bespoke or generic). To the extent that valuation is based on models or inputs that are not observable in the market, the determination of fair value can be more subjective, dependent on the significance of the unobservable input to the overall valuation. Unobservable inputs are determined based on the best information available, for example by reference to similar assets, similar maturities or other analytical techniques.

The sensitivity of valuations used in the financial statements to possible changes in significant unobservable inputs is not applicable to the Bank.

### **Critical accounting estimates and judgments**

The valuation of financial instruments often involves a significant degree of judgment and complexity, in particular where valuation models make use of unobservable inputs ('Level 3' assets and liabilities). This note provides information on these instruments, including the related unrealized gains and losses recognized in the period, a description of significant valuation techniques and unobservable inputs, and a sensitivity analysis.

### **Valuation**

NFRS 13 *Fair Value Measurement* requires an entity to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below.

#### ***Quoted market prices – Level 1***

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

#### ***Valuation technique using observable inputs – Level 2***

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs uses market standard pricing techniques, and are commonly traded in markets where all the inputs to the market standard pricing models are observable.

#### ***Valuation technique using significant unobservable inputs – Level 3***

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined via reference to observable inputs, historical observations or using other analytical techniques. Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

#### **5.4.5 Impairment**

##### **(A) Impairment of financial assets held at amortised costs**

Impairment of financial assets is considered when the carrying values of the assets are more than the recoverable amount from the assets. Impairment is tested for all financial assets except those measured at fair value.

##### **Impairment of loans and advances to customers and bank and financial institutions**

###### **i) As per NAS 39**

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances that are calculated on individual loans or on groups of loans assessed collectively are recorded as charges to the profit or loss and are recorded against the carrying amount of impaired loans on the statement of financial position. Losses, which may arise from future events, are not recognised.

##### **Individually assessed loans and advances**

Loans and advances to customers with significant value (Top 50 borrowers and borrowers classified as bad as per Nepal Rastra Bank Directive) are assessed for individual impairment test. The recoverable value of loan is estimated on the basis of realizable value of collateral and the conduct of the borrower/past experience of the Bank. The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include the size of the loan, the number of loans in the portfolio, and the importance of the individual loan relationship, and how this is managed. Loans that are determined to be individually significant based on the above and other relevant factors are individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective methodology. Loans considered as individually significant are typically to corporate and commercial customers, are for larger amounts and are managed on an individual basis. For these loans, the group considers on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to make this assessment include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and
- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful. For loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:
  - the group's aggregate exposure to the customer;
  - the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
  - the amount and timing of expected receipts and recoveries;
  - the likely dividend available on liquidation or bankruptcy;
  - the extent of other creditors' commitments ranking ahead of, or pari passu with, the group and the likelihood of other creditors continuing to support the company;
  - the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;

- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely costs of obtaining and selling collateral as part of foreclosure;
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- when available, the secondary market price of the debt.

The determination of the realisable value of security is based on the market value at the time the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions such as forced sale discounts. Impairment losses are calculated by discounting the expected future cash flows of a loan, which includes expected future receipts of contractual interest, at the loan's original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require.

### **Collectively assessed loans and advances**

Impairment is assessed collectively to cover losses, which have been incurred but have not yet been identified on loans subject to individual assessment or for homogeneous groups of loans that are not considered individually significant. Retail lending portfolios are generally assessed for impairment collectively as the portfolios are generally large homogeneous loan pools. Individually assessed loans for which no evidence of impairment have been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. These credit risk characteristics may include type of business involved, type of products offered, security obtained or other relevant factors. This assessment captures impairment losses that the bank has incurred as a result of events occurring before the balance sheet date, which the bank is not able to identify on an individual loan basis, and that can be reliably estimated. When information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed individually. The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between a loss occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience. The period between an impairment occurring and its identification is estimated by local management for each identified portfolio based on economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market.
- Statistical methods are used to determine collective impairment losses for homogeneous groups of loans not considered individually significant.

For the purpose of collective assessment of impairment bank has categorized assets in to sixteen broad products as follows



- 1 Agricultural and Forest Related
- 2 Fishery Related
- 3 Mining Related
- 4 Agriculture, Forestry & Beverage Production Related
- 5 Non-food Production Related
- 6 Construction
- 7 Power, Gas and Water
- 8 Metal Products, Machinery & Electronic Equipment & Assemblage
- 9 Transport, Communication and Public Utilities
- 10 Wholesaler & Retailer
- 11 Finance, Insurance and Real Estate
- 12 Hotel or Restaurant
- 13 Other Services
- 14 Consumption Loans
- 15 Local Government
- 16 Others

**i. Impairment model under Nepal Rastra Bank Directives**

Impairment in respect of loans and advances are based on management's assessment of the degree of possible losses of the loans and advances, and subject to the minimum impairment prescribed in NRB Directives. Impairment is charged for possible losses on loans and advances including bills purchased at 1% to 100% on the basis of classification of loans and advances, overdraft and bills purchased in accordance with NRB directives, which is principally based on the overdue criteria of the receivables.

**ii. Policy adopted**

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

**Reversals of impairment**

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

**(B) Available for sale financial instruments**

- Available-for-sale debt securities. In assessing objective evidence of impairment at the reporting date, the bank considers all available evidence, including observable data or information about

events specifically relating to the securities, which may result in a shortfall in the recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment. In addition, the performance of underlying collateral and the extent and depth of market price declines is relevant when assessing objective evidence of impairment of available-for-sale securities. The primary indicators of potential impairment are considered to be adverse fair value movements and the disappearance of an active market for a security, while changes in credit ratings are of secondary importance.

- Available-for-sale equity securities. Objective evidence of impairment may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered. A significant or prolonged decline in the fair value of the equity below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised, the subsequent accounting treatment for changes in the fair value of that asset depends on the type of asset:

- for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in profit or loss when there is objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, or the instrument is no longer impaired, the impairment loss is reversed through profit or loss;
- for an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through profit or loss. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in profit or loss to the extent that further cumulative impairment losses have been incurred.

#### **5.4.6 Offsetting of financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ('the offset criteria').

### **5.5 Trading Assets**

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

## 5.6 Derivative Assets and Derivative Liabilities

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives are initially recognised, and are subsequently re-measured, at fair value. Fair values of derivatives are obtained either from quoted market prices or by using valuation techniques.

Embedded derivatives are bifurcated from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host non-derivative contract, their contractual terms would otherwise meet the definition of a stand-alone derivative and the combined contract is not held for trading or designated at fair value. The bifurcated embedded derivatives are measured at fair value with changes therein recognised in the income statement.

## 5.7 Property and Equipment

The Bank applies NAS 16 *Property, Plant and Equipment* and NAS 40 *Investment Properties*. Property, plant and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset.

Depreciation is provided on the depreciable amount of items of property, plant and equipment on a straight-line basis over their estimated useful economic lives. Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances. The Bank uses the following useful lives in calculating depreciation of property, plant and equipment:

Asset category		Sub category	Useful life	Remarks
Building & Leasehold Structure		Leasehold Structures	12	Based on average leasehold period and asset use
Furniture & Fixtures		Metal Furniture	10	
		Wooden Furniture	5	
		Other Furniture	5	
Machinery & Office Equipment		Machinery	5	
		Computer Accessories	5	
		Other Equipment	5	
		Battery	3	
		Mobile Phone	3	
Vehicle		Small Equipment	4	
		Vehicle	5-7	

Low value assets costing less than NRs 5,000 each are charged as operational expenses in the year of purchase.

## 5.8 Goodwill and Intangible Assets

*Intangible assets:* Intangible assets other than goodwill are accounted for in accordance with NAS 38 *Intangible Assets* and NAS 36 *Impairment of Assets*.

Intangible assets include software and licenses. They are initially recognized when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use.

Intangible assets are stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less accumulated amortization and impairment, if any. These are amortized over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows.

Intangible assets are reviewed for impairment when there are indications that impairment may have occurred

Determining the estimated useful lives of intangible assets requires an analysis of circumstances. The assessment of whether an asset is exhibiting indicators of impairment as well as the calculation of impairment, which requires the estimation of future cash flows and fair values less costs to sell, also requires the preparation of cash flow forecasts and fair values for assets that may not be regularly bought and sold.

## 5.9 Investment Property

Land or a building or part of a building or both owned by the Bank or held by the Bank as the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- Sale in the ordinary course of business.

are classified as investment properties.

Investment properties are measured initially at its cost. Transaction costs are included in the initial measurement. After initial recognition, the Bank chooses the cost model to measure its investment properties in accordance with NAS 16.

## 5.10 Income Taxes

The Bank applies NAS 12 *Income Taxes* in accounting for taxes on income. Income tax payable on taxable profits (Current Tax) is recognized as an expense in the period in which the profits arise. Withholding taxes are also treated as income taxes. Income tax recoverable on tax allowable losses is recognized as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax is provided in full, using the assets and liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying

amounts in the consolidated financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the statement of financial position date, which are expected to apply when the deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

Critical accounting estimates and judgments: The Bank is subject to corporate income taxes under the Income Tax Act 2058. There may be many transactions and calculations for which the ultimate tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. Liabilities relating to these matters are based on estimates of whether additional taxes will be due after taking into account external advice where appropriate.

Deferred tax assets have been recognized based on business profit forecasts. Further detail on the recognition of deferred tax assets is provided in the deferred tax assets and liabilities section of this tax note.

#### **5.11 Deposits, Debt Security Issues and Subordinate Liabilities**

Borrowings (which include deposits from banks, customer deposits, debt securities in issue and subordinated liabilities) are recognized initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortized cost using the effective interest method.

#### **5.12 Provisions**

The Bank applies NAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in accounting for non-financial liabilities.

Provisions are recognized for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated. Provision is made for the anticipated costs when an obligation exists.

#### **5.13 Revenue Recognition**

The Bank applies NAS 39 *Financial Instruments: Recognition and Measurement*. Interest income on loans and advances at amortized cost, available for sale debt investments, and interest expense on financial liabilities held at amortized cost, are calculated using the effective interest method which allocates interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest method requires the Bank to estimate future cash flows, in some cases based on its experience of customers' behavior, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), in the normal course of business there are no individual estimates that are material to the results or financial position.

#### **5.14 Interest Expense**

Covered together with Interest income in note 5.13

#### **5.14.1 Employee Benefit**

Bank applies NAS 19 *Employee benefits* for accounting most of the components of staff costs.

##### ***Short-term employee benefits***

Salaries, allowances, social security expenses, performance bonuses as provided in the law and other employee related expenses are recognized over the period in which the employees provide services to which the payments relate.

##### ***Post-retirement benefits - Defined Contribution Scheme***

The Bank provides provident fund contribution as post-retirement benefits under defined contribution scheme. A percentage of basic salary is paid into the scheme on monthly basis. Bank recognizes contributions due in respect of the accounting period to profit and loss. Any contributions unpaid at the reporting date are included as a liability.

The Bank provides gratuity for the staff who have joined the bank on or after 4 September 2017 under defined contribution schemes. Under the scheme, 8.33% of basic salary shall be deposited into Social Security Fund (SSF) as prescribed in the Labour Act 2017.

##### ***Post-retirement benefits - Defined Benefit Schemes***

The Bank continues to operate gratuity (for employees who joined before 4 September 2017), accumulated annual leave payments and sick leave payments as post-retirement benefits as defined benefit schemes. For employees who joined the bank before 4 September 2017, gratuity liability is based on number of completed years of service. Such scheme Liabilities under each of those schemes are valued at fair value using actuarial re-measurement. Bank presents obligation less the fair value of the assets after applying the asset ceiling test. Bank intends to fund the liabilities with scheme assets, though there are no scheme assets as at reporting date.

Changes in scheme liabilities or assets (re-measurements) that do not arise from regular service costs, net interest on net defined benefit liabilities or assets, settlements or contributions to the scheme, are recognised in other comprehensive income, except for leave compensations that are taken directly to the profit or loss.

Re-measurements comprise experience adjustments (differences between previous actuarial assumptions and what has actually occurred), the effects of changes in actuarial assumptions, return on scheme assets (excluding amounts included in the interest on the assets) and any changes in the effect of the asset ceiling restriction (excluding amounts included in the interest on the restriction).

#### **5.15 Leases**

Agreements which transfer substantially all the risks and rewards incidental to the ownership of assets are classified as finance leases. As a lessor under finance leases, the group presents the amounts due under the leases, after deduction of unearned charges, in 'Loans and advances to banks' or 'Loans and advances to customers'. As a lessee under finance leases, the group presents the leased assets in 'Property, plant and equipment' and the corresponding liability to the lessor is included in 'Other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments.

All other leases are classified as operating leases. As a lessor, the group presents assets subject to operating leases in 'Property, plant and equipment'. Impairment losses are recognized to the extent that the carrying values are not fully recoverable. As a lessee, leased assets are not recognized on the balance sheet. The finance income or charges on finance leases are recognized in 'Net interest income' over the lease periods to give a constant rate of return. Rentals payable or receivable under operating leases are spread on a straight-line basis over the lease periods and are recognized in 'General and administrative expenses' or in 'Other operating income'.

#### **5.16 Foreign Currency Translation**

The Bank applies NAS 21 *The Effects of Changes in Foreign Exchange Rates*. Transactions and balances in foreign currencies are translated into Nepalese Rupees at the rate ruling on the date of the transaction. Foreign currency balances are translated into Nepalese Rupees at the period end exchange rates. Exchange rate gains and losses on such balances are taken to profit or loss.

#### **5.17 Financial Guarantee and Loan Commitments**

Guarantee liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Guarantee liabilities are not classified as on-SFP but are only disclosed unless the outflow of economic resources is probable.

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

#### **5.18 Share Capital and Reserves**

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

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

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

The reserves include retained earnings and other statutory reserves such as general reserve, bond redemption reserve, foreign exchange equalization reserve, regulatory reserve, investment adjustment reserve, staff training and development fund, CSR reserve etc.

#### **5.19 Earnings Per Share including diluted**

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Bank and the basic weighted average number of shares. When calculating the diluted

earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held in respect of the Bank

## **5.20 Segment Reporting**

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

## **5.21 Investment in Associates and Joint Ventures**

The Bank applies NAS 28 *Investments in Associates* and NFRS 11 *Joint Arrangements*. Associates are entities in which the Bank has significant influence, but not control, over the operating and financial policies. Generally, the Bank holds more than 20%, but less than 50%, of their voting shares. Joint ventures are arrangements where the Bank has joint control and rights to the net assets of the entity.

The Bank's investments in associates and joint ventures are initially recorded at cost and increased (or decreased) each year by the Bank's share of the post-acquisition profit/(loss). The Bank ceases to recognize its share of the losses of equity accounted associates when its share of the net assets and amounts due from the entity have been written off in full, unless it has a contractual or constructive obligation to make good its share of the losses. In some cases, investments in these entities may be held at fair value through profit or loss, for example, those held by private equity businesses.



## 6. Segmental Information

### A. Information about reportable segments

The bank has segregated its segment on geographical business unit basis, which is regularly reviewed for controlling business performance.

Rs. In lakh

Particulars		Province 1		Province 2		Province 3		Province 4		Province 5		Province 6		Province 7	
		Poush end 2076	Poush end 2075	Poush end 2076	Poush end 2075	Poush end 2076	Poush end 2075	Poush end 2076	Poush end 2075	Poush end 2076	Poush end 2075	Poush end 2076	Poush end 2075	Poush end 2076	Poush end 2075
a	Revenues from external customer	2,833	3,176	2,108	1,827	6,457	5,780	2,896	2,787	2,000	1,652	293	242	928	989
b	Intersegment revenues	241	(306)	(51)	(196)	937	473	755	226	1,067	423	95	46	(127)	(278)
c	Net Revenue	2,591	3,482	2,159	2,023	5,520	5,307	2,141	2,561	933	1,229	199	197	1,056	1,267
d	Interest revenue	2,561	2,912	1,922	1,660	5,771	5,126	2,596	2,504	1,764	1,455	257	210	867	941
e	Interest expense	945	807	599	456	3,108	2,538	1,179	846	1,208	769	105	76	209	161
4	Net Interest revenue(b)	1,617	2,105	1,323	1,204	2,662	2,588	1,417	1,658	557	687	152	133	658	780
g	Depreciation and amortization	61	56	51	41	115	105	59	47	61	47	10	5	22	9
h	Segment profit/(loss) Before Income tax	1,486	1,565	955	814	2,969	2,680	1,917	1,731	1,323	931	186	142	383	425
i	Entity's interest in the profit or loss of associates accounted for using equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-
j	Other material non-cash item	-	-	-	-	-	-	-	-	-	-	-	-	-	-
k	Impairment of assets	555	571	311	369	1,034	1,115	523	477	298	268	40	32	620	447
l	Segment assets	42,728	47,021	35,575	29,101	99,408	86,220	45,216	41,601	31,842	26,044	4,357	3,396	17,710	16,924
m	Segment liabilities	42,728	47,021	35,575	29,101	99,408	86,220	45,216	41,601	31,842	26,044	4,357	3,396	17,710	16,924

Particulars		Special Branches		Durbarmarg		COMMERCIAL		All Other	
		Poush end 2076	Poush end 2075	Poush end 2076	Poush end 2075	Poush end 2076	Poush end 2075	Poush end 2076	Poush end 2075
a	Revenues from external customer	30,640	28,648	2,272	2,122	9,254	7,916	4,408	4,875
b	Intersegment revenues	(6,467)	(6,578)	17,635	17,529	(3,836)	(3,289)	(10,249)	(8,050)
c	Net Revenue	37,107	35,226	(15,363)	(15,407)	13,090	11,205	14,657	12,925
d	Interest revenue	27,838	26,524	1,970	1,764	8,338	7,116	3,277	3,406
e	Interest expense	8,506	7,651	17,481	16,350	1,717	1,251	1,087	830
4	Net Interest revenue(b)	19,332	18,872	(15,511)	(14,586)	6,621	5,865	2,190	2,576
g	Depreciation and amortization	104	96	55	52	5	6	298	339
h	Segment profit/(loss) Before Income tax	13,690	12,737	2,110	3,010	3,367	3,204	(14,090)	(12,628)
i	Entity's interest in the profit or loss of associates accounted for using equity method	-	-	-	-	-	-	-	-
j	Other material non-cash item	-	-	-	-	-	-	-	-
k	Impairment of assets	6,379	5,986	368	409	1,687	1,480	-	-
l	Segment assets	589,116	525,511	48,434	46,770	168,825	143,219	185,340	206,220
m	Segment liabilities	589,116	525,511	48,434	46,770	168,825	143,219	43,053	77,009

**B. Reconciliation of reportable segment profit or loss**

Reportable segment profit or loss has been incorporated in the above table.

## 7. Related parties disclosure

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The definition includes subsidiaries, associates, directors, key management personnel and.

Particulars	Relationship	Remarks
State Bank of India	Parent Company	55% holding in the Bank
Nepal SBI Merchant Banking Ltd.	Wholly owned subsidiary	
SBI Hong Kong	Subsidiaries of State Bank of India	Placements transactions
Employee Provident Fund	Representing in the Board on institutional capacity	15.00 % holding in the Bank
Mr. Arjun Kumar Gautam, Director	Key Management Personnel	Directors nominated by EPF
Mr. B.R.S Satyanarayana, Chairman	Key Management Personnel	Directors nominated by SBI
Mr. Anukool Bhatnagar, Managing Director & CEO	Key Management Personnel	
Mr. Rajay Kumar Sinha, Director	Key Management Personnel	Directors nominated by SBI
Mr. Balakrishna Shrestha, Director	Key Management Personnel	Public Director
Mr. Bimala Subedi, Director	Key Management Personnel	Professional Director
Mr. Subhakanta Kanungo, Chief Operating Officer & Dy. CEO(w.e.f 22.09.2016)	Key Management Personnel	
Mr. Md. Rizwan Alam, Chief Financial Officer	Key Management Personnel	
Mr. Chappi Raj Pant, Chief Risk and Compliance Officer	Key Management Personnel	
Mr. Dev Raj Adhikari, Chief Credit Officer	Key Management Personnel	

**Parent company**

The parent company, State Bank of India holds 55% of the issued ordinary shares of the Bank, which is also the ultimate parent company.

<b>State Bank of India (SBI) Group</b>	<b>Poush 29<sup>th</sup>, 2076 (Rs. in '000')</b>
<b><u>Transaction during the quarter</u></b>	
Technical Service Fees to SBI	9,033
Interest on placements from SBI foreign offices	19,729
<b><u>Quarter end Balance</u></b>	
Placements and Interest receivable from SBI offices	3,753,080
Nostro Balances in SBI offices	1,251,805
Card Transaction Receivables from SBI	107,859

**Subsidiary**

Transactions between the Bank and its subsidiary, Nepal SBI Merchant Banking Limited (NSMBL), also meet the definition of related party transactions. These transactions are eliminated on consolidation.

<b>Subsidiary - Nepal SBI Merchant Banking Company Ltd</b>	<b>Poush 29<sup>th</sup>, 2076 (Rs. in '000')</b>
<b><u>Transaction during the Quarter</u></b>	
Interest Paid on Deposit to NSMBL	5,616
Management fee received from NSMBL	300
RTS, D-Mat Service Charge paid to NSMBL	300
<b><u>Quarter end Balance</u></b>	
Others payable to NSMBL	748
Deposit maintained with NSBL	206,248

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

The Bank has proposed 6% bonus share and 10.84% as Cash dividend for ordinary shares for the fiscal year 2075/76.

**9. Issues, repurchases and repayments of debt and equity securities:**

No Such transaction had took place during the reporting period

**10. Events after interim period**

There are no material events both adjusting and non-adjusting for the reporting periods.

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

No such events have taken place during the period.