

Two banks' balance sheets lack NFRS compliance

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Immediately after the end of fiscal year 2017-18, few commercial banks have published their unaudited financial reports that fall short of the Nepal Financial Reporting Standards (NFRS).

Nepal Bank and Citizens Bank International have published the unaudited financial report of the fourth quarter of the fiscal 2017-18 that has not complied with the NFRS despite Nepal Rastra Bank (NRB) instructing banks in November 2017 to publish financial reports based on advance accounting and reporting format from the last quarter of fiscal 2017-18.

As per the circular of the central bank, commercial banks must publish their financial reports in regular format and as per NFRS from the fourth quarter of fiscal 2017-18 and clearly disclose the difference of profit and loss between two NFRS-compliant financial statements and regular financial statements.

NFRS is the new accounting and reporting method developed by the Accounting Standards Board Nepal, based on the International Financial Reporting Standards (IFRS) for the uniformity of the financial reports across the world and more than 120 countries have already adopted the standards.

The regulator of accounting standards in Nepal, Institute of Chartered Accountants of Nepal (ICAN), had made NFRS mandatory in commercial banks or class 'A' financial institutions from fiscal 2015-16. However, the regulator of the financial sector, Nepal Rastra Bank, made it mandatory only from the fourth quarter of previous fiscal.

Commercial banks will reportedly develop the financial statements as per the NFRS and also in the regular format, and it could take a little bit longer to publish financial statements of fourth quarter of last fiscal, but a few banks have already published their financial statements.

The commercial banks had not abided by the instructions given by the accounting standard regulator primarily because they lacked the expertise to develop the financial statements according to the NFRS. In this backdrop, the central bank has shown flexibility towards them by issuing a circular in November 2017, which had allowed bankers to develop two statements from fourth quarter of last fiscal and urged that the differences of profit and loss between NFRS-compliant financial statements and regular financial statements be disclosed clearly.

Under the NFRS system, companies that obtain loans from banks would be required to comply with similar reporting standards, which would facilitate in fair value calculation of the loans. Bankers say, if done in a systematic manner, it would take several years to fully comply with the NFRS in publishing their financial statements.

Bankers have said that the NFRS is challenging for banks due to fair value measurements of the loans and other items. "The use of fair value accounting could result in a lot of volatility and subjectivity to the financial statements," according to Bhuvan Kumar Dahal, CEO of Sanima Bank.

ICAN has made it mandatory for the auditors to prepare the report as per NFRS standard for those who have converted their previous financial statements of two consecutive fiscals as per NFRS.

ICAN has set different deadlines in coordination with other concerned regulators, gradually implementing NFRS for all multinationals, listed companies, government-owned entities, corporate bodies and the firms that obtain loans from financial institutions. As per ICAN's regulation, multinational companies and state-owned enterprises with minimum paid-up capital of Rs five billion (such as Nepal Telecom) have adopted NFRS since 2014-15. ICAN has also proposed that the NFRS be implemented in all public companies, all corporate bodies, and small and medium enterprises that borrow minimum of Rs 500 million.

Devendra Pratap Shah, CEO of Nepal Bank, said that the bank will publish NFRS-compliant financial statement of fourth quarter after the interval of a certain time. However, the central bank has directed the banks to publish NFRS-compliant and non-compliant financial statements simultaneously.

As per the unaudited financial reports of the two commercial banks that published their statement in regular format, Nepal Bank's profit surged by 9.04 per cent compared to the corresponding period of

the previous fiscal to stand at Rs 3.39 billion. Likewise, Citizens Bank's profit surged by a whopping 29.6 per cent to Rs 1.4 billion in the last fiscal compared to Rs 1.08 billion in the previous fiscal.

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