

**Interim Financial Statements**  
**Asha Laghubitta Bittiya Sanstha Ltd.**

Condensed Statement of Financial Position

As on Quarter ended 31st Ashoj 2079

*Amount (NPR)*

Particulars	This Quarter Ending	Immediate Previous Year Ending
<b>Assets</b>		
Cash and Cash Equivalent	153,946,487.62	100,893,129.54
Statutory Balances and due from Nepal Rastra Bank	-	-
Placement with Bank & Financial Institutions	-	-
Derivative Financial Instruments	-	-
Other Trading Assets	-	-
Loan and advances to MFIs & Cooperatives	-	-
Loans and Advances to Customers	4,977,452,561.94	4,330,027,660.45
Investment Securities	-	-
Current Tax Assets	-	-
Investment Property	-	-
Property and Equipment	35,562,358.93	33,929,231.93
Goodwill and Intangible Assets	2,022,403.00	1,972,403.00
Deferred Tax Assets	4,317,687.29	2,339,717.56
Other Assets	164,742,698.45	134,056,562.05
<b>Total Assets</b>	<b>5,338,044,197.23</b>	<b>4,603,218,704.53</b>
<b>Liabilities</b>		
Due to Bank and Financial Institutions	-	-
Due to Nepal Rastra Bank	-	-
Derivative Financial Instruments	-	-
Deposits from Customers	1,794,009,310.36	1,407,493,382.52
Borrowings	2,735,146,753.22	2,506,394,556.93
Current Tax Liabilities	7,977,236.55	74,870,919.94
Provisions	7,101,909.10	32,741,825.38
Deferred Tax Liabilities	-	-
Other Liabilities	150,502,362.59	97,147,563.92
Debt Securities Issued	-	-
Subordinated Liabilities	-	-
<b>Total Liabilities</b>	<b>4,694,737,571.82</b>	<b>4,118,648,248.69</b>
<b>Equity</b>		
Share Capital	333,914,000.00	333,914,000.00
Share Premium	-	-
Retained Earnings	204,260,646.94	11,069,196.27
Reserves	105,131,978.47	139,587,259.57
<b>Total Equity</b>	<b>643,306,625.41</b>	<b>484,570,455.84</b>
<b>Total Liabilities and Equity</b>	<b>5,338,044,197.23</b>	<b>4,603,218,704.53</b>

## Asha Laghubitta Bittiya Sanstha Ltd.

Condensed Statement of Profit & Loss  
For the Quarter ended 31st Ashwin 2079

*Amount (NPR)*

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Interest Income	183,641,226.93	183,641,226.93	172,444,677.05	172,444,677.05
Interest Expense	117,726,583.50	117,726,583.50	65,362,066.07	65,362,066.07
<b>Net Interest Income</b>	<b>65,914,643.43</b>	<b>65,914,643.43</b>	<b>107,082,610.98</b>	<b>107,082,610.98</b>
Fee and Commission Income	291,586.14	291,586.14	1,137,260.07	1,137,260.07
Fee and Commission Expense	-	-	-	-
<b>Net Fee and Commission Income</b>	<b>291,586.14</b>	<b>291,586.14</b>	<b>1,137,260.07</b>	<b>1,137,260.07</b>
<b>Net Interest, Fees and Commission Income</b>	<b>66,206,229.57</b>	<b>66,206,229.57</b>	<b>108,219,871.05</b>	<b>108,219,871.05</b>
Net Trading Income	-	-	-	-
Other Operating Income	20,016,816.98	20,016,816.98	29,030,102.51	29,030,102.51
<b>Total Operating Income</b>	<b>86,223,046.55</b>	<b>86,223,046.55</b>	<b>137,249,973.56</b>	<b>137,249,973.56</b>
Impairment Charge/(reversal) for Loans and Other Losses	5,209,104.10	5,209,104.10	7,593,451.81	7,593,451.81
<b>Net operating income</b>	<b>81,013,942.45</b>	<b>81,013,942.45</b>	<b>129,656,521.75</b>	<b>129,656,521.75</b>
<b>Operating Expense</b>				
Personnel Expenses	37,901,926.06	37,901,926.06	40,307,023.39	40,307,023.39
Other Operating Expenses	15,815,761.98	15,815,761.98	15,175,451.66	15,175,451.66
Depreciation & Amortization	706,474.91	706,474.91	948,688.24	948,688.24
<b>Operating Profit</b>	<b>26,589,779.50</b>	<b>26,589,779.50</b>	<b>73,225,358.46</b>	<b>73,225,358.46</b>
Non-Operating Income	1,009.00	1,009.00	117,580.00	117,580.00
Non-Operating Expense	-	-	-	-
<b>Profit before Income Tax</b>	<b>26,590,788.50</b>	<b>26,590,788.50</b>	<b>73,342,938.46</b>	<b>73,342,938.46</b>
<b>Income Tax Expense</b>				
Current Tax	7,977,236.55	7,977,236.55	22,002,881.54	22,002,881.54
Deferred Tax	-	-	-	-
<b>Profit for the Period</b>	<b>18,613,551.95</b>	<b>18,613,551.95</b>	<b>51,340,056.92</b>	<b>51,340,056.92</b>

### Statement of Comprehensive Income

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
<b>Profit or loss for the Period</b>	<b>18,613,551.95</b>	<b>18,613,551.95</b>	<b>51,340,056.92</b>	<b>51,340,056.92</b>
<b>Other Comprehensive Income</b>				
<b>a) Items that will not be reclassified to profit or loss</b>				
-Gains/(losses) from investments in equity instruments measured at fair value	-	-	-	-
-Gain/(loss) on revaluation	-	-	-	-
-Actuarial gain/loss on defined benefit plans	-	-	-	-
-Income tax relating to above items	-	-	-	-
<b>Net other comprehensive income that will not be reclassified to profit or loss</b>				
<b>b) Items that are or may be reclassified to profit or loss</b>				
-Gains/(losses) on cash flow hedge	-	-	-	-
-Exchange gains/(losses) (arising from translating financial assets of foreign operation)	-	-	-	-
-Income tax relating to above items	-	-	-	-
<b>Net other comprehensive income that are or may be reclassified to profit or loss</b>				
<b>c) Share of other comprehensive income of associate accounted as per equity method</b>				
Other comprehensive income for the period, net of income tax	-	-	-	-
<b>Total Comprehensive Income for the period</b>	<b>18,613,551.95</b>	<b>18,613,551.95</b>	<b>51,340,056.92</b>	<b>51,340,056.92</b>
<b>Earnings per share</b>				
Basic earnings per share		5.57		15.38
Annualized Basic Earnings Per Share		22.30		61.50
Diluted earnings per share		22.30		61.50

**Ratios as per NRB Directive**

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Capital Fund to RWA		11.78%		10.14%
Total Loan Loss Provision to Total NPL		43.90%		33.20%
NPL		4.65%		4.37%
Cost of Funds		10.76%		7.17%
Credit to Deposit and Borrowing Ratio		109.90%		110.63%
Base Rate		15.45%		11.70%
Interest Rate Spread		4.20%		9.03%

**Details about the Distributable Profit for the Quarter**

**Amount (NPR)**

Details about the Distributable Profit for the Quarter	Amount (NPR)
<b>Net profit for the Quarter Ended on Poush End 2078</b>	<b>18,613,551.95</b>
<b>1. Appropriation</b>	
<b>1.1 Profit required to be appropriated to:</b>	<b>4,094,981.43</b>
a. General Reserve	3,722,710.39
b. Capital Redemption Reserve	
c. Exchange Fluctuation Fund	
d. Corporate Social Responsibility Fund	186,135.52
e. Employee Training Fund	
f. Client Protection Fund	186,135.52
g. Other	
<b>1.2 Profit required to be transferred to Regulatory Reserve</b>	<b>3,979,196.46</b>
a. Transferred to Regulatory Reserve	3,979,196.46
b. Transferred from Regulatory Reserve	
<b>Net profit for the Quarter Ended on Poush End 2078 Available for Distribution</b>	<b>10,539,374.06</b>

**Note:**

- Figures presented above may vary with the audited figures if instructed by the banking regulations and statutory auditor.
- The detailed interim financial report has been published in the website.
- The microfinance has applied alternative treatment in the carve out issued by the Institute of Chartered Accountants of Nepal with respect to the Impairment of Loans and Advances.
- Personnel Expenses include the provision for Employees Bonus.
- Loans and Advances are presented net of impairment charges.
- Actuarial Valuation has not been done for Employee Benefits for the period.
- The difference in profit as per the NFRS and GAAP has been transferred to Regulatory Reserve.
- Figures are regrouped/rearranged/restated wherever necessary for consistent presentation and comparison.

**Interim Financial Statements**  
**Asha Laghubitta Bittiya Sanstha Ltd.**  
Condensed Statement of Changes in Equity  
As on Quarter ended 31st Ashoj 2079

Amount (NPR)

Particulars	Attributable to Equity-Holders of the Institution										Total Equity
	Share Capital	Share Premium	General Reserve	Exchange Equalisation Reserve	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Other Reserve	Total	
<b>Balance at Shrawan 01, 2078</b>	<b>333,914,000.00</b>	-	<b>52,504,670.54</b>	-	-	-	-	<b>11,069,196.27</b>	<b>35,742,532.50</b>	<b>433,230,399.31</b>	<b>433,230,399.31</b>
Profit for the Period									51,340,056.92	<b>51,340,056.92</b>	<b>51,340,056.92</b>
Other Comprehensive Income, Net of Tax									-	-	-
<b>Transfer to Reserves During the Year</b>											
General Reserve			10,268,011.38						(10,268,011.38)	-	-
Regulatory Reserve					-				-	-	-
Other Reserves									-	-	-
Expense from Fund											
<b>Transactions with Owners, directly recognized in Equity</b>											
Share Issued											
Share Based Payments											
Dividend to Equity-Holders											
Bonus Shares Issued											
Cash Dividend Paid											
Other											
<b>Balance at Ashoj 31, 2078</b>	<b>333,914,000.00</b>	-	<b>62,772,681.92</b>	-	-	-	-	<b>11,069,196.27</b>	<b>76,814,578.05</b>	<b>484,570,456.23</b>	<b>484,570,456.24</b>
<b>Balance at Shrawan 01, 2079</b>	<b>333,914,000.00</b>	-	<b>62,772,681.92</b>	-	-	-	-	<b>11,069,196.27</b>	<b>76,814,578.05</b>	<b>484,570,456.23</b>	<b>484,570,456.24</b>
Profit for the period									18,613,551.95	<b>18,613,551.95</b>	<b>18,613,551.95</b>
Other Comprehensive Income, Net of Tax											
Transfer to Reserves during the year											
General Reserve			3,722,710.39						(3,722,710.39)	-	-
Regulatory Reserve					3,979,196.46				(3,979,196.46)	-	-
Transfer from Reserves during the year								193,191,450.67	(193,191,450.67)	-	-
Contribution to the Fund											
Expense from the Fund									140,122,617.22	<b>140,122,617.22</b>	<b>140,122,617.22</b>
<b>Transactions with Owners, directly recognized in Equity</b>											
Share Issued											
Share Based Payments											
Dividend to Equity-Holders											
Bonus Shares Issued											
Cash Dividend Paid											
Other											
<b>Balance at Ashoj 31, 2079</b>	<b>333,914,000.00</b>	-	<b>66,495,392.31</b>	-	<b>3,979,196.46</b>	-	-	<b>204,260,646.94</b>	<b>34,657,389.69</b>	<b>643,306,625.40</b>	<b>643,306,625.41</b>

## Asha Laghubitta Bittiya Sanstha Ltd.

### Condensed Statement of Cash Flows

As on Quarter ended 31st Ashoj 2079

	<i>Amount (NPR)</i>	
Particulars	Upto This Quarter	Corresponding Previous Upto this Quarter
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	183,641,226.93	172,444,677.05
Fees and other income received	291,586.14	1,137,260.07
Dividend received	-	-
Receipts from other operating activities	20,016,816.98	29,030,102.51
Interest paid	(117,726,583.50)	(65,362,066.07)
Commission and fees paid	-	-
Cash payment to employees	(40,856,458.12)	(48,456,238.77)
Other expense paid	(15,815,761.98)	(15,175,451.66)
<b>Operating cash flows before changes in operating assets and liabilities</b>	<b>29,550,826.45</b>	<b>73,618,283.13</b>
<b>(Increase)/Decrease in operating assets</b>	<b>(681,772,134.62)</b>	<b>(459,802,915.58)</b>
Due from Nepal Rastra Bank	-	-
Placement with bank and financial institutions	-	-
Other trading assets	-	-
Loan and advances to bank and financial institutions	-	-
Loans and advances to customers	(647,424,901.49)	(454,343,068.99)
Other assets	(34,347,233.13)	(5,459,846.59)
<b>Increase/(Decrease) in operating liabilities</b>	<b>668,622,922.80</b>	<b>525,740,327.22</b>
Due to bank and financial institutions	-	-
Due to Nepal Rastra Bank	-	-
Deposit from customers	386,515,927.84	122,076,560.09
Borrowings	228,752,196.29	306,516,203.21
Other liabilities	53,354,798.67	97,147,563.92
<b>Net cash flow from operating activities before tax paid</b>	<b>16,401,614.63</b>	<b>139,555,694.77</b>
Income taxes paid	(7,977,236.55)	(22,002,881.54)
<b>Net cash flow from operating activities</b>	<b>8,424,378.08</b>	<b>117,552,813.23</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities	-	-
Receipts from sale of investment securities	-	-
Purchase of property and equipment	-	-
Receipt from the sale of property and equipment	-	-
Purchase of intangible assets	-	-
Receipt from the sale of intangible assets	-	-
Purchase of investment properties	-	-
Receipt from the sale of investment properties	-	-
Interest received	-	-
Dividend received	-	-
<b>Net cash used in investing activities</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipt from issue of debt securities	-	-
Repayment of debt securities	-	-
Receipt from issue of subordinated liabilities	-	-
Repayment of subordinated liabilities	-	-
Receipt from issue of shares	-	-
Dividends paid	-	-
Interest paid	-	-
Other receipt/payment	44,628,980.00	42,448,288.92
<b>Net cash from financing activities</b>	<b>44,628,980.00</b>	<b>42,448,288.92</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>53,053,358.08</b>	<b>160,001,102.15</b>
Beginning Cash and cash equivalents	281,359,922.22	121,358,820.07
Effect of exchange rate fluctuations on cash and cash equivalents held	-	-
<b>Closing Cash and cash equivalents</b>	<b>334,413,280.30</b>	<b>281,359,922.22</b>

**Asha Laghubitta Bittiya Sanstha Limited**  
**Notes to the Interim Financial Statement**  
For the Quarter ended 31st Ashwin 2079

**1 Reporting Entity**

Asha Laghubitta Bittiya Sanstha Limited (the Microfinance) is domiciled and incorporated in Nepal as a "D" Class licensed financial institution as per Bank and Financial Institution Act, 2063 on 5<sup>th</sup> Baisakh, 2073 from Nepal Rastra Bank. The Microfinance is a limited liability company having its shares listed on Nepal Stock Exchange with trading code "ALBSL" after issuing its shares to the general public on Fiscal Year 2075-76. The microfinance is operating from its Registered Office at Kakani-06, Nuwakot.

**2 Basis of Preparation**

**2.1 Statement of Compliance**

The Financial Statements of the entity which comprises components presented above have been prepared in compliance with Nepal Financial Reporting Standards and Nepal Accounting Standards (hereafter referred as NFRS), laid down by the Institute of Chartered Accountants of Nepal and in compliance with the requirements of the Companies Act, 2006.

The disclosure made in the condensed interim financial informations have been based on the formats prescribed by Nepal Rastra Bank.

The Interim Financial Statement don't include all of the information required for a complete set of NFRS financial statements. However selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the microfinance's financial position and performance since the last published annual financial statements.

**2.2 Reporting Period**

The Microfinance follows the Nepalese financial year based on the Nepalese calendar:

1. For Statement of Financial Position :- Ashwin 31, 2079
2. For Statement of Profit & Loss :- 1st Shrawan, 2079 to Ashwin 31, 2079
3. For Statement of Cash Flows :- 1st Shrawan, 2079 to Ashwin 31, 2079

**2.3 Functional and Presentation Currency**

The Financial Statements of the Microfinance are presented in Nepalese Rupees, which is the currency of the primary economic environment in which the company operates. There was no change in microfinance's presentation and functional currency during the year under review.

**2.4 New Standards issued but not yet effective**

Management has issued its assumptions and understandings for the preparation of financial statements under compliance with NFRS, however, certain interpretations might vary regarding the recognition, measurement and other related provisions where the standards are not specific and not clear.

**3 Use of Estimates and Judgements**

The Microfinance, in order to comply with the financial reporting standards has made accounting judgements as having potentially material impact on the financial statement. Those judgements and their impact on the financial statement have been described herein. The management believes that the estimates used in the preparation of the financial statement are prudent and reasonable. Actual results may differ from the estimates. Any revision to the accounting estimate is recognized prospectively in the current and future period.

**4 Changes in Accounting Policies**

The Microfinance applies its accounting policies consistently from year to year except where deviations have been explicitly mandated by the applicable accounting standards.

**5 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.

**5.1 Basis of Measurement**

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

**5.2 Cash and Cash Equivalents**

The cash and cash equivalents include cash in hand, balances with banks and financial institutions, money at call and short notice and highly liquid financial assets with original maturity of three months or less from the acquisition date that are subject to and insignificant risk of changes in their fair values and are used by the microfinance in the management of its short-term commitments, if any.

Cash and Cash equivalents includes cash in hands, deposits with BFIs and other short-term investments with original maturities of three months or less, if any.

**5.3 Financial Assets and Financial Liabilities**

**Recognition**

The Microfinance recognizes financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognizes changes in fair value of the financial assets or financial liabilities from that date.

**Classification and Measurement**

**5.3.1 Financial Assets**

Financial Assets are classified mainly under amortized cost, fair value through profit or loss and fair value through OCI. Financial Liabilities are classified at amortized cost or fair value through profit or loss.

**a. Measured at Amortized Cost**

Financial assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest, are subsequently measured at amortized cost using the effective interest rate ('EIR') method less impairment, if any. The amortization of EIR and loss arising from impairment, if any is recognized in the Statement of Profit and Loss.

**b. Measured at Fair Value through OCI**

Assets are categorized under this category if the business model is to obtain the contractual cash flow from the assets but the contractual cash flow isn't solely repayment of principal and interest.

Equity Instrument which are not held for trading and initially recognized as held for trading for which the Microfinance makes an irrevocable election to carry the changes in fair value of the instrument through OCI are measured at Fair Value through other Comprehensive Income.

**c. Measured at Fair Value through Profit & Loss**

The Microfinance classifies the financial assets as fair value through profit or loss if they are held for trading or designated at fair value through profit or loss.

Any other financial asset not classified as either amortized cost or FVOCI, is classified as FVTPL.

**5.3.2 Financial Liabilities**

**a. Measured at Fair Value through Profit & Loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Upon initial recognition, transaction cost i.e. directly attributable to the acquisition are recognized in Statement of Profit or Loss as incurred. Subsequent changes in fair value are recognized at profit or loss.

**b. Measured at Amortized Cost**

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

**Derecognition**

The Microfinance derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the contractual rights to receive the cash flows from the asset.

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expires.

**Determination of Fair Value**

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.

The Microfinance follows three levels of the fair-value-hierarchy as described below:

**Level 1:** Quoted (unadjusted) prices for identical assets or liabilities in active markets;

**Level 2:** Significant inputs to the fair value measurement are directly or indirectly observable or valuations of quoted for similar instrument in active markets or quoted prices for identical or similar instrument in inactive markets; and

**Level 3:** Significant inputs to the fair value measurement are unobservable.

Investment in Unquoted Equity Instrument are carried at cost as the market price of such shares could not be ascertained with certainty at the reporting date, if any.

**5.4 Impairment**

The Microfinance reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Statement of Profit or Loss. The Management's judgement is extensively used in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the provisions made.

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

- Groups of homogeneous loans and advances and investment securities which are held-to-maturity, that are not considered individually significant; and
- Groups of assets that are individually significant but that were not found to be individually impaired.

The collective impairment is carried using the statistical modelling such as historical trends of probability of defaults, timings of recoveries, and current economic and market conditions which may warrant for the loss being greater than the suggested by the historical trends.

**For the purpose of collective assessment of impairment, Microfinance has categorized assets into following broad products as follows:**

- Aasha Entrepreneur Loan
- Agricultural Loan
- Educational Loan
- General Loan
- Micro Energy Loan
- Micro Entrepreneur Loan
- Personal Loan
- Seasonal Loan
- Group Discipline Loan

**Carveout adopted for assessment of impairment charge**

The Microfinance has opted to apply carveout on impairment of loans and receivables. Accordingly, individual and collective impairment loss amount calculated as per NFRS is compared with the impairment provision required under NRB directive no. 2, higher of the amount derived from these measures is taken as impairment loss for loans and receivables.

**5.5 Property, Plant & Equipment**

**Recognition and measurement:** Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures directly attributable to the acquisition of the asset.

**Depreciation & Amortization:** The Microfinance depreciates property, plant and equipment following Written Down Value method applying the Depreciation rates prescribed by Income Tax Act, 2058. The rates used for depreciation of assets for the current and comparative period of significant items of property, plant and equipment are as follows:

Type of Asset	Depreciation Rate
Buildings	5%
Computer & Accessories	25%
Vehicles - Two-wheeler	20%
- Four-wheeler	20%
Furniture & Fixtures	25%
Equipment & Others - Equipment	25%
Other Assets	15%
Intangible Assets	Rate set, dividing the cost of the property by adjusting in the nearest half year of the fiscal year

The Microfinance adopts cost model for entire class of Property, Plant and Equipment. It has not measured any Property Plant and Equipment at revaluation model and at fair value. The items of Property, Plant and Equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of newly acquired assets is charged based upon the date of invoice and assets having acquisition cost less than NPR. 2,000 have been written down as an expense for the period in the Statement of Profit and Loss.

## 5.6 Goodwill and Intangible Assets

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired in Business Combination is recognized as goodwill. Goodwill is measured at cost less any accumulated impairment losses/accumulated amortization. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Intangible assets are recognized separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably. These intangible assets are recognized at historical cost less impairment /amortization over their estimated useful life.

## 5.7 Tax Expenses

Tax expenses comprises of current tax and deferred tax.

### 5.7.1 Current Tax

Current tax is the income tax expense recognized in the statement of Profit or Loss, except to the extent it relates to items recognized directly in equity or OCI in which case it is recognized in equity or in other comprehensive income. Current tax is the amounts expected or paid to Inland Revenue Department in respect of the current year, using the tax rates and tax laws enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years.

### 5.7.2 Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realized or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the group has a legal right to offset.

## 5.8 Deposits from Members

Deposits by members are initially recognized at fair value, plus for those financial liabilities not at fair value through profit and loss. The transaction price is considered as the fair value for measuring the deposits.

## 5.8 Provisions, Liabilities and Contingent Liabilities

A provision is recognized, if as a result of a past event, the Microfinance has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate and are reversed if there is no probability of outflow of resources.

## 5.9 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Microfinance and the consideration can be reliably measured. The following specific recognition criteria shall also be met for revenue recognition.

### 5.9.1 Interest Income

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation of effective interest rate includes all charges and fee paid or received that are integral part of the effective interest only if considered material. Such a charges are not amortized over the life of the loan and advances as the income so recognized closely approximates the income that would have derived under effective interest method and are recognized directly in statement of profit and loss.

### 5.9.2 Fees and Comission Income

Fees and commissions are generally recognized on an accrual basis when the service has been provided.

### 5.9.3 Dividend Income

Dividend income received from equity shares is recognized in the books when the right to receive the dividend is established.

## 5.10' Interest Expenses

Interest expense on all financial liabilities including deposits is recognized in statement of profit or loss using effective interest rate method. The Microfinance uses ASB carve-outs and treat coupon rate as effective interest rate.

## 5.11 Employees Benefits

Employee benefits include all forms of consideration given by an entity in exchange for service rendered by employees of for the termination of employment.

### Defined Contribution Plan

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in the profit or loss as and when they are due. The Microfinance operates a defined contribution plans as provident fund contribution of its employees and defined benefit plans for the Gratuity and leave payment requirement under its staff rules.

### Defined Benefits Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

Gratuity and Leave Benefits are Defined Benefit Plans. The Entity annually measures the value of the promised retirement benefits for gratuity, which is a Defined Benefit Plan. Actuarial Valuation of Defined Benefit Plan has been carried out as per the requirement of NAS 19 – Employee Benefits. Gain or loss arising as a result of changes in assumptions is recognized in other comprehensive income (OCI) in the period in which it arises.

## 5.12 Leases

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

### Finance Leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance lease.

However, the Microfinance doesn't hold any finance lease agreements.

### Operating Leases

Lease payments under an operating lease has been recognized as an expense on straight line basis over the lease term. Majority of the lease agreement entered into by the microfinance are within the clause of normal increment which the management assumes are in line with the expected inflationary cost. The microfinance operates its branches under operating lease agreement. The payments to the lesser are structured to increase in line with the general inflation rate to compensate for the lessors expected inflationary cost increment.



### **5.13 Share Capital and Reserves**

#### **5.13.1 Share Capital**

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

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

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

#### **5.13.2 Statutory General Reserves**

20% of the net profit as stated in Bank and financial Institution Act, 2073 and 50% of additional amount of Cash Dividend and Bonus Shares if declared and distributed in excess of 20% as provisioned in Circular GHA/1/078/79 of NRB Dated 2078/04/11 is set aside to the general reserve.

#### **5.13.3 Corporate Social Responsibility Fund**

1% of net profit is set aside in the fund as per the NRB Directives for the purpose of corporate social responsibility.

#### **5.13.4 Employee Training Fund**

The fund is created for the purpose of employee training. As per the directives to microfinance by NRB, the microfinance needs to spend at least 3% of last fiscal year's total personnel expenses for the development and trainings of the employees. Further if the microfinance couldn't spend up to the limit of 3%, the shortfall amount shall be transferred to the Employee Training Fund and shall be used for employee trainings in subsequent years.

#### **5.13.5 Investment Adjustment Fund**

It is a reserve created on investment in equity instrument if the equity doesn't get listed in Security Market within 2 years as per the directives issued by NRB.

#### **5.13.6 Regulatory Reserve**

The amount that is allocated from profit or retained earnings of the microfinance to this reserve as per the directives of NRB for the purpose of implementation of NFRS and which shall not be regarded as free for distribution of dividend shall be presented under this reserve. The regulatory reserve of the microfinance includes the reserve net of tax and employee bonus created relating to accrued interest receivable as on Ashadh end 2078 not recovered. Reserve on deferred tax assets, non-banking assets, reduction in fair value of investment in equity below cost price, actuarial loss etc.

#### **5.13.7 Actuarial Gain/Loss Reserve**

The amount that is allocated from profit or retained earnings of the microfinance both positive or negative to this reserve as per the directives of NRB for the purpose of implementation of NFRS and which shall not be regarded as free reserve for distribution of dividend are recorded in this reserve. The reserve includes actuarial gain/(loss) net of tax on defined benefit plan.

#### **5.13.8 Client protection fund**

Client protection fund is created at 1% of net profit. In addition to this, 25% of dividend in excess of 20% is also allocated to this fund as per NRB Directives.

### **5.14 Earnings per Share (EPS) including diluted EPS**

Microfinance presents basic and diluted Earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit and loss attributable to ordinary equity holders of the microfinance by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit and loss attributable to the ordinary equity holders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.