Rastra Utthan Laghubitta Bittiya Sanstha Limited
Notes to the Interim Financial Statements
For the Period Ended 30th Chaitra 2079 (13th April, 2023)

1. Reporting Entity

Rastra Utthan Laghubitta Bittiya Sanstha Limited (RULBSL/ Microfinance/ the Company) was registered at the Office of Company Registrar as Public Limited Company on 2075/06/14 with registration number 199842/075/076. It obtained license on 16th Magh 2075 from Nepal Rastra Bank as 'D' class national level financial institution under Bank and Financial Institution Act (BAFIA,2073) for working as a retail lending microfinance institution. It is a joint initiative of 3 institutions (**NeRuDO**: A non-governmental organization and two commercial banks: RBB and PRABHU) and 36 individual promoters. RULBSL provides retail credit services to the deprived sector community and small farmers especially women to empower them and provide them access to microfinance services across the country.

The registered office and headquarter of this National Level Microfinance Institution is located at Sanga, Banepa -13, Kabhrepalanchowk, 20 k.m. east from Kathmandu. The Microfinance is listed in Nepal Stock Exchange and is trading under the code RULB.

Authorized Capital and Issued Capital of RULBSL is NPR 50 crore (Shares of NPR 100 each) and Paid-up Capital is NPR 26 crore (shares of NPR 100 each) as of 2079-12-30.

2. Basis of Preparation

The interim financial statements of the Microfinance have been prepared in accordance with Nepal Financial Reporting Standards (NFRS): NAS 34 Interim Financial Reporting as published by the Accounting Standards Board (ASB) Nepal and pronounced by The Institute of Chartered Accountants of Nepal (ICAN). The preparation and presentation of the Interim Financial Statements comply with the requirements of format issued by Nepal Rastra Bank via Unified Directives to Microfinance FIs, 2079.

The financial statements comprise the Statement of Financial Position, Statement of Profit or Loss, Statement of Other Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Notes to the Accounts.

3. Statement of Compliance

The Interim financial statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRSs) to the extent applicable with allowed carve-outs as issued by the Accounting Standards Board (ASB) Nepal.

3.1 Reporting Period

Reporting Period is a period from the first day of Magh to last day of Chaitra 2079 for financial performance & as at 30th Chaitra 2079 for financial position.

3.2 Functional and presentation currency

The financial statements are presented in Nepalese Currency (NPR) (rounded to the nearest paisa unless otherwise stated), which is the company's functional currency. RULBSL determines the functional currency and items included in the financial statements are measured using that functional currency.

3.3 Use of Estimates, assumptions and judgments

The preparation of RULBSL's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable estimates and underlying assumptions are reviewed on an ongoing basis.

Information about assumptions, estimates and judgment used in preparation of financial statements for 2078/79 that has a significant risk of resulting in a material adjustment within the next financial year are:

- Key assumptions used in discounted cash flow projections.
- Measurement of defined benefit obligations.
- Provisions, commitments and contingencies.
- Determination of net realizable value.
- Determination of useful life of the property, plants and equipment.
- Assessment of RULBSL's ability to continue as going concern.
- Determination of fair value of financial instruments; and property and equipment.
- Impairment of financial and non-financial assets.
- Assessment of current as well as deferred tax.

3.4 Changes in Accounting policies

RULB prepared the interim financial statements as per Nepal Financial Reporting Standard (NFRS) by recognizing all assets and liabilities whose recognition was required by NFRS, not recognizing the items of assets or liabilities which were not permitted by NFRS, and applying NFRS in measurement of recognized assets and liabilities. The accounting policies adopted while preparing these interim financial statements are consistent with those applied in the RULB's annual financial statements for the year ended 32nd Ashad 2079.

3.5 New reporting standards in issue but not yet effective

A number of new standards and amendments to the existing standards and interpretations have been issued by IASB- after the pronouncements of NFRS with varying effective dates. Those become applicable when ASB Nepal incorporates them within NFRS. The standards and interpretations that are issued, but not yet effective, up to the date of issuance of RULB's financial statements are disclosed below. RULB intends to adopt these standards, if applicable, when they become effective.

NFRS 14 Regulatory Deferral Accounts, NFRS 15 Revenue from Contracts with Customers, NFRS 16 Leases has been issued but is not effective until current period.

3.6 New Standard and Interpretation not adopted:

The financial statement is prepared in compliance with all the standards that are issued and adopted by Accounting Standard Board of Nepal except NFRS 9 in respect of Expected Credit Loss Model.

3.7 Discounting

Discounting has been applied where assets and liabilities are non-current where the impact of the discounting is material.

4. Significant Accounting Policies

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

4.1 Basis of Measurement

The financial statements are prepared on the historical-cost basis except for the required material items in the statement of financial position where it has been disclosed as measured at fair value or otherwise.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The estimates and judgment used in the preparation of the financial statements are continuously evaluated by RULB. Any revision to accounting estimates is recognized prospectively in the period in which the estimates are revised and in the future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in notes that follow.

4.2 Cash and Cash Equivalents

The fair value of Cash and Cash Equivalents is the carrying amount. Cash and Cash Equivalents represent the amount of cash in hand, balances with other bank and financial institutions, money at short notice and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their value and used by RULB in the management of short-term commitment.

4.3 Financial assets and financial liabilities

Recognition

The Microfinance initially recognizes a financial asset or a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument. RULB initially recognize loans and advances and debt securities/ subordinated liabilities issued on the date that they are originated which is the date that the microfinance becomes party to the contractual provisions of the instruments. Investments in equity instruments, bonds, debenture, Government securities, NRB bond or deposit auction, reverse repos, outright purchase are recognized on trade date at which RULB commits to purchase/ acquire the financial assets. Regular way purchase and sale of financial assets are recognized on trade date. All financial assets and liabilities are initially recognized at their cost value and are subsequently presented as per NFRS based on the respective classification.

Classification

i. Financial Assets

The Microfinance classifies the financial assets as subsequently measured at amortized cost or fair value on the basis of the Microfinance's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The two classes of financial assets are as follows:

1. *Financial assets measured at amortized cost*

   The Microfinance classifies a financial asset measured at amortized cost if both of the following conditions are met:

   a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and

   b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. *Financial asset measured at fair value*

   Financial assets other than those measured at amortized cost are measured at fair value. Financial assets measured at fair value are further classified into two categories as below:

   a) *Financial assets at fair value through profit or loss*
   Financial assets are classified as fair value through profit or loss (FVTPL) if they are held for trading or are designated at fair value through profit or loss. Upon initial recognition, transaction costs are directly attributable to the acquisition are recognized in profit or loss as incurred. Such assets are subsequently measured at fair value and changes in fair value are recognized in Statement of Profit or Loss.

   b) *Financial assets at fair value through other comprehensive income*
   Investment in an equity instrument that is not held for trading and at the initial recognition, the Microfinance makes an irrevocable election that the subsequent changes in fair value of the

instrument is to be recognized in other comprehensive income are classified as financial assets at fair value though other comprehensive income. Such assets are subsequently measured at fair value and changes in fair value are recognized in other comprehensive income.

ii. Financial Liabilities

The Microfinance classifies the financial liabilities as follows:

a) *Financial liabilities at fair value through profit or loss*
Financial liabilities are classified as fair value through profit or loss (FVTPL) if they are held for trading or are designated at fair value through profit or loss. Upon initial recognition, transaction costs are directly attributable to the acquisition are recognized in Statement of Profit or Loss as incurred. Subsequent changes in fair value is recognized at profit or loss

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

Measurement

Financial assets at FVTOCI

On initial recognition, the Microfinance can make an irrevocable election (on an instrument-by instrument basis) to present the subsequent changes in fair value in other comprehensive income pertaining to investments in equity instruments. This election is not permitted if the equity investment is held for trading. These elected investments are initially measured at fair value. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the 'Fair Value Reserve'. The cumulative gain or loss is not reclassified to Statement of Profit and Loss on disposal of the investments.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Microfinance irrevocably elects on initial recognition to present subsequent changes in fair value in other comprehensive income for investments in equity instruments which are not held for trading.

Debt instruments that do not meet the amortized cost criteria or FVTOCI criteria (see above) are measured at FVTPL. In addition, debt instruments that meet the amortized cost criteria or the FVTOCI criteria but are designated as at FVTPL are measured at FVTPL.

A financial asset that meets the amortized cost criteria or debt instruments that meet the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Company is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and NFRS 9 permits the entire combined contract to be designated as at FVTPL in accordance with NFRS 9

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in Statement of Profit and Loss. The net gain or loss recognized in Statement of Profit and Loss incorporates any interest paid on the financial liability.

However, for non-held-for-trading financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss, in which case these effects of changes in credit risk are recognized in Statement of Profit and Loss. The remaining amount of change in the fair value of liability is always recognized in Statement of Profit and Loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are reflected immediately in retained earnings and are not subsequently reclassified to Statement of Profit and Loss.

Financial liabilities subsequently measured at amortized cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortized cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortized cost are determined based on the effective interest method. Interest expense that is not capitalized as part of costs of an asset is included in the 'Interest Expenses' line item.
The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

De-recognition

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

Financial liabilities are derecognized when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires.

Determination of fair value

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

The fair value measurement hierarchy is as follows:

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

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

Level 3 portfolios are those where there are unobservable inputs of the instruments. The inputs are not based on observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Microfinance determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability (Level 01 valuation) nor based on a valuation technique that uses only data from observable markets (Level 02 valuation), then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out. In case the fair value is evidenced by a quoted price in an active market for an identical asset or liability (Level 01 valuation), the difference between the transaction price and fair value is recognized in profit or loss immediately.

Impairment

At each reporting date, the Microfinance assesses whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by RULB on terms that RULB would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

.In case of financial difficulty of the borrower, RULB considers to restructure loans. This may involve extending the payment arrangements and agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the EIR method and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Impairment of financial assets measured at amortized cost

The Microfinance considers evidence of impairment for loans and advances measured at amortized cost at both specific asset and collective level. RULB first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant and that are not individually significant are assessed on collectively.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

All individually significant loans and advances; measured at amortized cost found not to be specifically impaired and those that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

Impairment of loans and advances portfolios is based on the judgments in past experience of portfolio behavior. In assessing collective impairment, the Microfinance uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Microfinance. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write off is later recovered, the recovery is recognized in the 'Net Operating Income'.

Impairment of investment in equity instrument classified as fair value though other comprehensive income

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

4.4 Trading Asset:

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 recognized on trade date, when the organization enters into contractual arrangements with counterparties, and are normally derecognized when sold. They are initially measured at fair value, with transaction costs taken to profit or loss. Subsequent changes in their fair values are recognized in profit or loss.

4.5 Property and Equipment

a) Recognition and Measurement

Property and Equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Microfinance and the cost of the asset can be reliably measured. The cost includes expenditures that are directly attributable to the acquisition of the assets. Cost of self-constructed assets includes followings:

- Cost of materials and direct labour;
- Any other cost directly attributable to bringing the assets to the working condition for their intended use; and
- Capitalized borrowing cost

b) Depreciation-Rate applied is charged as per NAS-16

Property, plant and equipment are depreciated from the date they are available for use, on straight line method over estimated useful lives as determined by the Management. Depreciation is recognized in profit or loss. Charging of depreciation is ceased from the earlier of the date from which the asset is classified as held for sale or is derecognized.

For assets purchased/sold during the year, depreciation is provided upto the date of use on pro-rata basis.

Assets	**Useful Life**
Computer & Accessories	4 Years
Furniture and Fixtures	4 Years
Office Equipment and Others	4 Years
Vehicle	5 years

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

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

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

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

4.6 Goodwill Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The intangible asset with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Certain computer software costs are capitalized and recognized as intangible assets based on materiality, accounting prudence and significant benefits expected to flow therefrom for a period longer than one year.

The estimated useful lives of significant items of intangible assets for current year and comparative periods are as follows:

Class of Assets	**Useful Life**
Computer software	5 years

4.7 Investment Property:

Investment properties are land or building or both other than those classified as property and equipment under NAS 16 – "Property, Plant and Equipment"; and assets classified as non-current assets held for sale under NFRS 5 – "Non-Current Assets Held for Sale and Discontinued Operations". Land and Building acquired as non-banking assets are recognized as investment property.

Investment properties are initially measured at cost, including transaction costs. Subsequently all investment properties are reported at fair value with any gains or losses in fair value reported in the statement of profit and loss as they arise. No depreciation is charged in investment property as they are not intended for the owner-occupied use. NBA amounting to NPR 1,335,759 has been booked as investment property, includes land, acquired from Mr. Arbind Jha (ex staff) in 2071.08.17. Respective amount has been transferred from RE to regulatory reserve as per unified directive.

4.8 Income Tax

The Microfinance is subject to tax laws of Nepal. Income taxes have been calculated as per the provisions of the Income Tax Act, 2058.

Income tax comprises current and deferred tax. Income tax expense is recognized in the statement of profit or loss except to the extent it relates to items directly recognized in equity or in other comprehensive income.

Current Tax

Current tax is the amount of tax payable based on the taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of profit and loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income. Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Deferred Tax

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

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4.9 Deposits, debt securities issued and subordinated liabilities

Institution's deposits consist of money placed into the Institution by its customers. These deposits are made to personal deposit account .The previous savings before NRB instruction can also be seen in special saving. Besides these the institution has no fixed deposit accounts, savings accounts, margin deposit accounts, call deposit accounts and current accounts.

4.10 Provision

Provisions are recognized when the Microfinance has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and when the amount can be reliably estimated.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A disclosure for contingent liabilities is made where there is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- present obligation that arises from past events but is not recognized because:
    - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
    - The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Commitments- Where the Microfinance 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 and the Microfinance has not made payments at the reporting date, those instruments are included in these financial statements as commitments.

Provisions, contingent liabilities, contingent assets and commitments are reviewed at each reporting period.

Provisions for onerous contracts are recognized when the expected benefits to be derived by the Microfinance from a contract are lower than the unavoidable costs of meeting the future obligations under the contract.

4.11 Revenue Recognition

Revenue comprises of interest income, fees and commission. Revenue is recognized to the extent it is probable that the economic benefits will flow to the Microfinance and the revenue can be reliably measured. Revenue is not recognized during the period in which its recoverability of income is not probable. The bases of incomes recognition are as below:

Interest income

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

Interest income presented in statement of profit or loss includes Interest income on financial assets measured at amortized cost calculated on an effective interest rate method considering the cash flow throughout the period of respective loan investment. These financial assets include loans and advances including staff loans.

Interest income on loans and advances where contractual payments of principal and/or interest are more than 12 months in arrears, irrespective of the net realizable value of collateral, are not recognized.

Fee and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset are included in measurement of effective interest rate. Besides the 1.5 % service charge on loan as per the NRB directives, RULB doesn't charge any other fees and commission, i.e. management fee, prepayment charge, penal charges etc., on its loans and advances.

Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognized as interest income or expense in the period in which the revision is made.

If the financial asset has been reclassified, subsequent increases in the estimates of future cash receipts as a result of increased recoverability are recognized as an adjustment to the effective interest rate from the date of the change in estimate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Gains and losses arising from changes in the fair value of financial assets are recognized directly in profit or loss unless an irrevocable selection is done to charge it through Other Comprehensive Income. Once such selection is done the changes in fair value is also charged through Other Comprehensive Income unless the asset is derecognized. The gain or loss on disposal of available for sale financial assets is recognized directly in profit or loss.

Dividend Income

Dividend on investment in resident company is recognized when the right to receive payment is established. But the entity does not have such income.

Net Trading Income

Net Trading Income includes all gains and losses from changes in fair value, related capital gain/loss and dividend from financial assets through profit and loss. Trading expenses are deducted from the trading income and the amount net of trading expenses are disclosed in statement of profit and loss

Net Income from Other Financial Instrument at Fair Value through Profit or Loss

Net income from other financial instrument measured at fair value through Profit or Loss includes all gains/ (losses) arises from the revaluation of financial instrument at fair value.

4.12 Interest expense

Interest expense including all other fees and service charge on all financial liabilities are recognized in profit or loss. The interest expenses so recognized closely approximate the interest expenses that would have been derived under effective interest rate method. The difference is not considered material. The Microfinance considers the cost of exact calculation of effective interest rate method exceeds the benefit that would be derived from such compliance.

4.13 Employees Benefits

a) Short Term Employee Benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is also recognized for the amount expected to be paid under bonus required by the prevailing Bonus Act to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably under short term employee benefits.

Short-term employee benefits include all the following items (if payable within 12 months after the end of the reporting period):

- wages, salaries and social security contributions;
- profit-sharing and bonuses; and
- non-monetary benefits

b) Post-Employment Benefit Plan

Post-employment benefit plan includes followings:

i. Defined Contribution Plan

A defined contribution plan is a post-employment benefit plan under which an entity pays a fixed contribution to a separate entity and has no legal or constructive obligation to pay future amounts. Obligations for contributions to defined contribution plans are recognized as personnel expense in profit or loss in the periods during which the related service are rendered by employees. Pre-paid contributions are recognized as an asset to the extent that cash refund or reduction in future payments is available. Contributions to a defined contribution plan being due for more than 12 months after the end of the period in which the employee render the service are discounted at their present value. The following is the defined contribution plan provided by the Microfinance to its employees:

Social Security Fund (SSF)

In accordance with law, all employees of the Microfinance are entitled to receive benefits under the SSF, a defined contribution plan in which both the employee and the Microfinance contribute monthly at a pre-determined rate (currently,11% + 20% = 31% of the basic salary plus grades). Microfinance does not assume any future liability other than its annual contribution.

ii. Defined Benefit Plan

Gratuity

For defined benefit plans, the liability recognized in the statement of financial position is the present value of the defined benefit obligation less the fair value of plan assets. Microfinance contributes monthly gratuity amount of all employees in the Social Security fund as per the Labor Act and SSF Act. However, extra contributions are allocated and maintained by the microfinance itself for few of its long term service employees' carried over from the then institution as per the terms of condition during the transformation which is shown as payable under other liabilities.

Leave Benefit

The employees of the Microfinance are entitled to carry forward a part of their unveiled/ unutilized leave subject to a maximum limit. The employees can en-cash unveiled/ unutilized leave partially in terms of Employee Service Byelaws of the Microfinance. The Microfinance has made enough provision for leave encashment as per it.

4.14 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date 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, even if that right is not explicitly specified in an arrangement.

The Institution as a Lessee:

Finance leases that transfer to the Institution substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in Finance cost in the income statement. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Institution will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Leases that do not transfer to the Institution substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Where the rentals are structured solely to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases, such increases are recognized in the year in which such benefits accrue.

The Institution as a lessor:
RULB, as per prevailing laws and regulations relating to bank and financial institutions, doesn't have any property which it avails for lease.

4.15 Share Capital and Reserve

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

Incremental costs directly attributable to issue of an equity instruments are deducted from the initial measurement of the equity instruments.

The Share Capital in balance sheet is shown after deducting the underwriting fees expenses of Rs.45,000.

The reserves include regulatory and other reserves excluding retained earnings.

4.16 Earnings per share including diluted

Basic earnings per share is computed by dividing the profit/(loss) for the year by the weighted average number of equities shares outstanding during the year.

Diluted earnings per share is computed by dividing the profit/(loss) for the year as adjusted for dividend, interest and other charges to expense or income (net of any attributable taxes) relating to the dilutive potential equity shares, by the weighted average number of equity shares considered for deriving basic earnings per share and the weighted average number of equity shares which could have been issued on the conversion of all dilutive potential equity shares. Potential equity shares are deemed to be dilutive only if their conversion to equity shares would decrease the net profit per share from continuing ordinary operations. Potential dilutive equity shares are deemed to be converted as at the beginning of the period, unless they have been issued at a later date.

There are no instruments, such as convertibles, that would require dilution of EPS, therefore diluted EPS is same as basic EPS.

4.17 Segment reporting

The Microfinance uses following basis for identification of the operating segments:

a) Components from which the Microfinance earns revenues and incurs expenses,
b) Components whose operating results are reviewed by the management to make decision about resource allocation to each segment and assess its performance, and
c) Components for which discrete financial information is available.
Accordingly, the Microfinance has recognized its area office as its operating segments since the Microfinance performs its business activities through these components.

Segment results that have been reported include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The income, expenses, assets & liabilities that cannot be allocated to segments identified or those related to head office are unallocated.

5. Additional Information and Disclosures

5.1 Share options and share based payment

There is no share-based payment made by the Microfinance.

5.2 Contingent liabilities and commitment

There is no contingent liabilities and commitment made by the microfinance, Comprehensive disclosure of the contingent liabilities and commitments are made.

5.3 Related Party Disclosure

The Microfinance identifies the following as the related parties under the requirements of NAS 24:

1. Directors of the Microfinance and their close family members, if any
2. Key Managerial Personnel and their close family members, if any
3. Promoter Commercial Banks of the Microfinance
4. Promoter of the Microfinance
5. Subsidiary of major shareholders

The related party disclosures as presented below:

5.4 Promoter Commercial Banks and others of the Microfinance

S.N	Particulars	% of Holding	Shares Holding(No of Shares)
1	Nepal Grameen Bikash Sanstha	28.85%	75,000,000
2	Rastriya Banijya Bank Ltd.	21.15%	55,000,000
3	Prabhu Bank Ltd.	11.54%	30,000,000
	Total	**61.54%**	**160,000,000**

5.5 Transaction with promoter commercial banks and their major shareholders for this quarter:

Transaction and balances	Rastriya Banijya Bank Ltd.	Prabhu Bank Ltd.
Borrowings	274,843,788.35	110,161,956.45
Interest on borrowings	18,988,039.57	12,421,137.04
Other transaction	-	-

5.6 Transaction with promoter for this quarter

Name of	Loans & Advances	Interest on Loans & Advances	Other Transaction
-	-	-	-
-	-	-	-

5.7 Transaction with and payments to directors of Microfinance

The details relating to compensation paid to directors were as follows:

Particulars	Magh to Chaitra 2079
Meeting Fees	126,000.00
Other expenses	8,400.00
Total	**134,400.00**

5.8 Details of the Board of Directors and their composition

Board of Directors	Post	Remarks
Mr. Chiranjivi Buddha Chhetri (B.C)	Chairman	
Mr. Pradeep Kumar Timilsina	Director	
Mr. Bimal Dangol	Director	
Mrs. Rita Sapkota Poudel	Director	
Mr. Vijaya Kumar Chhetri	Independent Director	Appointed in this period

5.9 Transaction with and payment to Key Management Personnel (KMP)

The key management personnel are those persons having authority and responsibility of planning, directing and controlling the activities of the entity, directly or indirectly including any director. Related party disclosure of directors is presented in above point. The microfinance considers Executive Director (ED) to be its KMP. The details relating to the remuneration paid and other facilities provided to Executive Director of the Microfinance is as follows:

Particulars	Magh to Chaitra 2079
Salary	1,260,000.00
Allowance	5,22,000.00
SSF	252,000.00
Bonus	0.00
Total	**2,034,000.00**

*Bonus and welfare fund is provided as per prevalent rules and regulations.

5.10 Merger and acquisition

The RULB has planned to go into acquisition with Asha Laghubitta Bittiya Sanstha Limited in the near future and has signed an MOU in this respect.

5.11 Additional Disclosure of non-consolidated entities.

Not Applicable.

5.12 Events after reporting date

Accounting Policy

The Microfinance monitors and assesses events that may have potential impact to qualify as adjusting and / or non-adjusting events after the end of the reporting period. All adjusting events are adjusted in the books with additional disclosures and non-adjusting material events are discloses in the notes with possible financial impact, to the extent ascertainable.

Explanatory Notes

There are no material events that have occurred subsequent to Quarter End 2079.

5.13 Proposed Dividend

The Microfinance has not proposed any dividend during this period.