



*

MEROMICROFINANCE LAGHUBITTA BITTIYA SANSTHA LIMITED

**INTERIM FINANCIAL STATEMENT
(UNAUDITED)**

FIRST QUARTER-END

F/Y 2081/82



INTERIM FINANCIAL STATEMENT
MEROMICROFINANCE LAGHUBITTA BITTIYA SANSTHA LIMITED
Unaudited Condensed Statement of Financial Position
As on Quarter Ended 30th Ashwin 2081

| Particulars | <i>Amount (NPR)</i> | |
|---|-----------------------|--------------------------------|
| | This Quarter Ending | Immediate Previous Year Ending |
| Assets | | |
| Cash & Cash Equivalents | 303,640,774 | 584,264,558 |
| Statutory Balances and Due from Nepal Rastra Bank | 60,357,490 | 60,357,490 |
| Placement with Banks & Financial Institutions | - | - |
| Derivative Financial Institutions | - | - |
| Other Trading Assets | - | - |
| Loans and Advances to MFIs & Cooperatives | - | - |
| Loan & Advances to Customers | 13,899,214,267 | 13,850,160,504 |
| Investment Securities | 47,093,048 | 47,093,048 |
| Current Tax Assets | 8,020,715 | - |
| Investment Property | - | - |
| Property and Equipment | 121,678,363 | 117,982,240 |
| Goodwill and Intangible Assets | 806,544 | 926,761 |
| Deferred Tax Assets | 32,775,150 | 32,775,150 |
| Other Assets | 68,599,839 | 65,376,627 |
| Total Assets | 14,542,186,190 | 14,758,936,378 |
| Liabilities | | |
| Due to Bank and Financial Institutions | - | - |
| Due to Nepal Rastra Bank | - | - |
| Derivative Financial Instruments | - | - |
| Deposits from Customers | 3,431,338,807 | 3,407,984,072 |
| Borrowings | 8,091,162,118 | 8,368,320,721 |
| Current Tax Liabilities | - | 5,299,900 |
| Provisions | 1,640,449 | 2,083,610 |
| Deferred Tax Liabilities | - | - |
| Other Liabilities | 894,347,305 | 856,272,093 |
| Debt Securities Issued | - | - |
| Subordinated Liabilities | - | - |
| Total Liabilities | 12,418,488,679 | 12,639,960,397 |
| Equity | | |
| Share Capital | 1,320,000,000 | 1,320,000,000 |
| Share Premium | - | - |
| Retained Earnings | 151,085,767 | 196,231,933 |
| Reserves | 652,611,734 | 602,744,048 |
| Total Equity | 2,123,697,501 | 2,118,975,981 |
| Total Liabilities and Equity | 14,542,186,190 | 14,758,936,378 |

MEROMICROFINANCE LAGHUBITTA BITTIYA SANSTHA LIMITED
Unaudited Condensed Statement of Profit and Loss
For the Quarter Ended on 30th Ashwin 2081



| Particulars | Current Year | | Previous Year Corresponding | |
|--|--------------------|--------------------|-----------------------------|---------------------|
| | This Quarter | Upto This Quarter | This Quarter | Upto This Quarter |
| Interest Income | 478,736,325 | 478,736,325 | 483,154,420 | 483,154,420 |
| Interest Expense | 256,838,781 | 256,838,781 | 323,843,121 | 323,843,121 |
| Net Interest Income | 221,897,544 | 221,897,544 | 159,311,299 | 159,311,299 |
| Fee and Commission Income | 20,255,728 | 20,255,728 | 26,711,006 | 26,711,006 |
| Fee and Commission Expense | - | - | - | - |
| Net Fee and Commission Income | 20,255,728 | 20,255,728 | 26,711,006 | 26,711,006 |
| Net Interest, Fee and Commission Income | 242,153,272 | 242,153,272 | 186,022,304 | 186,022,304 |
| Net Trading Income | - | - | - | - |
| Other Operating Income | 461,657 | 461,657 | - | - |
| Total Operating Income | 242,614,929 | 242,614,929 | 186,022,304 | 186,022,304 |
| Impairment Charge/ (Reversal) for Loans and Other Losses | 53,685,889 | 53,685,889 | 69,705,904 | 69,705,904 |
| Net Operating Income | 188,929,040 | 188,929,040 | 116,316,400 | 116,316,400 |
| Operating Expense | 183,454,370 | 183,454,370 | 178,891,926 | 178,891,926 |
| Personnel Expenses | 134,051,790 | 134,051,790 | 143,181,006 | 143,181,006 |
| Other Operating Expenses | 39,307,547 | 39,307,547 | 25,428,938 | 25,428,938 |
| Depreciation & Amortisation | 10,095,033 | 10,095,033 | 10,281,982 | 10,281,982 |
| Operating Profit | 5,474,671 | 5,474,671 | (62,575,525) | (62,575,525) |
| Non-Operating Income | 1,000 | 1,000 | 28,217 | 28,217 |
| Non-Operating Expense | - | - | - | - |
| Profit Before Income Tax | 5,475,671 | 5,475,671 | (62,547,308) | (62,547,308) |
| Income Tax Expense/(Income) | | | | |
| Current Tax | 1,825,224 | 1,825,224 | - | - |
| Deferred Tax | - | - | - | - |
| Profit for the Period | 3,650,447 | 3,650,447 | (62,547,308) | (62,547,308) |

Statement of Comprehensive Income

| Particulars | Current Year | | Previous Year Corresponding | |
|---|--------------|-------------------|-----------------------------|-------------------|
| | This Quarter | Upto This Quarter | This Quarter | Upto This Quarter |
| Profit for the year | 3,650,447 | 3,650,447 | (62,547,308) | (62,547,308) |
| Other Comprehensive Income, Net of Income Tax | | | | |
| a) Items that will not be reclassified to profit or loss | | | | |
| Gains/(losses) from investment in equity instruments measured at fair value | - | - | - | - |
| Gains/(losses) on revaluation | - | - | - | - |
| Actuarial gains/(losses) on defined benefit plans | - | - | - | - |
| Income tax relating to above items | - | - | - | - |
| Net other comprehensive income that will not be reclassified to profit or loss | - | - | - | - |
| b) Items that are or may be reclassified to profit or loss | | | | |
| Gains/(losses) on cash flow hedge | - | - | - | - |
| Exchange gains/(losses)(arising from translating financial assets of foreign operation) | - | - | - | - |
| Income tax relating to above item | - | - | - | - |



| | | | | |
|--|-----------|-----------|--------------|--------------|
| Net other comprehensive income that are or may be reclassified to profit or loss | - | - | - | - |
| c) Share of other comprehensive income of associate accounted as per equity method | | | | |
| Other Comprehensive Income for the year, Net of Income Tax | | | | |
| Total Comprehensive Income for the period | 3,650,447 | 3,650,447 | (62,547,308) | (62,547,308) |
| Earnings per share | | | | |
| Annualized Basic Earnings Per Share | | 1.11 | | (18.95) |
| Diluted earnings per share | | 1.11 | | (18.95) |

Ratios as per NRB Directives

| Particulars | Current Year | | Previous Year Corresponding | |
|---|--------------|-------------------|-----------------------------|-------------------|
| | This Quarter | Upto This Quarter | This Quarter | Upto This Quarter |
| Capital Fund to RWA | | 12.95% | | 12.15% |
| Non-performing loan (NPL) to total loan | | 9.39% | | 11.50% |
| Total Loan Loss Provision to Total NPL | | 32.30% | | 25.34% |
| Cost of Funds | | 9.25% | | 11.14% |
| Credit to Deposit and Borrowing Ratio | | 120.82% | | 118.72% |
| Base Rate | | 15.87% | | 17.26% |
| Interest Rate Spread | | 5.72% | | 4.48% |

Details about the Distributable profit for the Quarter

| Particulars | Amount (NPR) |
|---|---------------------|
| Net Profit for the period end 3rd Quarter 2080/81 | 3,650,447 |
| 1. Appropriations | |
| 1.1 Profit required to be appropriated to: | 839,603 |
| a. General Reserve | 730,089 |
| b. Capital Redemption Reserve | - |
| c. Foreign Exchange Fluctuation Fund | - |
| d. Corporate Social Responsibility | 36,504 |
| e. Employee Training Fund | - |
| f. Client Protection Fund | 36,504 |
| g. Other | 36,504 |
| 1.2 Profit required to be transferred to Regulatory Reserve: | 47,957,010 |
| a. Transfer to Regulatory Reserve | 47,957,010 |
| b. Transfer from Regulatory Reserve | - |
| Net Profit for the period end 3rd Quarter 2080/81 available for distribution | (45,146,166) |
| Opening Retained Earnings as on 1st Shrawan 2080 | 196,231,933 |
| Adjustment (+/-) | - |
| Distribution: | |
| Bonus shares issued | - |
| Cash Dividend Paid | - |
| Total Distributable profit or (loss) as on Quarter Ended 31st Ashadh,2081 | 151,085,767 |
| Annualised Distributable Profit/loss per share | 11.45 |



MEROMICROFINANCE LAGHUBITTA BITTIYA SANSTHA LIMITED
Statement of Changes in Equity
For the period ended 30th Ashwin 2081

| Particulars | Share Capital | Share Premium | General Reserve | Corporate social responsibility reserve | Client Protection Fund | Regulatory Reserve | Retained Earning | Actuarial Gain/(Loss) Reserve | Other Reserve | Total Equity |
|---|---------------|---------------|-----------------|---|------------------------|--------------------|--------------------|-------------------------------|---------------|---------------|
| Balance at Shrawan 1, 2079 | 1,320,000,000 | - | 306,459,748 | 1,676,875 | 45,093,048 | 164,070,549 | 75,621,750 | (21,291,624) | 10,654,567 | 1,902,284,913 |
| Adjustment/Restatement | | | | | | | | | | - |
| Adjustment/Restated Balance at Shrawan 1, 2079 | 1,320,000,000 | - | 306,459,748 | 1,676,875 | 45,093,048 | 164,070,549 | 75,621,750 | (21,291,624) | 10,654,567 | 1,902,284,913 |
| Comprehensive Income for the year | | | | | | | | | | |
| Profit for the year | | | | | | | 219,573,131 | | | 219,573,132 |
| Other Comprehensive Income, Net of Tax | | | | | | | | | | - |
| Gains/(losses) from investment in equity instruments measured at fair value | | | | | | | | | | - |
| Gains/(losses) on revaluation | | | | | | | | | | - |
| Actuarial gains/(losses) on defined benefit plans | | | | | | | | | | - |
| Gains/(losses) on cash flow hedge | | | | | | | | | | - |
| Exchange gains/(losses)(arising from translating financial assets of foreign operation) | | | | | | | | | | - |
| Total Comprehensive Income for the year | - | - | - | - | - | - | 219,573,131 | - | - | 219,573,132 |
| Transfer to Reserves during the year | | | 43,914,626 | 2,195,731 | 2,195,731 | 40,164,632 | (98,962,948) | | 10,492,226 | - |
| Transfer from Reserves during the year | | | | (1,134,083) | (6,521,400) | | | | (460,000) | (8,115,484) |
| Contribution to the fund | | | | | 4,723,938 | | | | 509,485 | 5,233,423 |
| Transactions with Owners, directly recognized in Equity | | | | | | | | | | - |
| Share Issued | | | | | | | | | | - |
| Share Based Payments | | | | | | | | | | - |
| Dividends to Equity holders | | | | | | | | | | - |
| Bonus Shares Issued | | | | | | | | | | - |
| Cash Dividend Paid | | | | | | | | | | - |
| Other | | | | | | | | | | - |
| Total Contributions by and Distributions | - | - | 43,914,626 | 1,061,648 | 398,269 | 40,164,632 | 120,610,184 | - | 10,541,712 | 216,691,071 |
| Balance at Ashadh end, 2080 | 1,320,000,000 | - | 350,374,375 | 2,738,523 | 45,491,316 | 204,235,181 | 196,231,933 | (21,291,624) | 21,196,278 | 2,118,975,982 |



| | | | | | | | | | | |
|---|----------------------|----------|--------------------|------------------|-------------------|--------------------|---------------------|---------------------|-------------------|----------------------|
| Balance at Shrawan 1, 2081 | 1,320,000,000 | - | 350,374,375 | 2,738,523 | 45,491,316 | 204,235,181 | 196,231,933 | (21,291,624) | 21,196,278 | 2,118,975,982 |
| Adjustment/Restatement | | | | | | | | | | - |
| Adjustment/Restated Balance as at Shrawan 1, 2081 | 1,320,000,000 | - | 350,374,375 | 2,738,523 | 45,491,316 | 204,235,181 | 196,231,933 | (21,291,624) | 21,196,278 | 2,118,975,983 |
| Comprehensive Income for the period | | | | | | | | | | |
| Profit for the period | | | | | | | 3,650,447 | | | 3,650,448 |
| Other Comprehensive Income, Net of Tax | | | | | | | | | | - |
| Gains/(losses) from investment in equity instruments measured at fair value | | | | | | | | | | - |
| Gains/(losses) on revaluation | | | | | | | | | | - |
| Actuarial gains/(losses) on defined benefit plans | | | | | | | | | | - |
| Gains/(losses) on cash flow hedge | | | | | | | | | | - |
| Exchange gains/(losses)(arising from translating financial assets of foreign operation) | | | | | | | | | | - |
| Total Comprehensive Income for the period | - | - | - | - | - | - | 3,650,447 | - | - | 3,650,448 |
| Transfer to Reserves during the year | | | 730,089 | 36,504 | 36,504 | 47,957,010 | (48,796,613) | | 36,504 | - |
| Transfer from Reserves during the year | | | | | | | | (30,000) | | (30,000) |
| Contribution to the fund | | | | | 603,197 | | | | 497,876 | 1,101,073 |
| Transactions with Owners, directly recognized in Equity | | | | | | | | | | - |
| Share Issued | | | | | | | | | | - |
| Share Based Payments | | | | | | | | | | - |
| Dividends to Equity holders | | | | | | | | | | - |
| Bonus Shares Issued | - | | | | | | | | | - |
| Cash Dividend Paid | | | | | | | | | | - |
| Other | | | | | | | | | | - |
| Total Contributions by and Distributions | - | - | 730,089 | 36,504 | 639,701 | 47,957,010 | (45,146,166) | - | 504,380 | 4,721,518 |
| Balance at Ashwin end, 2081 | 1,320,000,000 | - | 351,104,464 | 2,775,027 | 46,131,017 | 252,192,192 | 151,085,767 | (21,291,624) | 21,700,658 | 2,123,697,501 |



MEROMICROFINANCE LAGHUBITTA BITTIYA SANSTHA LIMITED

Notes to the Interim Financial Statements

For the Quarter ended 30th Ashwin, 2081

1. General Information of Reporting Entity

Mero Microfinance Laghubitta Bittiya Sanstha Limited is a National Level Microfinance Institution domiciled in Nepal, registered as a Public Limited Company under Companies Act 2063 and Banking and Financial Institution Act, 2063. The registered address of the microfinance or finance institution or bank is located at Battar, Nuwakot. Mero Microfinance Laghubitta Bittiya Sanstha Limited is listed on Nepal Stock Exchange and is trading under the code "MERO". Mero Microfinance is involved in deprived sector lending at national level and has a network of 149 branch offices spread over 64 districts of Nepal.

2. Basis of Preparation

The Financial Statements of the Institution have been prepared on an accrual basis of accounting in accordance with Nepal Financial Reporting Standards (NFRS) 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 Financial Statements are in compliance with the requirements of format issued by Nepal Rastra Bank in Directive No.4 of Unified NRB Directives, 2079 for Micro-Finance Institutions.

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

2.1 Statement of Compliance

The Financial Statement has been prepared in accordance with Nepal Financial Reporting Standards (NFRS) as published by the Accounting Standards Board (ASB)-Nepal and pronounced by the ICAN and in the format issued by NRB in directives No.4 of NRB Directive 2079.

2.2 Reporting Period

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

1. For Statement of Financial Position: Ashwin 30, 2081
2. For Statement of Profit & Loss: Shrawan 1, 2081 to Ashwin 30, 2081

2.3 Functional and Presentation currency

Financial Statements are denominated in Nepalese Rupees (NPR), which is the functional and presentation currency of the Microfinance. All financial information presented in NPR has been rounded to the nearest rupees except where indicated otherwise.

3. Use of Estimates, Assumptions and Judgements

The Institution is required to apply the accounting policies that are most appropriate for the circumstance and operating environment. NFRS requires the Institution to exercise judgement in making choice of specific accounting policies and accounting estimates. The Institution, while complying with the reporting standards, makes critical accounting judgments as having potentially material impact on the financial statements.

Description of such estimates and significant accounting policies has been given in the relevant sections wherever they have been applied. These policies are consistently applied to all the years presented, except for the changes in accounting policies disclosed specifically. The underlying assumptions made while making accounting estimates are periodically reviewed and such revisions are recognized in the period in which the estimates are revised and are applied prospectively.



Disclosures of the accounting estimate have been included in the relevant section of the notes whenever the estimates have been applied along with the nature and effect of changes of accounting estimates, if any.

4. Changes in Accounting Policies

The Microfinance 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.

5. Significant Accounting Policies

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

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 Microfinance are disclosed separately, where there have been deviations with recognition and presentation criteria of NFRS.

5.2 Cash and Cash Equivalent

Cash and cash equivalent represent the amount of cash in hand, balances with other banks 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 the Microfinance in the management of short-term commitment.

5.3 Financial Assets and Financial Liabilities

5.3.1 Recognition

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

5.3.2 Classification

a) Financial Assets

The Financial Institution classifies the financial assets as subsequently on the following basis based on the Financial Institution's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets:

Financial assets measured at fair value through amortised cost

The Financial Institution classifies a financial asset measured at amortised cost if both or the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 directly attributable to the acquisition are recognized in profit or loss as incurred. Such assets are subsequently measured at fair value and Changes in fair value are recognized in Statement of profit or loss.



Financial assets at fair value through other Comprehensive income

Investment in an equity instrument that is not held for trading and at the initial recognition, the Financial Institution 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 through other comprehensive income. Such assets are subsequently measured at fair value and changes in fair value are recognized in other comprehensive income.

b) Financial Liabilities

The Financial Institution classifies the financial liabilities as follows:

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 cost is 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.

Financial liabilities 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.

De-recognition

The Financial Institution derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Institution neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Determination of fair value

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

5.3.3 Impairment of Loans and Advances

The Microfinance assesses its loans and advances at each reporting date to determine whether an impairment loss should be provided in the Statement of Profit or loss as per expected credit loss model which is compared with the loss provision prescribed by NRB directive no. 2. Accrued Interest Receivable on loans has been considered under Loans and Advances measured at Amortised Cost.

Loans to employees and its AIR provided according to the Employee Bylaws of the Microfinance are presented under this head. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about several 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 judgments about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows are considered recoverable.



Individual assessment of impairment of exposures means establishing whether objective evidence of impairment exists, estimation of the present value of future cash flows, and calculation of the value of impairment for each individual receivable from the borrower included in this assessment. No individual impairment has been considered for loans and advances of Microfinance as there are thousands of homogeneous loans and advances disbursed within maximum loan limit and no evidences of impairment can be observed individually.

The microfinance has considered impairment of all loans and advances on a collective assessment basis and has categorised loans and advances on loan product types for this purpose. A collective impairment provision is established for:

- Groups of homogeneous loans and advances 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 provision for groups of homogeneous loans is established using statistical methods based on historical loss rate experience, Loss Given Default (LGD) and Probability of Default (PD) computed using the statistical analysis of historical data on delinquency to estimate the amount of loss for each class of portfolio selected on the basis of its product, risk factor, collateral coverage, exposure group etc. Management applies judgement to ensure that the estimate of loss arrived at, on the basis of historical information, is appropriately adjusted to reflect the economic conditions and portfolio factors as at the reporting date. The loss rates are regularly reviewed against actual loss experience.

In assessing the need for collective impairment, management considers factors such as credit quality (for example, loan to collateral ratio, level of restructured performing loans), portfolio size, concentrations and economic factors.

To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the provision depends on the model assumptions and parameters used in determining the collective provision.

The provision amount calculated as per NRB or NFRS, whichever is greater, is used for impairment of the microfinance loans and advances.

5.4 Property and Equipment Recognition and Measurement

Property and Equipment are recognized if

- it is probable that future economic benefits associated with the assets will flow to the Financial Institution
- the cost of the asset can be reliably measured

The cost includes expenditures that are directly attributable to the acquisition of the assets.

Microfinance has elected to measure Property, plant and equipment at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures directly attributable to the acquisition of the asset. Subsequent expenditure is capitalised if it is probable that the future economic benefits from the expenditure will flow to the Microfinance. Ongoing repairs and maintenance to keep the assets in working condition are expensed as incurred. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized within other income in profit or loss.

Assets with costs less than NPR 2,000 are charged off on purchase as revenue expenditure.

Depreciation

Property and Equipment are depreciated from the date they are available for use on 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:



| Property & Equipment Category | Useful life/ (Depreciation Rate) |
|-------------------------------|----------------------------------|
| Building | 5% |
| Leasehold Improvement | Lease Period |
| Furniture & Fixtures | 25% |
| Computer and Accessories | 25% |
| Vehicles | 20% |
| Office Equipment & Others | 25% |

Right of Use Assets have been depreciated over the lease period.

5.5 Goodwill and Intangible Assets

Intangible assets include software and licences and are accounted for in accordance with NAS 38 Intangible Assets and NAS 36 Impairment of Assets. 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.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised over the period of 5 years in the Straight-Line method (SLM). Costs associated with maintaining software are recognised as an expense as incurred.

At each reporting date, these assets are 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.

5.6 Income Tax

Tax expenses comprises of Current Tax and Deferred Tax.

5.6.1 Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities of Nepal in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in Nepal. The liabilities recognised for the purpose of current Income tax, including fees, penalties are included under this head.

5.6.2 Deferred Tax

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the statement of profit or loss together with the deferred gain or loss.

5.7 Deposits, Debt Securities issued and Subordinated Liabilities

The deposits held by the microfinance on behalf of its customers are classified as financial liabilities and measured at amortised cost under effective interest method. The microfinance does not have any debt securities issued and subordinated liabilities.

5.8 Provisions

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflow of resources will be required to settle the obligations and they can be reliably estimated.



5.9 Revenue Recognition

Revenue of Microfinance includes the sum total of interest Income and other non-interest income. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Microfinance and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

5.9.1 Interest Income

Interest income is recognized in profit or loss using the effective interest rate (EIR) method for all financial assets measured at amortised cost. Interest income is earned on bank balances, investments in money market and capital market instruments, loans and advances, etc.

Accrued Interest has been accounted as per "Guideline on Recognition of Interest Income, 2019" issued by Nepal Rastra Bank, in July 2019. Interest from Loans where contractual payments of principal and/or interest are not more than 3 months are considered as Performing loans and Interest Income has been booked accordingly. Remaining Interest Income, in relation to

- Non-Performing Loans (In case of Collateral free loan only), where contractual payments of principal and/or interest are in arrear for more than 3 months & no security is present to cover the payment of principal and/or interest;
- Non-Performing Loans (in case of collateral loan only), where contractual payments of principal and/or interest are in arrear for more than 12 months irrespective of the net realisable value of collateral has been treated as Interest Suspense and accounted accordingly.

5.9.2 Fee and Commission Income

Fees and commissions are generally recognised on an accrual basis when the service has been provided or significant act performed. Service Fee Income/Expenses are recognized on an accrual basis.

5.9.3 Dividend Income

Dividend income is recognised when the Microfinance's right to receive the payment is established, which is generally when the shareholders approve the dividend.

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 Employee Benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. The remuneration package of Microfinance includes both Short-term and long—term benefits and comprises: salary, allowances, paid leave, accumulated leave, gratuity, provident fund and annual statutory bonus. The Financial Institution applies NAS 19 -"Employee Benefits" in accounting of all employee benefits and recognizes the following in its financial statements:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the Financial Institution consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

5.12 Leases and Right of Use Assets

Lease Liability is the present value of the lease payments that are not paid at that date and has been created to comply with NFRS-16. It has been recognized and measured initially at the present value of the lease payments that are not paid at that date. Incremental borrowing rate used during the measurement of lease liability has been considered as per published NRB Rate.

No lease liability has been calculated for

- Short-term lease
- Leases for which the underlying asset is of low value.

It has been shown as a separate account head under Other Liabilities as retrospectively to each prior reporting period presented applying NAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.



5.13 Share Capital and Reserves

5.13.1 Share Capital

Capital instruments issued are classified as equity instruments or financial liabilities in accordance with the substance of the contractual terms of the instruments. Equity instrument is defined as the residual interest in total assets of the microfinance 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 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 recognised in equity in the period in which they are declared. Share issue expense was charged in the year of issue through statement of profit or loss before the NFRS implementation which has been rectified and disclosed in the statement of changes in equity. Tax impact is also disclosed.

5.13.2 Reserves

The reserves include retained earnings and other statutory reserves such as general reserve, regulatory reserve, investment adjustment reserve, Client Protection Fund, CSR reserve etc.

a) General Reserve

General reserve is the statutory reserve. In this reserve, 20% of the net profit computed as per regulatory books is set aside as per the Bank and Financial Institutions Act, 2073. The reserve is the accumulation of setting aside profits over the years. Further, if the dividend is declared for more than 20%, then 50% of the amount more than 20% is also added in the general reserve as per the Clause 13 of NRB Directive No. 1/79.

No type of dividend (cash or bonus share) has been distributed from the amount in general reserve. Approval of NRB shall be required in order to use the amount in this reserve.

b) Corporate Social Responsibility Fund

The fund created as per NRB Directive for corporate social responsibility by allocating 1% of Net profit computed as per Regulatory books is presented under this account head.

c) Client Protection Fund

Client protection fund is created at 1% of net profit as per Clause 1 (Ja) of NRB Directive No.4/79. In addition, if the Microfinance distribute dividend in excess of 20%, client protection has to be created at 25% of such excess dividend distributed amount.

d) Fair Value Reserves

The fair value reserve comprises the cumulative net change in the fair value of financial assets that are measured at fair value and the changes in fair value is recognized in other comprehensive income, until the assets are derecognized. The cumulative amount of changes in fair value of those financial assets shall be presented under this account head.

e) Revaluation Reserve

Any Reserve created from revaluation of assets (such as Property & Equipment, Intangible Assets, Investment Property) shall be presented under this heading. Microfinance has followed the cost model therefore no assets revaluation reserve is created.

f) Regulatory Reserve

The amount that is allocated from profit or retained earnings of the institution to this reserve as per the Directive of NRB for the purpose of implementation of NFRSs and is not regarded as free for distribution of dividend (cash as well as bonus shares) shall be presented under this account head.

The amount allocated to this reserve includes interest income recognized but not received in cash, difference of loan loss provision as per NRB directive and impairment on loan and advance as per NFRSs (in case lower impairment is recognized under NFRSs), amount equals to deferred tax



assets, actuarial loss recognized in other comprehensive income, amount of goodwill recognized under NFRSs etc.

g) Actuarial Gain/(Loss) Reserve

This is a non-statutory reserve and is a requirement in the application of accounting policy for employee benefits. NAS 19 requires that actuarial gain or loss resultant of the change in actuarial assumptions used to value defined benefit obligations be presented under this reserve heading.

Any change in this reserve heading is recognized through other comprehensive income and is not an appropriation of net profit. Microfinance has complied with this accounting policy application.

h) Other reserves

Any reserve created with the specific or non-specific purpose (except stated above) is presented under this by disclosing accounting heads. Staff Welfare Fund and Employee Training and Capacity Development Fund have been classified under Other reserves.

Employee Training and Capacity Development Fund is a statutory reserve required as per Clause 5 of NRB directive no. 6/79. Microfinance is required to incur expenses towards employee training and development for an amount that is equivalent to at least 3% of total employee's salary and allowances incurred in the preceding year. If it fails to incur such expenses, additional fund has to be created for such shortfall amount. Opening amount of Deferred Tax Reserve has been adjusted against Retained Earnings and presented under Regulatory Reserve for FY 2079/80.

5.14 Earnings per share including diluted

The Microfinance measures earning per share based on the earnings attributable to the equity shareholders for the period. The number of shares is taken as the weighted average number of shares for the relevant period as required by NAS 33 - Earnings Per Share.

There are no instruments, such as convertibles, that would require dilution of EPS, therefore diluted EPS has not been computed and disclosed.

5.15 Segment Reporting

The Microfinance's segmental reporting is as per NFRS 8-Operating Segments. Operating segments are reported in a manner consistent with the internal reporting provided to the microfinance's management committee, which is responsible for allocating resources and assessing the 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. Detailed information on the Microfinance's Operating segment is presented in 6.

6. Operating Segment Information

A component of the Microfinance that engages in business activities from which it may earn revenues and incur losses, including revenue and expenses that relate to transactions with any other components of the microfinance, whose operating results are reviewed regularly by the management to make decisions about resources allocation to each segment and assess its performance, and for which discrete financial information is available is termed as operating segment.



A. Information about profit or loss, assets, and liabilities ('000)

| Particulars | | Revenue from external customers | Intersegment revenue | Segment profit/ (loss) | Segment assets | Segment liabilities |
|-------------|-------------------------------------|---------------------------------|----------------------|------------------------|----------------|---------------------|
| Province 1 | Current Quarter | 55,122 | - | (14,668) | 1,933,822 | 491,792 |
| | Corresponding Previous Year Quarter | 56,395 | - | (23,209) | 1,762,660 | 417,564 |
| Province 2 | Current Quarter | 165,970 | - | (33,018) | 6,105,614 | 1,435,392 |
| | Corresponding Previous Year Quarter | 172,980 | - | (61,831) | 5,633,549 | 1,150,111 |
| Province 3 | Current Quarter | 65,992 | - | 14,713 | 3,207,130 | 9,729,911 |
| | Corresponding Previous Year Quarter | 68,910 | - | 21,645 | 2,327,789 | 9,323,395 |
| Province 4 | Current Quarter | 15,290 | - | (2,880) | 506,655 | 211,485 |
| | Corresponding Previous Year Quarter | 13,615 | - | (5,458) | 450,136 | 181,650 |
| Province 5 | Current Quarter | 66,864 | - | (23,267) | 2,596,431 | 867,644 |
| | Corresponding Previous Year Quarter | 68,512 | - | (38,022) | 2,407,661 | 673,096 |
| Province 6 | Current Quarter | 20,699 | - | (2,737) | 710,759 | 246,413 |
| | Corresponding Previous Year Quarter | 22,382 | - | (6,425) | 698,247 | 200,539 |
| Province 7 | Current Quarter | 31,961 | - | (8,618) | 1,103,595 | 431,873 |
| | Corresponding Previous Year Quarter | 32,917 | - | (13,685) | 1,051,835 | 329,739 |
| Total | Current Quarter | 421,899 | - | (70,474) | 16,164,006 | 13,414,510 |
| | Corresponding Previous Year Quarter | 435,711 | - | (126,985) | 14,331,877 | 12,276,094 |



B. Reconciliation of Reportable Segment profit or loss ('000)

| Particulars | Upto Current Quarter | Upto Corresponding Previous Year Quarter |
|---|----------------------|--|
| Total profit before tax for reportable segments | (70,474) | (126,985) |
| Profit before tax for other segments | - | - |
| Elimination of inter-segment profit | - | - |
| Elimination of discontinued operation | - | - |
| Unallocated amounts: | | |
| -Interest Income recognized on accrual basis | 76,122 | 73,533 |
| -Other corporate expenses (Employee Bonus Provision & Others) | (172) | (9,095) |
| Profit Before Tax | 5,476 | (62,547) |

7. Related Party Disclosures

In the ordinary course of its business operation, Microfinance has conducted commercial transactions with parties who are defined as related parties in NAS 24 "Related Party Disclosures".

Compensation of Board of Directors

| Particulars | Amount |
|-------------------------------------|---------------|
| Meeting Fees | 80,500 |
| News Paper and Telephone Allowances | - |
| Total | 80,500 |

Compensation of Chief Executive Officer

| Particulars | Amount |
|--|------------------|
| Short Term Employee Benefits and Bonus | 1,803,220 |
| Travelling and daily Allowances | 68,910 |
| Total | 1,872,130 |

8. Dividend Paid

None.

9. Issue, Purchase, and Repayment of debt and equity Securities.

None.

10. Events after Interim Period

There are no material events after the reporting date affecting financial status of the Microfinance.

11. Effect of changes in the composition of the entity during the interim period including merger & Acquisition

No such events occurred.