

Swabalamban Laghubitta Bittiya Santha Ltd.

"D" Class Financial Institution Licensed by Nepal Rastra Bank



Unaudited Interim Financial Statements

For the period ended Poush, 2080

Fiscal Year: 2080/81

Kamalpokhari, Kathmandu, Nepal

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Unaudited Condensed Statement of Financial Position

For the Quarter ended 29th Poush 2080

Amount in NPR

| Particulars | This Quarter Ending | Immediate Previous Year Ending |
|---|-----------------------|-----------------------------------|
| Assets | | |
| Cash and Cash Equivalent | 943,753,568 | 1,040,212,291 |
| Statutory Balances and Due from Nepal Rastra Bank | 81,697,810 | 69,039,299 |
| Placement with Bank & Financial Institutions | - | - |
| Derivative Financial Instruments | - | - |
| Other Trading Assets | - | - |
| Loan and Advances to MFIs & Cooperatives | - | - |
| Loans And Advances to Customers | 18,357,518,723 | 18,293,558,219 |
| Investment Securities | 800,000 | 800,000 |
| Current Tax Assets | 116,221,002 | - |
| Investment Property | - | - |
| Property and Equipment | 58,039,683 | 48,039,500 |
| Goodwill and Intangible Assets | 3,128,270 | 3,873,156 |
| Deferred Tax Assets | 263,092,755 | 264,999,573 |
| Other Assets | 279,784,120 | 187,905,664 |
| Total Assets | 20,104,035,931 | 19,908,427,702 |
| Liabilities | | |
| Due to Bank and Financial Institutions | 3,421,222,976 | 3,210,128,909 |
| Due to Nepal Rastra Bank | - | 266,666,667 |
| Derivative Financial Instrument | - | - |
| Deposits from Customers | 13,352,647,942 | 12,805,771,997 |
| Borrowing | - | - |
| Current Tax Liabilities | - | 70,879,575 |
| Provisions | - | - |
| Deferred Tax Liabilities | - | - |
| Other Liabilities | 225,621,172 | 296,963,470 |
| Debt Securities Issued | - | - |
| Subordinated Liabilities | - | - |
| Total liabilities | 16,999,492,090 | 16,650,410,618 |
| Equity | | |
| Share Capital | 1,450,000,000 | 1,290,495,500 |
| Share Premium | 868,762 | 868,762 |
| Retained Earning | 76,195,287 | 582,838,109 |
| Reserves | 1,577,479,792 | 1,383,814,714 |
| Total Equity | 3,104,543,842 | 3,258,017,084 |
| Total liabilities and equity | 20,104,035,931 | 19,908,427,702 |
| Contingent liabilities and commitment | | |
| Net assets value per share | 214.11 | 252.46 |

Swabalamban Laghubitta Bittiya Sanstha Ltd.
Unaudited Condensed Statement of Profit or Loss
For the Quarter ended 29th Poush 2080

Amount in NPR

| | This Quarter Ending | | Previous Year Corresponding | |
|---|---------------------|--------------------|-----------------------------|--------------------|
| | This Quarter | Upto this Quarter | This Quarter | Upto this Quarter |
| Interest Income | 689,009,856 | 1,410,892,418 | 714,429,404 | 1,488,071,226 |
| Interest Expense | 367,047,727 | 744,273,175 | 397,291,883 | 777,176,192 |
| Net interest income | 321,962,129 | 666,619,243 | 317,137,521 | 710,895,034 |
| Fees and Commission Income | 86,958,448 | 179,841,543 | 103,243,048 | 207,159,334 |
| Fees and Commission Expense | - | - | - | 62,845 |
| Net fee and Commission income | 86,958,448 | 179,841,543 | 103,243,048 | 207,096,489 |
| Net interest fee and commission income | 408,920,577 | 846,460,787 | 497,000,561 | 917,991,523 |
| Net Trading Income | - | - | - | - |
| Other Operating Income | 2,349,278 | 10,673,500 | 17,000 | 17,000 |
| Total operating income | 411,269,855 | 857,134,286 | 497,017,561 | 918,008,523 |
| Impairment charge/(reversal) for loans and other losses | 176,689,609 | 292,500,955 | (38,931,970) | 90,344,739 |
| Net Operating income | 234,580,246 | 564,633,331 | 535,949,531 | 827,663,784 |
| Operating expenses | | | | - |
| Personnel Expense | 189,582,048 | 427,387,999 | 187,621,683 | 414,117,232 |
| Other Operating Expenses | 29,698,011 | 69,481,308 | 31,949,085 | 63,263,610 |
| Depreciation and amortisation | 4,200,000 | 8,400,000 | 4,355,423 | 7,205,631 |
| Operating Profit | 11,100,188 | 59,364,024 | 312,023,340 | 343,077,311 |
| Non operating income | 6,900 | 12,000 | 133,379 | 192,033 |
| Non operating expense | - | - | (133,379) | (133,379) |
| Profit before income tax | 11,107,088 | 59,376,024 | 312,023,340 | 343,135,965 |
| Income tax expense | 3,332,126 | 17,812,807 | 70,804,123 | 102,940,789 |
| Current tax | 3,332,126 | 17,812,807 | 70,804,123 | 102,940,789 |
| Deferred tax Expense/(Income) | - | - | - | - |
| Profit for the Year | 7,774,961 | 41,563,217 | 241,219,218 | 240,195,175 |
| Profit attributable to: | | | | - |
| Equity holders of the Financial Institution | 9,681,779 | 41,563,217 | 165,209,619 | 240,195,175 |
| Profit for the Year | 9,681,779 | 41,563,217 | 165,209,619 | 240,195,175 |
| Earnings per share: | | | | |
| Basic earnings per share | | 2.87 | | 21.40 |
| Annualized earnings per share | | 5.73 | | 42.81 |
| Diluted earnings per Share | | 5.73 | | 42.81 |

Swabalamban Laghubitta Bittiya Sanstha Ltd.
Statement of Other Comprehensive Income
For the Quarter ended 29th Poush 2080

Amount in NPR

| | This Quarter Ending | | Previous Year Corresponding | |
|---|---------------------|-------------------|-----------------------------|-------------------|
| | This Quarter | Upto this Quarter | This Quarter | Upto this Quarter |
| Profit for the Year | 9,681,779 | 41,563,217 | 165,209,619 | 240,195,175 |
| 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 Items | | | | |
| • Reclassify to Profit or Loss | | | | |
| Net Other Comprehensive Income that are or may be Reclassified to Profit or Loss | - | - | - | - |
| Other Comprehensive Income for the year, Net of Income Tax | - | - | - | - |
| Total Comprehensive Income for the Year | 9,681,779 | 41,563,217 | 165,209,619 | 240,195,175 |
| Total Comprehensive Income for the Period | 9,681,779 | 41,563,217 | 165,209,619 | 240,195,175 |

| Particulars | Current Year | Previous Year Corresponding |
|---|-------------------|-----------------------------|
| | Upto This quarter | Upto This quarter |
| Capital fund to RWA | 11.35% | 12.14% |
| Non-Performing Loan(NPL) to total loan | 11.36% | 7.10% |
| Total loan loss provision to Total NPL | 91.97% | 105.02% |
| Cost of Funds | 8.83% | 8.84% |
| Credit to Deposit and borrowing Ratio | 109.44% | 163.15% |
| Base Rate | 14.56% | 12.74% |
| Interest Rate Spread | 6.15% | 3.83% |

Unaudited Condensed Statement of Financial Position
Statement of Cash Flows
As on Poush 29,2080

| | Amount in NPR | |
|---|----------------------|--------------------------------|
| | This Quarter Ending | Immediate Previous Year Ending |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Interest Received | 1,410,892,418 | 3,081,500,677 |
| Fee and Other Income Received | 179,853,543 | 412,565,990 |
| Dividend Received | - | - |
| Receipts from Other Operating Activities | - | - |
| Interest Paid | (731,031,821) | (1,523,485,378) |
| Commission and Fee Paid | - | (132,274) |
| Cash Payments to Employees | (381,300,575) | (903,884,489) |
| Other Expense Paid | (69,499,074) | (165,322,978) |
| Operating Cash Flows before Change in Operating Assets and Liabilities | 408,914,492 | 901,241,547 |
| (Increase)/Decrease in Operating Assets | (799,801,310) | 284,778,275 |
| Due from Nepal Rastra Bank | (12,658,511) | 31,460,701 |
| Placement with Banks and Financial Institutions | - | - |
| Other Trading Assets | - | - |
| Loan and Advances to Bank and Financial Institutions | - | - |
| Loan and advances to Customers | (674,883,272) | 236,251,434 |
| Other Assets | (112,259,527) | 17,066,140 |
| Increase/(Decrease) in Operating Liabilities | 502,610,072 | (1,073,555,067) |
| Due to Bank and Financial Institutions | 211,094,067 | (1,238,109,353) |
| Due to Nepal Rastra Bank | (266,666,667) | (733,333,333) |
| Deposits from Customers | 546,875,945 | 815,238,596 |
| Borrowings | - | - |
| Other Liabilities | 11,306,726 | 82,649,023 |
| Net Cash flow from Operating Activities before Tax Paid | 111,723,254 | 112,464,755 |
| Income Taxes Paid | (204,913,384) | (195,771,392) |
| Net Cash Flow from Operating Activities | (93,190,130) | (83,306,637) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Investment Securities | - | - |
| Receipts from Sale of Investment Securities | - | - |
| Purchase of Property and Equipment | (17,655,296) | (24,847,429) |
| Receipt from Sale of Property and Equipment | 10,673,500 | 59,750 |
| Purchase of Intangible Assets | - | - |
| Receipt from Sale of Intangible Assets | - | - |
| Purchase of Investment Properties | - | - |
| Receipt from the sale of Investment Properties | - | - |
| Interest Received | - | - |
| Dividend Received | - | - |
| Net cash Used in Investing Activities | (6,981,797) | (24,787,679) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Receipt from Issue of Debt Securities | - | - |
| Repayment of Debt Securities | - | - |
| Receipt from Issue of Subordinated Liabilities | - | - |
| Repayment of Subordinated Liabilities | - | - |
| Receipt from Issue of Shares | - | - |
| Dividend Paid | (8,394,974) | (67,920,816) |
| Interest Paid | - | - |
| Other Receipts/Payment | 12,108,178 | 11,692,546 |
| Net Cash from Financing Activities | 3,713,204 | (56,228,270) |
| Net Increase/(Decrease) in Cash and Cash Equivalents | (96,458,723) | (164,322,586) |
| Cash and Cash Equivalents at Shrawan 01, 2079 | 1,040,212,290 | 1,204,534,876 |
| Effect of Exchange Rate fluctuations on Cash and Cash Equivalents Held | - | - |
| Cash and Cash Equivalents Poush 29, 2080 | 943,753,568 | 1,040,212,290 |

Swabalamban Laghubitta Bittiya Sanstha Ltd.
Statement of Changes in Equity
Attributable to Equity holders of the Institution
For the Quarter ended 29th Poush 2080

| Particulars | Share Capital | Share Premium | General Reserve | Exchange Equalisation Reserve | Regulatory Reserve | Fair Value Reserve | Revaluation Reserve | Retained Earning | Other Reserve | Total | Non-Controlling Interest | Total Equity |
|---|----------------------|----------------|--------------------|-------------------------------|--------------------|--------------------|---------------------|-------------------|--------------------|----------------------|--------------------------|----------------------|
| Balance at Shrawan 01, 2080 | 1,290,495,500 | 868,762 | 771,096,423 | - | 406,188,243 | (840,000) | - | 233,938,133 | 369,628,538 | 3,071,375,598 | - | 3,071,375,598 |
| Comprehensive Income for the year | | | | | | | | | | | | |
| Profit for the year | | | | | | | | 41,563,217 | - | 41,563,217 | | 41,563,217 |
| Other Comprehensive Income, Net of Tax | | | | | | | | | | | | |
| Gains/(losses) from investment in equity instruments measured at fair value | | | | | | | | | | - | | - |
| Gains/(losses) on revaluation | | | | | | | | | | - | | - |
| Actuarial gain/(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 | | | | | | | | | | | | |
| Transfer to Reserves during the year | | | 8,312,643 | | 22,262,681 | | | (31,406,589) | 831,264 | (0) | | (0) |
| Transfer from Reserves during the year | | | | | | | | | | | | |
| Transactions with Owners, directly recognized in Equity | | | | | | | | | | | | |
| Share Issued | | | | | | | | | | | | |
| Share Based Payments | | | | | | | | | | | | |
| Dividend to Equity-Holders | | | | | | | | | | | | |
| Bonus Shares Issued | 159,504,500 | | | | | | | (159,504,500) | | | | |
| Cash Dividend Paid | | | | | | | | (8,394,974) | | (8,394,974) | | (8,394,974) |
| Other (Staff Welfare Fund) | | | | | | | | | | | | |
| Total Contributions by and Distributions | 1,450,000,000 | 868,762 | 779,409,066 | - | 428,450,924 | (840,000) | - | 76,195,287 | 370,459,802 | 3,104,543,842 | | 3,104,543,842 |
| Balance at Poush 29, 2080 | 1,450,000,000 | 868,762 | 779,409,066 | - | 428,450,924 | (840,000) | - | 76,195,287 | 370,459,802 | 3,104,543,842 | - | 3,104,543,842 |

Statement of Distributable Profit or Loss
For the year ended 29th Poush, 2080
(As per NRB Regulation)

| Particulars | Current Year Upto This Qtr YTD |
|---|-----------------------------------|
| Net Profit or (Loss) as per statement of Profit or Loss | 41,563,217 |
| Appropriations: | |
| a. General Reserve | (8,312,643) |
| b. Foreign Exchange Fluctuation Fund | - |
| c. Capital Redemption Reserve | - |
| d. Corporate Social Responsibility Fund | (415,632) |
| e. Employees' Training Fund | - |
| f. Client Protection Fund | (415,632) |
| f. Other | - |
| g. Restructure/Reshuddle Provision Write back | - |
| h. Staff Welfare Fund | - |
| Profit or (loss) before regulatory adjustment | 32,419,309 |
| Regulatory adjustment : | |
| a. Interest receivable (-)/previous accrued interest received (+) | (22,262,681) |
| b. Short loan loss provision in accounts (-)/reversal (+) | - |
| c. Short provision for possible losses on investment (-)/reversal (+) | - |
| d. Short loan loss provision on Non Banking Assets (-)/reversal (+) | - |
| e. Deferred tax assets recognised (-)/ reversal (+) | - |
| f. Goodwill recognised (-)/ impairment of Goodwill (+) | - |
| g. Bargain purchase gain recognised (-)/reversal (+) | - |
| h. Actuarial loss recognised (-)/reversal (+) | - |
| i. Other (+/-) | - |
| Net Profit for the year end available for distribution | 10,156,628 |
| Opening Retained Earning as on Shrawan 1st | 233,938,133 |
| Adjustment (+/-) | - |
| Retained Earning from Previous year | - |
| Expense for CSR | - |
| Distribution: | 244,094,760 |
| Bonus Share issued | (159,504,500) |
| Cash Dividend Paid | (8,394,974) |
| Total Distributable Profit or (loss) as on year end date | 76,195,286 |
| Annualised Distributable Profit/Loss per share | 5.96 |

Notes:

- Above financial statements are prepared in accordance with Nepal Financial Reporting Standards(NFRS) and certain Carve-outs issued by the Institute of Chartered Accountants of Nepal (ICAN).These figures may vary at the instances of statutory auditors and regulators.
- The detailed interim financial report has been published in the website (www.swbbl.com.np)
- Loans and Advances are presented net of impairment charges and includes staff loans.
- Actuarial Valuation will be done for Employee Benefits.
- Personnel Expenses also include employee's bonus provision.
- Previous period figures are regrouped/rearranged/restated wherever necessary for consistent presentation and comparison.
- The above figures are subject to change upon otherwise as per the direction of the Regulators and/or Statutory Auditor.

Swabalamban Laghubitta Bittiya Sanstha Limited
Notes to Interim Financial Statements
For the quarter ended 29th Poush, 2080

1. Reporting entity

Swabalamban Laghubitta Bittiya Sanstha Limited (referred to as “the Microfinance” or “SWBBL” hereafter) is a microfinance financial institution. With the mission of delivering sustainable microfinance services at the doorstep of the deprived sector target societies SWBBL was registered with the Company Registrar’s Office as a limited company under the Companies Act, 2053 on October 5, 2001 (Ashwin 19, 2058) and obtained a license from Nepal Rastra Bank– the Central Bank of Nepal on January 3, 2002 (Paush 19, 2058) to operate the financial activities under Development Bank Act, 2052. SWBBL formally started its operation on January 14, 2002 (Magh 1, 2058 B.S.). At the time of establishment, its registered (central) office was in Janakpur, Dhanusha, eastern Terai region of the country. Later, according to the decision made on March 10, 2014, by the Company Registrar’s Office, the central office is shifted to Kathmandu, Nepal.

SWBBL has changed its name to Swabalamban Laghubitta Bittiya Sanstha Ltd in compliance with Bank and Financial Institution Act 2073 from the previous name of Swabalamban Laghubitta Bikas Bank Ltd. on January 6, 2006 (Magh 10, 2062) under the Companies Act., 2005 (2062) and re-obtained license from Nepal Rastra Bank.

2. Basis of Preparation

2.1 Statement of Compliance

The Financial statements of SWBBL have been prepared on 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) and in compliance with the requirement of the companies Act ,2063.

The disclosure made in the condensed interim financial information haven been based on the format prescribed by the Nepal Rastra Bank.

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

2.2 Reporting Period

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

1. For Statements Financial Position : Poush 29,2080
2. For Statement of Profit & Loss : 1st Shrawan ,2080 to Poush 29,2080
3. For Statement of Cash Flows: 1st Shrawan ,2080 to Poush 29,2080

2.3 Functional and Presentation currency

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

2.4 New Standards issued but not yet effective

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

3. Use of Estimates, Assumptions and Judgments

The Laghubitta, under NFRS, is required to apply accounting policies to most appropriately suit its circumstances and operating environment. Further, the Laghubitta is required to make judgments in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the financial statements. This may later be determined that a different choice could have been more appropriate. The NFRS requires the Laghubitta to make estimates and assumptions that will affect the assets, liabilities, disclosure of contingent assets and liabilities, and profit or loss as reported in the financial statements. The Laghubitta applies estimates in preparing and presenting the financial statements and such estimates and underlying assumptions are reviewed periodically. The revision to accounting estimates are recognized in the period in which the estimates are revised and are applied prospectively.

Disclosures of the accounting estimates have been included in the relevant section of the notes wherever 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 applies its accounting policies consistently from year to year except where deviations have been explicitly mandated by the applicable accounting standards.

5. Significant Accounting Policies

The principal accounting policies applied 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 interim financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position.

- Defined benefit schemes, surpluses and deficits are measured at fair value.
- Impairment of asset is measured at fair value and related disposal cost.

5.2 Cash & Cash Equivalent

The fair value of cash is the carrying amount. Cash and cash equivalent 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 the Microfinance in the management of short-term commitment.

5.3 Financial Assets and Financial Liabilities

A. Recognition

The Microfinance recognizes financial assets and financial liabilities with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date i.e., the date that the Microfinance becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account at fair value inclusive of transaction costs. The Microfinance recognises due to customer balances when funds reach the Microfinance.

B. Classification and Measurement

Financial Assets

The Laghubitta classifies the financial assets subsequently measured at amortized cost or fair value on the basis of the Laghubitta'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:

Financial assets measured at amortized cost

The Laghubitta classifies a financial asset measured at amortized cost if both of 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 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 cost is 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 Laghubitta 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.

Financial Liabilities

The Laghubitta classifies its 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 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 rate method.

C. Measurement

Initial Measurement

A financial asset or financial liability is measured initially at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Transaction cost in relation to financial assets and liabilities at fair value through profit or loss are recognized in Statement of Profit or Loss.

Subsequent Measurement

A financial asset or financial liability is subsequently measured either at fair value or at amortized cost based on the classification of the financial asset or liability. Financial asset or liability classified as measured at amortized cost is subsequently measured at amortized cost using effective interest rate method.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or un-collectability.

Financial assets classified at fair value are subsequently measured at fair value. The subsequent changes in fair value of financial assets at fair value through profit or loss are recognized in Statement of Profit or Loss whereas of financial assets at fair value through other comprehensive income are recognized in other comprehensive income.

D. De-recognition

De-recognition of Financial Assets

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

De-recognition of Financial Liabilities

Financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability.

5.4 Determination of Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Microfinance follows three levels of the fair-value-hierarchy are described below:

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 at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data.

5.5 Impairment

Impairment of Loans and Advances

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

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

A collective impairment provision is established for:

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

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

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

- Non Collateral
- Collateral

5.6 Property and Equipment

Recognition and Measurement

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

Depreciation

Property and equipment are depreciated from the date they are available for use on property on straight line method over estimated useful lives. Depreciation is recognized in profit or loss. Leased assets under the finance lease are depreciation over their useful life. Charging of depreciation is ceased from the earlier of the date from which the asset is classified as held for sale or is derecognized. The estimated useful lives of significant items of property and equipment for current year and comparative periods are as follows:

| Types of Assets | Useful Life (in Years) |
|----------------------|------------------------|
| Computer | 5 |
| Furniture | 10 |
| Office_Equipment | 5 |
| Vehicle | 7 |
| Vehicle Four Wheeler | 10 |

The capitalized value of software purchase and installation costs are amortized over a maximum 5-year period or within the ownership period. Assets costing less than NPR 4,000 are fully depreciated in the year of purchase. For assets purchased/ sold during the year, depreciation is provided up to the date of use on pro-rata basis. Depreciation method, useful lives and residual value are reviewed at each reporting date and adjusted, if any.

De-recognition

The carrying amount of an item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of property and equipment is included in the Statement of Profit or Loss when the item is derecognized. When replacement costs are recognized in the carrying amount of an item of property and equipment, the remaining carrying amount of the replaced part is derecognized. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost of inspections is derecognized. Any gain or losses on de-recognition of an item of property and equipment is recognized in profit or loss.

5.7 Income Tax

Tax expense is the aggregate amount included in the determination of profit or loss for the period in respect of current and deferred taxes. The Laghubitta applies NAS 12 – “Income Taxes” for the accounting of Income Tax. Income tax expense is recognized in profit or loss, except to the extent it relates to items recognized directly in equity or directly in other comprehensive income. Tax expense relating to items recognized directly in other comprehensive income is recognized in the Statement of Other Comprehensive Income.

Tax Expense comprises Current Tax and Deferred Tax.

A. Current tax

Current tax comprises the amount of income taxes payable (or recoverable) in respect of the taxable profit (or tax loss) for the reporting period, and any amount adjusted to the tax payable (or receivable) in respect of previous years. It is measured using tax rates enacted, or substantively enacted, at the reporting date. The Financial Institution has determined tax provision for the reported period based on its accounting profit for that period, and incorporating the effects of adjustments for taxation purpose as required under the Income Tax Act, 2058 and amendments thereto, using a corporate tax rate of 30%.

B. Deferred Tax

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of:

- (a) deductible temporary differences;
- (b) the carry forward of unused tax losses; and
- (c) the carry forward of unused tax credits.

Deferred tax is recognized at the reporting date in respect of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and the corresponding amounts used for taxation purposes.

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 comprises of interest income, fees and commission, disposal income, etc. Revenue is recognized to the extent it is probable that the economic benefits will flow to the Laghubitta 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:

A. Interest Income

Interest income on available-for-sale assets and financial assets held at amortized cost shall be recognized using the Microfinance's normal interest rate which is very close to effective interest rate using effective interest rate method.

For income from loans and advances to customers, initial charges are not amortized over the life of the loan and advances as the income so recognized closely approximates the income that would have been derived under effective interest rate method. The difference is not considered material. The Microfinance considers that the cost of exact calculation of effective interest rate method exceeds the benefit that would be derived from such compliance.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Microfinance estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. As per the Carve-out Notice issued by ICAN, the calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts unless it is immaterial or impracticable to determine reliably, between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

B. Fees and commissions

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 accrual basis unless it is impracticable to recognize as allowed through carve-out on NFRS.

C. 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.

D. Net Trading Income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading.

E. Net income from other financial instrument at fair value through Profit or Loss

Gains and losses arising from changes in the fair value of financial instruments designated at fair value through profit or loss are included in the statement of profit or loss in the period in which they arise. Contractual interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

5.10 Interest Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at FVTPL, interest expense is recorded using the EIR unless it is impracticable.

5.11 Employee Benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. The Laghubitta's remuneration package includes both short term and long-term benefits and comprises of Salary, Allowances, leave encashments, provident fund, gratuity and annual statutory bonus. The Laghubitta applies NAS 19- "Employee Benefits" in accounting of all employee benefits and recognizes the followings in its financial statements:

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

5.12 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 fulfilment 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. Lease payments under an operating lease to be recognized as an expense when accrued as the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

5.13 Share Capital and Reserves

A. Share Capital

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

B. General Reserve

This is a statutory reserve and is a compliance requirement of NRB, 20% of the net profit as stated in Bank and financial Institution Act, 2073 and 50% of additional amount of Cash Dividend and Bonus Shares if declared and distributed in excess of 20% as provisioned in NRB directives is set aside to the general reserve.

C. Assets Revaluation Reserve

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

D. Capital Reserve

The capital reserve represents the amount of those reserves which are in nature of capital and which shall not be available for distribution of cash dividend. The amount from share forfeiture due to non-payment of remaining amount for the unpaid shares, capital grants received in cash or kind, capital reserve arising out of merger and acquisition etc are presented under this heading.

E. Special Reserve

Any special reserve that is created as per the specific requirement of NRB directive or special instruction of NRB are represented as special reserve. The amount allocated to this reserve by debiting retained earning account are presented under this heading.

F. Corporate Social Responsibility Fund

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

G. Client Protection Fund

The fund created for the purpose of client protection by allocating 1% of Net profit as per NRB Directive is presented under this account head.

H. Employee Training Fund

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

I. Investment Adjustment Reserve

It is a reserve created on investment such as investment in subsidiary or unlisted investment in equity for more than two years as per the investment directive of Nepal Rastra Bank.

J. Regulatory Reserve

The amount that is allocated from profit or retained earnings of the Microfinance to this reserve as per the Directive of NRB for the purpose of implementation of NFRS and which shall not be regarded as free for distribution of dividend (cash as well as bonus shares) shall be presented under this account head. The regulatory reserve of the Microfinance includes the reserve net of tax created relating to Accrued Interest Receivable as on Ashad End 2079 Reserve on Deferred Tax Assets, Non-Banking Assets, reduction in fair value of investment in equity below cost price, actuarial loss etc.

K. Fair Value Reserve

The amount that is allocated from profit or retained earnings of the Microfinance to this reserve as per the *Directive of NRB for the purpose of implementation of NFRS* and which shall not be regarded as free for distribution of dividend (cash as well as bonus shares) shall be presented under this account head. The fair value reserve of the Microfinance includes the reserve net of tax created relating to Market Value of Share investment.

L. Actuarial Gain/(Loss) Reserve

The amount that is allocated from profit or retained earnings of the Microfinance both positive or negative to this reserve as per the Directive of NRB for the purpose of implementation of NFRS and which shall not be regarded as free for distribution of dividend (cash as well as bonus shares) shall be presented under this account head. This reserve includes actuarial gain/(loss) net of tax on defined benefit plan and long-term employee benefits.

M. Other reserve

Any reserve created with specific or non-specific purpose (except stated in above) are presented under thus by disclosing accounting heads.

Since the Microfinance has also prepared its financial statements as per NRB Directives for regulatory purposes, all appropriations have been done in such financial statements only; accordingly, appropriation for general reserve, CSR fund, employee capability enhancement fund and client protection fund has not been done in the financial statements prepared as per NFRS.

5.14 Earnings per share

The Laghubitta presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Laghubitta by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. The Laghubitta does not hold any dilutive potential ordinary shares, and hence the Basic EPS itself is the Diluted EPS.

6. Related Party Disclosure

In the Ordinary course of its business operations the Laghubitta has conducted commercial transactions with parties who are defined as related parties in NAS 24 "Related Party Disclosure". All those transactions were conducted on an arm's length price basis.

6.1 Allowances and Facilities for Board of Directors

| Particulars | Number of Meetings | Sitting Fees |
|--|--------------------|---------------|
| Board Meeting | 10 | 479,000 |
| Audit Committee | 11 | 168,000 |
| Risk Management Committee | 4 | 84,000 |
| Assets Money Laundering Prevention Committee | 2 | 28,000 |
| Tadartha Committee | 2 | 56,000 |
| Human Resource Committee | 4 | 63,000 |
| Total | 33 | 878000 |

In addition to above meeting allowance, the following amount have been incurred for Board of Directors:

| Nature | Total |
|------------------------|---------|
| Fooding Expenses | 185,007 |
| Communication Expenses | 42,000 |
| Newspaper Expenses | 42,000 |

6.2 Chief Executive Officer's Emoluments and Facilities

| Particulars | Amount |
|--|--------------|
| Short Term Employee Benefits (Including Dashain Allowance) | 2,299,986.27 |
| Post Employment Benefits | 103,590.00 |
| Other Long Term Benefits | - |
| Termination Benefits | - |
| Total | 2,403,576.27 |

6.3 Transaction with Company

| Bank Name | Bank Balance As on 29 th Poush 2080 | Outstanding Borrowing As on 29 th Poush 2080 |
|---------------------------------|---|--|
| Himalayan Bank Ltd. | 58,750,720.00 | 616,000,000.00 |
| Nepal Investment Mega Bank Ltd. | 2,258,430.37 | 285,000,000.00 |
| Nabil Bank Ltd. | 18,703,635.46 | 112,500,000.00 |

7. Dividend

The microfinance has distributed 12.3599% Stock Dividend and 0.6505% Cash Dividend out of profits of F/Y 2079-80 during current period which has been approved from AGM.

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

None.

9. Events after interim Period

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

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

No such events has occurred