Interim Financial Statements

Chhimek Laghubitta Bittiya Sanstha Limited

Unaudited Condensed Statement of Financial Position

As on Quarter ended 32 Asadh, 2082

Amount (NPR)

Particulars	This Quarter Ending	Immediate Previous Year Ending
Assets		
Cash and Cash Equivalent	9,090,555,046.10	8,366,206,604.86
Statutory Balances and due from Nepal Rastra Bank	915,487,730.00	736,452,870.00
Placement with Bank & Financial Institutions	-	-
Derivative Financial Instruments	-	-
Other Trading Assets	-	-
Loan and advances to MFIs & Cooperatives	-	-
Loans and Advances to Customers	39,785,398,036.11	35,330,915,994.52
Investment Securities	684,250,000.00	795,286,389.01
Current Tax Assets	35,237,111.72	1,783,313.70
Investment Property	-	-
Property and Equipment	270,676,117.82	285,315,279.21
Goodwill and Intangible Assets	2,348,903.31	2,701,836.13
Deferred Tax Assets	40,126,380.62	35,416,771.22
Other Assets	945,839,228.30	771,959,032.46
Total Assets	**51,769,918,553.98**	**46,326,038,091.11**
Liabilities		
Due to Bank and Financial Institutions	-	-
Due to Nepal Rastra Bank	-	-
Derivative Financial Instruments	-	-
Deposits from Customers	39,428,776,488.09	33,727,305,657.43
Borrowings	3,023,696,719.27	4,301,709,274.13
Current Tax Liabilities	-	-
Provisions	40,428,113.92	40,428,113.92
Deferred Tax Liabilities	-	-
Other Liabilities	996,177,552.06	912,573,802.43
Debt Securities Issued	-	-
Subordinated Liabilities	-	-
Total Liabilities	**43,489,078,873.34**	**38,982,016,847.91**
Equity		
Share Capital	3,215,345,868.00	2,977,172,100.00
Share Premium	40,967,834.00	40,967,834.00
Retained Earnings	2,084,771,842.69	1,642,829,176.90
Reserves	2,939,754,135.96	2,683,052,132.30
Total Equity	**8,280,839,680.64**	**7,344,021,243.20**
Total Liabilities and Equity	**51,769,918,553.98**	**46,326,038,091.11**

Chhimek Laghubitta Bittiya Sanstha Limited

Unaudited Condensed Statement of Profit & Loss
For the Quarter ended 32 Asadh, 2082

Amount (NPR)

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Interest Income	1,628,586,770.25	6,122,253,023.68	1,598,598,135.98	5,965,676,849.55
Interest Expense	873,385,098.10	3,302,786,184.89	811,828,781.72	3,122,260,516.17
Net Interest Income	**755,201,672.15**	**2,819,466,838.79**	**786,769,354.26**	**2,843,416,333.38**
Fee and Commission Income	67,476,289.57	336,800,302.57	31,155,389.07	244,396,372.07
Fee and Commission Expense	35,819.55	638,167.89	23,782.89	482,967.34
Net Fee and Commission Income	**67,440,470.02**	**336,162,134.68**	**31,131,606.18**	**243,913,404.73**
Net Interest, Fees and Commission Income	**822,642,142.17**	**3,155,628,973.47**	**817,900,960.44**	**3,087,329,738.11**
Net Trading Income	-	-	-	-
Other Operating Income	-	-	3,441,550.89	3,441,550.89
Total Operating Income	**822,642,142.17**	**3,155,628,973.47**	**821,342,511.33**	**3,090,771,289.00**
Impairment Charge/(reversal) for Loans and Other Losses	(38,733,653.72)	90,108,148.23	1,522,543.01	416,271,567.35
Net operating income	**861,375,795.89**	**3,065,520,825.24**	**819,819,968.32**	**2,674,499,721.65**
Operating Expense				
Personnel Expenses	249,489,718.00	1,102,504,429.76	284,254,252.04	1,086,350,940.44
Other Operating Expenses	98,408,311.72	220,781,387.66	67,749,485.74	187,459,781.89
Depreciation & Amortization	12,396,689.96	39,061,586.08	12,813,279.18	41,562,735.78
Operating Profit	**501,081,076.21**	**1,703,173,421.74**	**455,002,951.36**	**1,359,126,263.54**
Non-Operating Income	12,533,384.52	29,780,865.36	12,401,445.41	30,419,617.49
Non-Operating Expense	-	-	-	2,480,825.24
Profit before Income Tax	**513,614,460.73**	**1,732,954,287.10**	**467,404,396.77**	**1,387,065,055.79**
Income Tax Expense				
Current Tax	154,223,513.75	520,079,792.13	175,147,825.11	451,046,022.82
Deferred Tax	-	-		(8,396,846.29)
Profit for the Period	**359,390,946.98**	**1,212,874,494.97**	**292,256,571.66**	**944,415,879.25**

Statement of Comprehensive Income

-

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Profit or loss for the Period	**359,390,946.98**	**1,212,874,494.97**	**292,256,571.66**	**944,415,879.25**
Other Comprehensive Income	(10,989,088.60)	(10,989,088.60)	-	(18,167,864.40)
a) Items that will not be reclassified to profit or loss	-	-	-	-
-Gains/(losses) from investments in equity instruments measured at fair value	-	-	-	-
-Gain/(loss) on revaluation	-	-	-	-
-Actuarial gain/loss on defined benefit plans	(15,698,698.00)	(15,698,698.00)	-	(25,954,092.00)
-Income tax relating to above items	4,709,609.40	4,709,609.40	-	7,786,227.60
Net other comprehenive income that will not be reclassified to profit or loss	**(10,989,088.60)**	**(10,989,088.60)**	**-**	**(18,167,864.40)**
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	-	-	-	-
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 period, net of income tax	-	-	-	-
Total Comprehensive Income for the period	**348,401,858.38**	**1,201,885,406.37**	**292,256,571.66**	**944,415,879.25**
Earnings per share				
Basic earnings per share		37.38		31.11
Annualized Basic Earnings Per Share		37.38		31.11
Diluted earnings per share		37.38		31.11

Ratios as per NRB Directive

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Capital Fund to RWA		17.51%		17.86%
Non-performing loan (NPL) to total loan		2.55%		3.00%
Total Loan Loss Provision to Total NPL		149.39%		135.41%
Cost of Funds		8.21%		8.57%
Credit to Deposit and Borrowing Ratio		97.13%		95.39%
Base Rate		11.46%		12.43%
Interest Rate Spread		6.40%		6.01%

Statement of Distributable Profit or Loss

For the Quarter ended 32 Asadh, 2082

(As per NRB Regulation)

Particulars	Current Year	Previous Year Corresponding
	Upto this Qtr	Upto this Qtr
Net Profit or (Loss) as per statement of profit or loss	**1,212,874,494.97**	**944,415,879.25**
Appropriations:		
a. General Reserve	242,574,898.99	188,883,175.85
b. Foreign exchange fluctuation fund	-	-
c. Capital redemption reserve	-	-
d. Corporate social responsibility fund	12,128,744.95	9,444,158.79
e. Employee's training fund	-	-
f. Other	18,193,117.42	9,444,158.79
Writeback of Provision of Rescheduled Loan	-	683,451.90
Profit or (Loss) before regulatory adjustment	**939,977,733.60**	**735,960,933.92**
Regulatory Adjustment:		
a.Interest receivable (-) / previous accrued interest received (+)	(35,760,554.81)	(13,891,147.58)
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 (+)	(4,709,609.40)	(16,183,073.88)
f. Goodwill recognised (-)/ impairment of Goodwill (+)	-	-
g. Bargain purchase gain recognised (-)/ reversal (+)	-	-
h. Actuarial loss recognised (-)/reversal (+)	(10,989,088.60)	(18,167,864.40)
i. Other	-	-
Net Profit For the Quarter ended 32 Asadh, 2082 available for distribution	**888,518,480.79**	**687,718,848.06**
Opening Retained Earning	1,642,829,176.90	1,374,377,304.27
Adjustment (+/-)	-	6,043,324.58
Distribution		
Bonus share issued	*238,173,768.00*	*141,770,100.00*
Cash Dividend Paid	*208,402,047.00*	*283,540,200.00*
Total Distributable profit or (loss) as on Quarter end date	**2,084,771,842.69**	**1,642,829,176.90**
Annualised Distributable Profit/Loss per share	64.84	55.18

Notes:

1. Above financial statements are prepared in accordance with Nepal Financial Reporting Standards(NFRS) .These figures may vary at the instances of statutory auditors and regulators.
2. The detailed interim financial report has been published in the website (www.chhimekbank.org).
3. Loans and Advances are presented net of impairment charges and includes staff loans.
4. An Actuarial Valuation has been conducted for employees benefits.
5. Personnel Expenses also include employee's bonus provision.
6. Previous period figures are regrouped/rearranged/restated wherever necessary for consistent presentation and comparison.
7. Immediate Previous Year Ending of Financial Position and profit & loss are audited figures.

Disclosure Pursuant to Securities Registration and Issue Regulation 2073
(Rule 26(1), Annexure 14)
Fourth Quarter of Financial Year 2081/82

1 Financial Statement

a) The Nepal Financial Reporting Standard (NFRS) compliant financial statement of the fourth quarter has been published along with this report.

b) Pursuant to adoption of ECL model, recognition of interest income has been based upon NRB NFRS 9 Expected Credit Loss (ECL) Related Guidelines, 2024 and Guidance Note on Interest Income Recognition,2025).

c) The microfinance, following regulatory backstop as mentioned Clause 16 of "NFRS 9- Expected Credit Loss Related Guidelines, 2024" has recognize impairment on credit exposures as the HIGHER of total ECL calculated as per NFRS 9 and existing regulatory provisions as mentioned in Unified NRB Directives no 02.

d) Detail disclosure regarding ECL has been made in website of the Microfinance.

e) **Key Financial Indicators**

Earnings Per Share	37.38	Liquidity Ratio	23.03%
Price Earnings Ratio	27.72	Return on Equity	14.65%
Net Worth Per Share	257.54	Total Assets Value Per Share	1,610.09

2 Management Analysis

a) **Quarterly analysis of the microfinance's incomes and liquidity:**
The microfinance has registered NPR 121,28,74,494.97 in net profit, and its liquidity ratio stands at 23.03%.

b) **Business Analysis and Business Plan**
Having the license to operate all over Nepal, the microfinance is currently providing its services in 69 districts through 197 branches. With the aim of improving access to financial services to the poor and marginalized women members and developing micro-entrepreneurship, the microfinance is serving 4,29,816 households and has provided various loans to 2,40,621 members till the end of this quarter. The microfinance is further planning to timely improve its quality of services as per the contemporary circumstances and needs & requirements of the members.The microfinance will keep on continually developing the micro-enterpreneurship on its members through micro-credit services and training facilities.

To streamline deposit and installment collections, the microfinance institution has successfully collaborated with private digital payment service providers, enhancing members access to digital payment options. Moving forward, the institution aims to further expand and improve its digital services.

3 Details Related to Legal Proceedings

a) No information regarding the lawsuit against the microfinance has been filed during the Quarterly period under review.

b) No information regarding the lawsuit on account of violation of prevailing laws or commission of criminal offences has been filed against the promoter or director of the microfinance during the quarterly period under review.

c) No information regarding the lawsuit of financial fraud/crime has been filed against the promoters and management team of the microfinance during the quarterly period under review.

4 Analysis of the Microfinance's Share Transaction

a) The shares of the microfinance are listed on Nepal Stock Exchange. The microfinance's share price is determined by the market's movement and microfinance's management is neutral in this regard.

b) The microfinance has complied with all the prevailing norms of SEBON and directives issued by NRB.

c) Details of share transaction during the quarter is as follows:

Maximum Price	1,042.00	Total Days Transacted	63.00
Minimum Price	822.00	Total Shares Transacted	1,972,602.00
Closing Price	1,035.98	Total Number of Transaction	15,503.00
		Total Amount Transacted	1,854,334,629.40

(Source: - www.nepalstock.com.np)

5 Problems and Challenges

The past economic recessions has led to increased default rate, which is now slightly in decreasing trend. The microfinance had faced severe challanges, including high default rates due to economic recession, risk of multiborrowing, a shortage of skilled manpower, and frequent regulatory changes. Even though potential borrower are properly vetted, and improvements are evident but there is always a risk of multiple borrowing by clients from other financial institutions. Similarly, there is lack of skilled manpower within the country which has hampered the efficient growth of these institutions. Finally, frequent regulatory policy changes by the concerned regulatory body adds complexity and uncertainty to the operations. The total cost of operations has been increased in recent times due to recruitment, retention of quality human resource.

The challenges faced by the microfinance during this period are listed below:

i) Internal Challenges:

a) Challenges in the timely recovery of loans,
b) Recruitment and retention of quality manpower,
c) Increasing cost of operation,
d) Decrease in employee productivity due to geographical dificulties,
e) Management of increased operational risk with the increase in business volume & number of branches.
f) Challenges are encountered in conducting members' field meetings due to the activities of certain groups engaging in practices that undermine the operations and regulatory compliance of the microfinance sector.
g) Reluctant of the members towards adoption of digital banking

ii) External Challenges

a) Increment in the interest rate of Deprived Sector and other Borrowings availed by the microfinance,
b) Changes in Regulatory provisions,
c) Challenges in the management of the liquidity,
d) Multiple Borrowings and Duplication of members,
e) Larger numbers of microfinances and Unhealthy Competition among them,
f) Lack of Markets for the productions of the members,
g) Introduction of base rate creates complexity on our target segments.

iii) Future Strategies to overcome the challenges

a) Optimum and efficient utilization of the available means and resources,
b) Enhancing the Quality of Assets,
c) Incorporating Digital banking in every possible aspects of the services,
d) Expansion of branches to the untapped areas of the country,
e) Enhancing the competitive advantages,
f) Extension of the lending in Productive and Agricultural Sector.

6 Corporate Governance

The microfinance is committed in maintaining the highest level of ethical standards, corporate governance, and compliance. The board of directors and management strictly comply with all the regulatory norms issued by NRB and various other regulatory authorities. Further, the microfinance adheres to all the regulatory and legal requirements and the industry best practices.

7 **Declaration by CEO**

I, CEO of the microfinance, take responsibility for the truthfulness of the information disclosed in this report to the best of my knowledge. Further, the information disclosed herein are true and fair and I have not knowingly concealed any material information which may affect the decision of the investor.

Chhimek Laghubitta Bittiya Sanstha Limited
Statement of Changes in Equity
For the Quarter ended 32 Asadh, 2082

Amount (NPR.)

Particulars	Attributable to Equity-Holders of the Institution										Total Equity
	Share Capital	Share Premium	General Reserve	Exchange Equalisation Reserve	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Other Reserve	Total	
Balance as Shrawan 1st, 2080	2,835,402,000.00	40,967,834.00	1,594,289,953.29	-	218,543,950.37	-	-	1,374,377,304.27	683,285,662.88	6,746,866,704.81	6,746,866,704.81
Comprehensive Income for the Year											
Profit for the Year								944,415,879.25		944,415,879.25	944,415,879.25
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	-	-	-	-	-	-	-	944,415,879.25	-	944,415,879.25	944,415,879.25
Transfer to Reserves during the Year			188,883,175.85		48,242,085.86			(256,697,031.20)	1,403,905.09	(18,167,864.40)	(18,167,864.40)
Transfer from Reserves during the Year								6,043,324.58	(51,596,601.04)	(45,553,276.46)	(45,553,276.46)
Transactions with Owners, directly recognized in Equity										-	-
Share Issued										-	-
Share Based Payments										-	-
Dividend to Equity-Holders										-	-
Bonus Shares Issued	141,770,100.00							(141,770,100.00)		-	-
Cash Dividend Paid								(283,540,200.00)		(283,540,200.00)	(283,540,200.00)
Other										-	-
Total Contributions by and Distributions	141,770,100.00	-	188,883,175.85	-	48,242,085.86	-	-	(675,964,006.62)	(50,192,695.95)	(347,261,340.86)	(347,261,340.86)
Balance at 31 Ashadh, 2081	2,977,172,100.00	40,967,834.00	1,783,173,129.14	-	266,786,036.23	-	-	1,642,829,176.90	633,092,966.93	7,344,021,243.20	7,344,021,243.20
Balance as Shrawan 1st, 2081	2,977,172,100.00	40,967,834.00	1,783,173,129.14	-	266,786,036.23	-	-	1,642,829,176.90	633,092,966.93	7,344,021,243.20	7,344,021,243.20
Adjustment										-	-
Balance as Shrawan 1st, 2081 after adjustment	2,977,172,100.00	40,967,834.00	1,783,173,129.14	-	266,786,036.23	-	-	1,642,829,176.90	633,092,966.93	7,344,021,243.20	7,344,021,243.20
Comprehensive Income for the Year											
Profit for the Year								1,212,874,494.97		1,212,874,494.97	1,212,874,494.97
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	-	-	-	-	-	-	-	1,212,874,494.97	-	1,212,874,494.97	1,212,874,494.97
Transfer to Reserves during the Year			242,574,898.99		51,459,252.81			(324,356,014.18)	(37,332,148.16)	(67,654,010.53)	(67,654,010.53)
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	238,173,768.00							(238,173,768.00)		-	-
Cash Dividend Paid								(208,402,047.00)		(208,402,047.00)	(208,402,047.00)
Other											-
Total Contributions by and Distributions	238,173,768.00	-	242,574,898.99	-	51,459,252.81	-	-	(770,931,829.18)	(37,332,148.16)	(276,056,057.53)	(276,056,057.53)
Balance at Asadh End, 2082	3,215,345,868.00	40,967,834.00	2,025,748,028.14	-	318,245,289.05	-	-	2,084,771,842.69	595,760,818.78	8,280,839,680.64	8,280,839,680.64

Chhimek Laghubitta Bittiya Sanstha Limited

Condensed Statement of Cash Flows

As on Quarter ended 32 Asadh, 2082

Amount (NPR)

Particulars	Upto This Quarter	Corresponding Previous Upto this Quarter
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	6,122,253,023.68	5,965,676,849.55
Fees and other income received	336,800,302.57	245,297,875.21
Divided received	-	-
Receipts from other operating activities	29,780,865.36	283,276,985.66
Interest paid	(3,302,786,184.89)	(3,122,260,516.17)
Commission and fees paid	(638,167.89)	(482,967.34)
Cash payment to employees	(1,102,504,429.76)	(1,086,439,085.44)
Other expense paid	(310,889,535.89)	(853,960,524.66)
Operating cash flows before changes in operating assets and liabilities	**1,772,015,873.18**	**1,431,108,616.81**
(Increase)/Decrease in operating assets	**(4,845,560,504.85)**	**-**
Due from Nepal Rastra Bank	(179,034,860.00)	220,033,800.00
Placement with bank and financial institutions	-	-
Other trading assets	-	
Loan and advances to bank and financial institutions	-	-
Loans and advances to customers	(4,454,482,041.59)	(3,085,877,476.67)
Other assets	(212,043,603.26)	161,904,689.46
Increase/(Decrease) in operating liabilities	**4,507,062,025.43**	**(2,703,938,987.21)**
Due to bank and financial institutions	-	-
Due to Nepal Rastra Bank	-	-
Deposit from customers	5,701,470,830.66	3,010,692,373.55
Borrowings	(1,278,012,554.86)	(252,189,250.49)
Other liabilities	83,603,749.63	238,338,151.51
Net cash flow from operating activities before tax paid	**1,433,517,393.76**	**1,724,010,904.17**
Income taxes paid	(520,079,792.13)	(442,649,176.54)
Net cash flow from operating activities	**913,437,601.63**	**1,281,361,727.63**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	111,036,389.01	(262,949,427.04)
Receipts from sale of investment securities	-	4,110.00
Purchase of property and equipment	(24,422,424.69)	(30,396,551.03)
Receipt from the sale of property and equipment	-	-
Purchase of intangible assets	352,932.82	718,884.21
Receipt from the sale of intangible assets	-	(800,040.00)
Purchase of investment properties	-	-
Receipt from the sale of investment properties	-	-
Interest received	-	-
Dividend received	-	-
Net cash used in investing activities	**86,966,897.14**	**(293,423,023.86)**
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	-	-
Dividends paid	(446,575,815.00)	(283,540,200.00)
Interest paid	-	-
Other receipt/payment	170,519,757.47	(63,721,140.87)
Net cash from financing activities	**(276,056,057.53)**	**(347,261,340.87)**
Net increase (decrease) in cash and cash equivalents	**724,348,441.24**	**640,677,362.90**
Beginnning Cash and cash equivalents	**8,366,206,604.86**	**7,725,529,241.95**
Effect of exchange rate fluctuations on cash and cash equivalents held	-	-
Closing Cash and cash equivalents	**9,090,555,046.10**	**8,366,206,604.85**

Chhimek Laghubitta Bittiya Sanstha Limited

Notes to the Interim Financial Statement

For the Quarter ended 32 Asadh, 2082

1 Reporting Entity

Chhimek Laghubitta Bittiya Sanstha Limited ('the Microfinance') is domiciled and incorporated in Nepal under then Development Bank Act, 2052 on 28th Bhadra, 2058 from Nepal Rastra Bank. The microfinance is operating as a D Class licensed financial institution as per Bank and Financial Institution Act, 2063. The Microfinance is a limited liability company having its shares listed on Nepal Stock Exchange with trading code "CBBL" after issuing its shares to the general public on Fiscal Year 2061/62. The microfinance has been promoted by Neighborhood Society Service Center (NSSC), Himalayan Bank Limited, Global IME Bank Limited, Nabil Bank Limited and several reputed persons. Initially the microfinance was operating from its Registered Office at Hetauda, which was later transferred to Kathmandu Metropolitan city-31, New Baneshwor, Kathmandu.

2 Basis of Preparation

2.1 Statement of Compliance

The Financial Statements of the entity which comprises components presented above have been prepared in compliance with Nepal Financial Reporting Standards and Nepal Accounting Standards (hereafter referred as NFRS), laid down by the Institute of Chartered Accountants of Nepal and in compliance with the requirements of the Companies Act, 2063.

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

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

2.2 Reporting Period

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

1. For Statement of Financial Position :-Asadh 32, 2082
2. For Statement of Profit & Loss :- Shrawan 1, 2081 to Asadh 32, 2082
3. For Statement of Cash Flows :- Shrawan 1, 2081 to Asadh, 2082

2.3 Functional and Presentation Currency

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

2.4 New Standards issued but not yet effective

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

3 Use of Estimates and Judgements

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

3.1 Impairment losses on financial assets

The measurement of impairment losses across the categories of financial assets under Nepal Financial Reporting Standard - NFRS 9 on "Financial Instruments" (NFRS 9) requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, the Microfinance reviews its individually significant loans and advances portfolio at each reporting date to assess whether an impairment loss should be recognised in the Income Statement. 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. In estimating these cash flows, Management makes judgements 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 considered recoverable. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

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.

Following NFRS 9, the Microfinance's Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the Microfinance's ECL models that are considered accounting judgements and estimates include:

● Criteria for qualitatively assessing whether there has been a significant increase in credit risk (SICR) and if so allowances for financial assets measured on a Life Time Expected Credit Loss (LT - ECL) basis.

● Segmentation of financial assets when their ECL is assessed on a collective basis.

● Various statistical formulas and the choice of inputs used in the development of ECL models.

● Associations between macroeconomic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect of these inputs on Probability of Default (PDs), Loss Given Default (LGD) and Exposure At Default (EAD).

● Forward-looking macroeconomic scenarios and their probability weightings.

● Coupon rate of loan has been considered by the Microfinance as effective interest rate since transaction cost associated with extending credit facility is nominal.

● Early payment behavior of the exposures for the reporting period has not been assumed.

As such, the accuracy of the impairment provision depends on the model assumptions and parameters used in determining the ECL calculations.

Further, the Microfinance has assigned weightages for base case, best case and worst-case scenarios when assessing the probability weighted forward looking macro-economic indicators.

4 Changes in Accounting Policies

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

5 Significant Accounting Policies

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

5.1 Basis of Measurement

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

● Financial assets, held for trading are recorded in the statement of financial position at fair value and the changes in the value have been routed through profit or loss statement,

● Available for sale investments (quoted) are measured at fair value,

● Liabilities for defined benefit obligations and staff loans provided at subsidized interest rates as per Employee Bylaws of the Bank are recognized at the present value of the defined benefit obligation less the fair value of the plan assets.

5.2 Cash and Cash Equivalents

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

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

5.3 Financial Assets and Financial Liabilities

Recognition

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

Classification and Measurement

5.3.1 Financial Assets

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

a. Measured at Amortized Cost

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

b. Measured at Fair Valur through OCI

Assets are categorized under this category if the business model is to obtain the contractual cash flow from the assets but the contractual cash flow isn't solely repayment of principal and interest.
Equity Instrument which are not held for trading and initially recognized as held for trading for which the Microfinance makes an irrevocable election to carry the changes in fair value of the instrument through OCI are measured at Fair Value through other Comprehensive Income.

c. Measured at Fair Value through Profit & Loss

The Microfinance classifies the financials assets as fair value through profit or loss if they are held for trading or designated at fair value through profit or loss.
Any other financial asset not classified as either amortized cost or FVOCI, is classified as FVTPL.

5.3.2 Financial Liabilities

a. Measured at Fair Value through Profit & Loss

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

b. Measured at Amortized Cost

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

Derecognition

The Microfinance derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the contractual rights to receive the cash flows from the asset.
A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Determination of Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The Microfinance follows three levels of the fair-value-hierarchy as described below:
Level 1: Quoted (unadjusted) prices for identical assets or liabilities in active markets;
Level 2: Significant inputs to the fair value measurement are directly or indirectly observable or valuations of quoted for similar instrument in active markets or quoted prices for identical or similar instrument in inactive markets; and
Level 3: Significant inputs to the fair value measurement are unobservable.

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

5.4 Impairment

Identification and measurement of impairment of financial assets

The Microfinance records an allowance for ECL for loans and advances to customers, debt and other financial instruments measured at amortised cost, debt instruments measured at FVOCI, any other financial assets measured at amortised cost, loan commitments, financial guarantee contracts etc.

NFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

● Stage 1: A financial asset that is not originally credit impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

● Stage 2: If a significant increase in credit risk (SICR) since origination is identified, the financial asset is moved to Stage 2 and the Microfinance records an allowance for LTECL. Refer Note 5.4.2 for a description on how the Microfinance determines when a SICR has occurred.

● Stage 3: If a financial asset is credit- impaired, it is moved to Stage 3 and the Microfinance recognises an allowance for LTECL, with probability of default at 100%. Refer Note 5.4.3 for a description on how the Microfinance defines default and credit impaired assets.

5.4.1 Purchased or originated credit impaired (POCI) financial assets:

Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the LTECL.

5.4.2 Significant Increase in Credit Risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Microfinance considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and available qualitative information analysis, based on the Microfinance's historical experience and credit assessment and including forward looking information.

The Microfinance considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 1 month past due in accordance with the rebuttable presumption in NFRS 9.

The Microfinance individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include inter-alia:

• When the absolute lifetime PD is 5% or more
• When the relative lifetime PD is increased by 100% or more
• When the risk rating (internal or external) downgraded by 2 notches since initial recognition
• When the risk rating downgraded to non-investment grade by external credit rating agency (BB+ or below) or by Microfinance's internal credit rating system
• When there is deterioration of relevant determinants of credit risk (e.g. future cash flows) for an individual obligor (or pool of obligors)
• When there is expectation of forbearance or restructuring due to financial difficulties
• When there is deterioration of prospects for sector or industries within which a borrower operates
• When the borrowers are affected by macroeconomic conditions based on reasonable and supportable forecasts.
• When there are modification of terms resulting in restructuring/rescheduling
• Credit Quality Indicators determined as per internal credit assessment of performing loans which are subject to individual monitoring and review, are weaker than that in the initial recognition
• Management decision to strengthen collateral and/or covenant requirements for credit exposures because of changes in the credit risk of those exposures since initial recognition.

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with SICR and assessed accordingly in ECL computations. The Microfinance also considers the conditions stipulated in the guidelines issued by the NRB on identifying SICR criteria for assessing credit facilities for ECL computations. The Microfinance regularly monitors the effectiveness of the criteria used to identify SICR to confirm that the criteria is capable of identifying SICR before an exposure is in default.

5.4.3 Definition of default and credit impaired assets

The Microfinance considers loans and advances to other customers are defaulted when:

• The borrower is unlikely to pay its obligations to the Microfinance in full, without recourse by the Microfinance to actions such as realising security (if any is held); or
• The borrower becomes 90 days past due on its contractual payments.

Definition of 'default' by BFIs for the purpose of ECL should at least include points i) and ii) of "c) Stage 3" under the section of ECL Guidelines.

In assessing whether a borrower is in default, the Microfinance reviews its individually significant loans and advances above a predefined threshold at each reporting date. Further, as per "Unified NRB directive/02", Non-Performing Loans (NPL) means all the credit facilities where the contractual payments of a customer are past due for more than 90 days or has remained in excess of the sanctioned limit for more than 90 days, and any other credit facilities classified as Stage 3 credit facility under NFRS 9.

5.4.4 Movement between the stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described in Note 5.4.4(a) and also as per the Policy on Upgrading of Credit Facilities. Financial instruments are transferred out of Stage 3 when they no longer exhibit any evidence of credit impairment as described above as per the Policy on Upgrading of Credit Facilities.

The Microfinance has developed a comprehensive Policy on Upgrading of Credit Facilities in line with the NFRS 9- Expected Credit Loss Related Guidelines, 2024. Accordingly, credit facilities other than restructured and rescheduled facilities are upgraded to a better stage.

a. Transfer from Stage 2 to Stage 1:

If all due contractual payments associated with such credit facility as at the date of upgrading are fully settled.

b. Transfer Out of Stage 3:

Though the conditions for an exposure to be classified in Stage 3 no longer exist, the Microfinance continues to monitor for a minimum probationary period of 3 months to upgrade from Stage 3.

c. For Restructured/Rescheduled Exposures:

Restructured and rescheduled facilities are gradually upgraded upon satisfactory repayment for a stipulated period according to the policy while exercising prudence principles. The Microfinance monitor restructured/ rescheduled exposures classified under Stage 3 for a minimum probationary period of 24 months before upgradation.

5.4.5 Financial assets measured on collective basis:

The Microfinance calculates ECL either on a collective or an individual basis. Those financial assets for which, the Microfinance determines that no provision is required under individual impairment are then collectively assessed for ECL. For the purpose of ECL calculation on collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to other customers are grouped in to homogeneous portfolios, based on a combination of product and customer characteristics.

5.4.6 Impairment charges as per NFRS 9

The Microfinance recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Placements with Banks
- Loans and advances to other customers;
- Financial assets at amortised cost-debt and other financial instruments;
- Debt instruments at fair value through other comprehensive income;
- Loan commitments and financial guarantee contracts.

No impairment loss is recognised on equity investments.

The Microfinance assesses the credit risk and the estimates unbiased and probability- weighted ECL, and incorporates all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

5.4.6.1 Impairment charges on loans and advances to customers

For loans and advances above a predefined threshold, the Microfinance individually assesses for significant increase in credit risk (SICR). If a particular loan is individually impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If the Microfinance determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

The Microfinance computes ECL using three main components; a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from developed statistical models and historical data and then adjusted to reflect forward-looking information.

● **PD** – The probability of default represents the likelihood of a borrower defaulting on its financial obligations either over the next 12-months (12m PD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due (DPD) is the primary input into the determination of the term structure of PD for exposures. DPD are determined by counting the number of days since the due date. The Microfinance employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

● **LGD** – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral and for non-collateral loan recovery rate is taken by using past trend recovery data. The Microfinance estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD. The Microfinance applies standard haircuts and selling costs rates duly prescribed by Nepal Rastra Microfinance to derive realizable value of the collaterals.

●**EAD-**The exposure at default represents the expected exposure in the event of a default. The Microfinance estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate EAD for a Stage 1 loan, the Microfinance assesses the possible default events within 12 months. To calculate EAD of all other loans, default events over the lifetime of the financial instruments are considered.

5.4.6.2 Impairment charges on financial investments

Impairment charges on financial investments include ECL on debt instruments at FVOCI and financial assets at amortised cost.

The Microfinance does not have historical loss experience on debt instruments at amortised cost and debt instruments at FVOCI. EAD of a debt instrument is its gross carrying amount.

5.4.7 Forward-looking information

The Microfinance incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Microfinance also obtained experienced credit judgement from economic outlook and Risk Management Departments to formulate a base case, a best case and a worst-case scenario. The base case represents a most-likely outcome and is aligned with information used by the Microfinance for strategic planning and budgeting. Quantitative economic factors are based on economic data and forecasts published by the NSO, NRB, and other reliable sources and statistical models.

5.4.7.1 ***Drivers of Credit Risk***

Parameters	**Sources**
Real GDP (% change p.a.)	National Statistics Office (NSO)
Agricultural GDP (% change p.a.)	National Statistics Office (NSO)
Inflation rate (% of change p.a.)	NRB
Unemployment (%)	IMF / World Bank
Interest Rate (% of change p.a.)	NRB
Remittance Inflow	NRB
Per Capita Income	National Statistics Office (NSO)

5.4.7.2 The calculation of ECLs

The Microfinance measures loss allowance at an amount equal to LTECL, except for following, which are measured as 12m ECL.

● Loans and advances on which credit risk has not increased significantly since the initial recognition.

● Debt instruments that are determined to have low credit risk at the reporting date.

The Microfinance considers a debt instrument to have a low credit risk when they have an "investment grade" credit risk rating.

ECLs are measured as follows:

Financial assets that are not credit- impaired at the reporting date: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Microfinance expects to receive);

● Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of expected cash flows;

●Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Microfinance if the commitment is drawn down and the cash flows that the Microfinance expects to receive;

Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Microfinance expects to recover.

5.4.7.3 Financial assets that are not credit-impaired at the reporting date

As described above, the Microfinance calculates 12m ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to EAD and multiplied by the economic factor adjustment expected LGD and discounted by an approximation to the original EIR, if necessary. When the financial asset has shown a SICR since origination, the Microfinance records an allowance for LTECLs based on PDs estimated over the lifetime of the instrument.

5.4.7.4 Financial assets that are credit-impaired at the reporting date

Impairment allowance on credit-impaired financial assets assessed on individual basis is computed as the difference between the asset's gross carrying amount and the present value of estimated future cash flows. The expected future cash flows are based on the estimate made by credit risk officers' as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. The Microfinance regularly reviews the assumptions for projecting future cash flows.

Further, the loans and advances identified as credit impaired in Note 5.4.7.7 will be assessed for impairment with 100% PD.

5.4.7.5 Collateral valuation

The Microfinance seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, Government Securities, Letters of Credit/Guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements, etc. While determining loss rate or recovery rate for the purpose of calculation of loss allowance, expected cash flows from collateral realization have been considered based on latest reliable internal/external valuations.

5.4.7.6 Write-off of financial assets

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Microfinance determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Microfinance's procedures for recovery of amounts due.

Scenario probability weighting (Microfinance)

Scenario	**As at Poush End 2081**
Best case	20%
Base (Normal case)	30%
Worst Case	50%

5.4.7.7 Impairment Charge as per Expected Credit Loss (ECL) method

Particulars	**As on 32nd Asadh 2082**
Loans and advances to customers (A)	1437826869.69
Other financial assets (B)	
Off Balance Sheet credit exposure (C)	
Total impairment charges (D= A+B+C)	**1437826869.69**
Investment in subsidiaries (E)	
Direct write offs (F)	
Total charge to impairment charge to Income statements	**1437826869.69**

Particulars	**As on 32nd Asadh 2082**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers (A)	681906251.5	23496284.44	732424333.7	**1437826869.69**
Other Financial Assets (B)				
Cash and cash equivalents				
Due from Nepal Rastra Bank				
Placement with Bank and Financial Institutions				
Derivative Finacial Instruments				
Other Trading Assets				
Investment securities				
Other Assetes				
Off Balance Sheet credit exposure (C)				
Total impairment charges D= A+B+C)	**681906251.5**	**23496284.44**	**732424333.7**	**1437826869.69**

5.4.7.8 Impairment Charge recognized in Income Statements

The Microfinance, following regulatory backstop as mentioned Clause 16 of **"NFRS 9- Expected Credit Loss Related Guidelines, 2024"** has recognize impairment on credit exposures as the **HIGHER** of total ECL calculated as per NFRS 9 and existing regulatory provisions as mentioned in Unified NRB Directives no 02. Following is the details of impairment under both methods:

Particulars	**As at Asadh end 2082**
Total Impairment on loan and advances as per Unified NRB Directives no 02	1,540,599,022.43
Total Impairment on exposures duly calculated under ECL methods as per NFRS 9	1,437,826,869.69

5.4.7.9 Amendment under ECL Guidelines

The impact of the revised guidelines will be duly considered, measured, and reflected in the audited financial statements for the current reporting period, in compliance with the applicable regulatory requirements.

5.5 Property, Plant & Equipment

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

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

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

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

Depreciation of newly acquired assets is charged based upon the date of invoice and assets having acquisition cost less than NPR. 5,000 have been written down as an expense for the period in the Statement of Profit and Loss.

5.6 Goodwill and Intangible Assets

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

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

5.7 Tax Expenses

Tax expenses comprises of current tax and deferred tax.

5.7.1 Current Tax

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

5.7.2 Deferred Tax

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

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

5.8 Deposits from Members

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

5.9 Provisions, Liabilities and Contingent Liabilities

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

5.10 Revenue Recognition

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

5.10.1 Interest Income

Pursuant to adoption of ECL model, recognition of interest income has been based upon NRB NFRS 9 ECL Related Guidelines, 2024.

Particulars	Stage-1	Stage -2	Stage -3
Criteria	Where credit has not significantly increased since Initial Recognition	Significant Increase in Credit Risk	Credit Impaired
Credit Risk	Low	Moderate to High	Significant
ECL Model	Twelve-month ECL	Lifetime ECL	Lifetime ECL
Interest Income Recognition	Interest on Gross Recognition following Accrual basis	Interest on Gross Recognition following Accrual basis	**Interest on actual cash receipts basis**

The impact of the revised guidelines will be duly considered, measured, and reflected in the audited financial statements for the current reporting period, in compliance with the applicable regulatory requirements.

5.10.2 Fees and Comssion Income

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

5.10.3 Dividend Income

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

5.11 Interest Expenses

Interest expense on all financial liabilities including deposits is recognized in statement of profit or loss using effective interest rate method.

5.12 Employees Benefits

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

Defined Contribution Plan

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

Defined Benefits Plan

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

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

5.13 Leases

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

Finance Leases

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

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

Operating Leases

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

5.14 Share Capiral and Reserves

5.14.1 Share Capital

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

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

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

5.14.2 Statutory General Reserves

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

5.14.3 Corporate Social Responsibility Fund

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

5.14.4 Employee Training Fund

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

5.14.5 Investment Adjustment Fund

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

5.14.6 Regulatory Reserve

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

5.14.7 Actuarial Gain/Loss Reserve

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

5.14.8 Client protection fund

Client protection fund is created at 1.5% of net profit. In addition to this, 35% of dividend in excess of 15% of dividend is also allocated to this fund as per NRB Directives.

5.15 Earnings per Share (EPS) including diluted EPS

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

5.16 Segment Reporting

The Microfinance's operating segments are organized and managed separately through the respective department/business managers according to the nature of products and services provided with each segment representing a strategic business unit. These business units are reviewed by Chief Executive Officer of the Microfinance.

The Microfinance has identified seven segments namely: Koshi Province , Madhesh Pradesh, Bagmati Province, Gandaki Province, Lumbini Province, Karnali Province and Sudurpaschim Province as the seven operating segment and the segment report is set out in Notes 6.

Segment report include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The income, expenses, assets & liabilities that cannot be allocated to aforesaid segment or those related to head office are unallocated and are included in Bagmati Province. The unallocated items generally comprise of head office assets, head office expenses, and tax assets and liabilities. The geographical segment has been identified on the basis of the location of the branches in 7 different provinces of the country.

5.17 Investment in Associates

For the purpose of consolidation, NAS 28 - Investments in Associates is applied. Associates are entities in which the Microfinance has significant influence, but not control, over the operating and financial policies. The Microfinance has investment in nature of Associates i.e., it holds more than 20%, but less than 50%, of their voting shares.

The microfinance's investments in associates are initially recorded at cost and increased (or decreased) each year by the entity's share of the post-acquisition profit/(loss). The entity ceases to recognize its share of the losses of equity accounted associates when its share of the net assets and amounts due from the entity have been written off in full, unless it has a contractual or constructive obligation to make good its share of the losses.

As per the directives (4)8/077 issued to microfinances by NRB, the microfinance has to dispose all the investment within 2 years of investment. As the Microfinance has planned to subsequently dispose the investment in the said entities which are normally to be considered as the associate the Microfinance has not followed the above-mentioned method and such investment are presented as Share Investment in the Statement of Financial position and dividend income if any is shown in Statement of Profit or Loss.

6 **Segment Information**

A. Information about reportable segments

Segment Reporting is the reporting of the operating segment of the entity. A segment is reportable if: it has at least 10% of the revenues, or 10% of the profit or loss, or 10% of the combined assets of the entity. However, the microfinance has chosen to disclose all segments irrespective of whether they meet these quantitative thresholds, for comprehensive reporting purposes.

Segment can be categorized either on the basis of geographical segment or business segment. The microfinance has categorized its segment on the basis of provinces i.e., geographical segment. Segment assets, segment liabilities, total revenue, total expenses and operating profit are disclosed. Branches of the microfinance are classified under the regional operating structure for monitoring and supervision. The disclosure has been prepared in accordance with the requirements of NFRS.

Amount ('000)

Particulars		Revenues from External Customers	Intersegment Revenues	Segment Profit/Loss Before Tax	Segment Assets	Segment Liabilities
Koshi Province	Corresponding Previous Qtr.	775,354.61	8,950.10	235,762.88	6,722,385.02	6,495,572.25
	Current Qtr.	1,038,746.15	13,183.82	318,593.44	6,790,704.19	6,485,294.57
Madhesh Province	Corresponding Previous Qtr.	1,315,641.32	450.87	487,802.80	11,378,729.86	10,891,377.93
	Current Qtr.	1,764,358.67	450.87	650,041.36	11,458,615.22	10,809,024.73
Bagmati Province	Corresponding Previous Qtr.	821,461.71	465,608.88	499,629.15	15,058,090.19	9,102,634.00
	Current Qtr.	1,162,427.71	719,639.93	841,860.63	16,819,553.94	10,998,225.08
Gandaki Province	Corresponding Previous Qtr.	459,095.51	40,348.56	187,460.15	3,913,460.91	3,766,349.32
	Current Qtr.	614,316.19	59,889.69	260,278.80	3,961,817.57	3,761,428.46
Lumbini Province	Corresponding Previous Qtr.	964,634.75	94,433.66	372,147.51	8,103,872.31	7,826,158.46
	Current Qtr.	1,288,354.99	141,599.23	533,472.90	8,228,736.03	7,836,862.36
Karnali Province	Corresponding Previous Qtr.	279,313.53	6,780.10	71,550.79	2,417,661.89	2,352,891.20
	Current Qtr.	373,951.32	10,781.88	102,844.86	2,453,855.85	2,361,792.86
Sudur-Paschim Province	Corresponding Previous Qtr.	476,715.46	17,888.02	134,949.07	4,253,573.09	4,136,512.04
	Current Qtr.	645,724.21	26,649.61	190,607.79	4,327,699.78	4,163,741.60
Total	Corresponding Previous Qtr.	**5,092,216.90**	**634,460.19**	**1,989,302.34**	**51,847,773.29**	**44,571,495.22**
	Current Qtr.	**6,887,879.25**	**972,195.01**	**2,897,699.77**	**54,040,982.58**	**46,416,369.66**

a) Revenue from external customer includes the total interest revenue and non-interest revenue.

b) Intersegment revenue includes revenue from transactions with other operating segments of the microfinance.

c) Segment Assets and Liabilities includes the assets and liabilities identifiable to a particular segment.

d) The result reported include the items directly attributable to a segment.

B. Reconciliaition of Reportable segment profit or Loss **Amount ('000)**

Particulars	Corresponding Previous Qtr.	Current Qtr.
Total profit before tax for reportable segments	1,989,302.34	2,897,699.77
Profit before tax for other segments	-	-
Elimination of inter-segment profit	(634,460.19)	(972,195.01)
Elimination of discontinued operation	-	-
Unallocated amounts:	-	-
– Other corporate expenses (Employee Bonus Provision)	(135,484.22)	(192,550.48)
Profit before tax	**1,219,357.94**	**1,732,954.29**

7 **Related Party Disclosure**

The microfinance has carried out transactions in ordinary course of business on an arm's length basis at commercial rates with the parties as per Nepal Accounting Standard (NAS 24- Related Party Disclosure), except for the transactions that are key managerial personnel have availed under schemes uniformly applicable to all the staffs at concessionery rates.

Parents and unlimate controlling parties

The microfinance doesn't have an identifiable parents of its own.

Transactions with Key Managerial Personnel

As per NAS-24 Related Party Disclosure, key managerial personnel are defined as those person having authority and responsibility for planning, directing and controlling the activities of the entity.

Board of Directors and Chief Executive Officer of the microfinance are considered as key managerial personnel of the microfinance.

Compensation of Key Managerial Personnels

Compensation of Board of Directors

Particulars	Amount (NPR)
Meeting Fees Paid	1,367,000.00
Telephone/Newspaper/Transportation/Daily Allowance etc.	1,314,812.12
Training Expense	277,528.00
Total	**2,959,340.12**

Compensation of Chief Executive Officer

Particulars	Amount (NPR)
Short Term Employee Benefits	2,852,900.00
Employee Bonus	541,773.52
Festival Allowance	240,000.00
Total	**3,634,673.52**

In addition to above, the Microfinance also provide other facilities like telephone, Medical Insurance, Accidental Insurance, Travelling Allowance as per the approved employee facilities of the Microfinance to the Chief Executive Officer.

8 Dividend Paid

The microfinance has paid 8.00% Stock Dividend and 7.00% Cash Dividend out of profits of F/Y 2080-81 after approval by AGM.

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.