First Microfinance Laghu Bitta Bittiya Sanstha Limited

Statement of Financial Position

As on 3rd Quarter Ended 31st Chaitra 2081

	Note	Current Year NPR	Previous Year NPR
Assets			
Cash & Cash Equivalents	4.1	948,640,582	1,130,686,591
Statutory Balances and Due from Nepal Rastra Bank	4.2	28,318,475	45,818,475
Placement with Bank & Financial Institutions	4.3	-	-
Derivative Financial Instruments	4.4	-	-
Other Trading Assets	4.5	-	-
Loans & Advances to MFIs & Cooperatives	4.6	6,080,563,053	7,408,077,363
Loans and Advances to Customers (Staff)	4.7	24,772,453	22,930,027
Investment Securities	4.8	1,305,600	1,305,600
Current Tax Assets	4.9	12,906,335	1,944,137
Investment Property	4.10	-	-
Property and Equipment	4.11	6,190,766	6,751,575
Goodwill and Intangible assets	4.12	-	-
Deferred Tax assets	4.13	6,079,638	3,476,460
Other Assets	4.14	68,168,452	68,387,954
Total Assets		**7,176,945,354**	**8,689,378,182**
Liabilities			
Due to Bank and Financial Institutions	4.15	-	-
Due to Nepal Rastra Bank	4.16	-	-
Derivative Financial Instruments	4.17	-	-
Deposits from Customers	4.18	-	-
Borrowings	4.19	5,409,407,524	6,968,540,757
Current Tax Liabilities	4.9	-	-
Provisions	4.20	-	-
Deferred Tax Liabilities	4.13	-	-
Other Liabilities	4.21	63,383,676	81,606,737
Debt Securities Issued	4.22	-	-
Subordinated Liabilities	4.23	-	-
Total Liabilities		**5,472,791,200**	**7,050,147,494**
Equity			
Share Capital	4.24	1,344,871,323	1,233,826,902
Share Premium		-	-
Retained Earnings		53,320,464	119,946,662
Reserves	4.25	305,962,367	285,457,124
Total Equity		**1,704,154,154**	**1,639,230,688**
Total Liabilities and Equity		**7,176,945,354**	**8,689,378,182**
Contingent Liabilities and Commitment	4.26	-	-
Net Assets Value Per Share		**126.72**	**132.86**

First Microfinance Laghu Bitta Bittiya Sanstha Limited

Statement of Profit or Loss

for the period from 1st Shrawan 2081 - 31 Chaitra 2081

	Notes	Current Year NPR	Previous Year NPR
Interest Income	4.27	426,191,938	867,095,170
Interest Expense	4.28	(269,143,085)	(556,538,153)
Net Interest Income		**157,048,853**	**310,557,017**
Fee and Commission Income	4.29	4,817,150	22,973,847
Fee and Commission Expense	4.30	(1,180,000)	(4,351,813)
Net Fee and Commission Income		**3,637,150**	**18,622,034**
Net Interest, Fee and Commission Income		**160,686,003**	**329,179,051**
Net Trading Income	4.31	-	-
Other Operating Income	4.32	713,709	-
Total Operating Income		**161,399,712**	**329,179,051**
Impairment Charge/Reversal for Loans and Other Losses	4.33	(11,251,192)	(48,737,115)
Net Operating Income		**150,148,520**	**280,441,936**
Operating Expenses		**(48,574,665)**	**(65,981,133)**
Personnel Expenses	4.34	(36,477,184)	(49,883,681)
Other Operating Expenses	4.35	(10,575,780)	(14,011,482)
Depreciation and Amortisation	4.36	(1,521,701)	(2,085,970)
Operating Profit		**101,573,855**	**214,460,803**
Non Operating Income	4.37	-	-
Non Operating Expense	4.38	-	-
Profit before Income Tax		**101,573,855**	**214,460,803**
Income Tax Expense	4.39		-
Current Tax		(33,537,917)	(74,354,558)
Deferred Tax		2,603,178	542,986
Profit for The Year		**70,639,116**	**140,649,231**
Profit Attributable to:			
Equity Holders of the Financial Institution		70,639,116	140,649,231
Profit for the Year		**70,639,116**	**140,649,231**

Earnings Per Share:			
Basic Earnings Per Share		7.00	11.40
Diluted Earnings Per Share		7.00	11.40

First Microfinance

First Microfinance Laghu Bitta Bittiya Sanstha Limited

Statement of Comprehensive Income

for the period from 1st Shrawan 2081 - 31 Chaitra 2081

	Notes	Current Year NPR	Previous Year NPR
Profit for the year		70,639,116	140,649,231
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		-	-
Gains (Losses) on Revaluations		-	-
Acturial Gains/(Losses) on Defined Benefit Plans		-	879,908
Income Tax Relating to above Items		-	(263,972)
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 Gain/(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 reclssified to Profit or Loss		-	-
Other Comprehensive Income for the year, net of Income Tax		-	-
Total Comprehensive Income for the Year		**70,639,116**	**141,265,167**
Total Comprehensive Income For the Period		**70,639,116**	**141,265,167**

First Microfinance

	Share capital	General Reserve	Exchange equalization Reserve	Regulatory Reserve	Employee Training Fund	Fair Value Reserve	Revaluation Reserve	Retained earnings	Client Protection Fund	CSR Reserve	Other Reserve	Total
Balance as at for 31nd Asadh 2081	**1,233,826,902**	**266,763,858**	**-**	**4,983,024**	**-**	**(486,080)**	**-**	**119,946,662**	**5,980,306**	**6,634,970**	**1,581,046**	**1,639,230,688**
Adjustment/Restatement for the Year												
Adjusted/Restated Balance at Shrawan 2081	**1,233,826,902**	**266,763,858**	**-**	**4,983,024**	**-**	**(486,080)**	**-**	**119,946,662**	**5,980,306**	**6,634,970**	**1,581,046**	**1,639,230,688**
Comprehensive Income for the Year												
Profit for the Year	-	-	-	-				70,639,116				70,639,116
Adjustment/Restatement for the Year								-				-
Other Comprehensive Income, Net of tax												-
Gains(losses) from Investment in Equity						-						-
Instruments Measured at Fair Value												
Gains (Losses) on Revaluations												-
Acturial Gains/(Losses) on Defined Benefit Plans						-		-				-
Gains/(losses) on Cash Flow Hedge								-				-
Exchange Gain/(Losses)								-				-
Total Comprehensive Income for the Year								**70,639,116**				70,639,116
Transfer to Reserve During the Year												-
Transer from Reserve During the Year												-
Transaction with Owners, Directly Recognised in Equity												-
Share Issued	-		-	-				-				-
Share Based Payments												-
Dividend to Equity Holders												-
Bonus Shares Issued	111,044,421		-	-				(111,044,421)				-
Cash Dividend Paid	-							(5,844,441)				(5,844,441)
Transfer to General Reserve	-	14,127,823	-	-				(14,127,823)				-
Employee Training Fund	-	-	-		-			-				-
Transfer from Kalyankari Kosh	-	-	-					-	-			-
Utilization of Customer Protection Fund	-	-	-					974,213	(974,213)			-
Investment Return on Client Protection Fund	-	-	-					-	128,791			128,791
Customer Protection Fund	-	-	-	-				(1.059.587)	1.059.587			
Utilization of CSR Fund	-	-	-					383,139		(383,139)		-
Institution CSR Fund	-	-	-					(706,391)		706,391		-
T/F to Regulatory Reserve	-	-	-	2,603,178				(2,603,178)				-
Acturial Gain T/F to Other Reserve	-	-	-	3,236,825				(3,236,825)			-	-
As at 31st Chaitra 2081	**1,344,871,323**	**280,891,681**	**-**	**10,823,027**	**-**	**(486,080)**	**-**	**53,320,464**	**6,194,471**	**6,958,222**	**1,581,046**	**1,704,154,154**

First Microfinance Laghu Bitta Bittiya Sanstha Limited

Statement of Cash Flows

for the period from 1st Shrawan 2081 - 31 Chaitra 2081

	Current Year NPR	Previous Year NPR
Cash flows from operating activities		
Interest Received	424,349,512	851,995,377
Fees and Other Income Received	4,945,941	22,973,847
Dividend Received	-	-
Receipts from Other Operating Activities	713,709	-
Interest Paid	(279,044,024)	(562,362,224)
Commission and Fees Paid	(1,180,000)	(4,351,813)
Cash Payment to Employees	(34,722,941)	(54,967,060)
Other Expenses Paid	(8,095,440)	(14,701,055)
Operating Cash Flows Before Changes in Operating Assets and Liabilities	**106,966,757**	**238,587,072**
(Increase)/Decrease in Operating Assets		
Due from Nepal Rastra Bank	-	-
Placement with Bank and Financial Institutions	-	100,000,000
Other Trading Asset	-	-
Loan and Advance to MFIs & Co-operatives	1,316,263,118	199,401,334
Loan and Advance to Customers (Staff)	(1,842,426)	(2,102,733)
Other Assets	219,502	(16,783,658)
Increase/(Decrease) in Operating Liabilities		
Due to Bank and Financial Institutions	-	-
Due to Nepal Rastra Bank	-	-
Deposit from Customers	-	-
Borrowings	(1,559,133,233)	(496,501,191)
Other Liabilities	(8,898,935)	17,616,944
Net Cash Flow from Operating Activities Before Tax Paid	**(146,425,217)**	**40,217,768**
Income Taxes Paid	(46,444,252)	(83,475,971)
Net Cash from Operating Activities	**(192,869,469)**	**(43,258,203)**
Cash Flows From Investing Activities		
Purchase of Investment Securities	-	-
Receipts from Sales of Investment Securities	-	-
Increase in Placement with Banks and Financial Institutions	-	-
(Purchase)/Sale of Property and Equipment	(960,890)	(775,595)
Purchase of Intangible Assets	-	-
Receipt from Sale of Intangible Assets	-	-
Purchase of Investment Properties	-	-
Receipt from Sale of Investment Properties	-	-
Interest Received	128,791	317,485
Dividend Received	-	-
Net Cash Used in Investing Activities	**(832,099)**	**(458,110)**
Cash Flows from Financing Activities		
Receipt form Issue of Debt Securities	-	-
Repayment of Debt Securities	-	-
Receipt from Issue of Subordinated Liabilities	-	-
Repayment of Subordianted Liabilities	-	-
Receipt from Issue of Shares	-	-
Dividends Paid	(5,844,441)	(86,080,946)
Interest Paid	-	-
Other Receipt/Payments	-	-
Net Cash (used in)/from Financing Activities	**(5,844,441)**	**(86,080,946)**
Net increase/(decrease) in cash and cash equivalents	(199,546,009)	(129,797,259)
Cash and Cash Equivalents at Beginning of Year	1,176,505,066	1,306,302,325
Effect of Exchange Rate Changes on Cash & Cash Equivalents	-	-
Cash and Cash Equivalents at end of Year	**976,959,057**	**1,176,505,066**

First Microfinance

Statement of Distribuable Profit or Loss
Upto Chaitra 2081
(As Per NRB Regulation)

Particular	Current Year	Previous Year
Net Profit or (loss) as per Statement of Profit or Loss	**70,639,116**	**140,649,231**
Appropriations:		
a. General Reserve	(14,127,823)	(28,129,846)
b. Foreign exchange fluctuation fund	-	-
c. Capital redemption reserve	-	-
g. Corporate Social Responsiability	(706,391)	(1,406,492)
d. Employee Training Fund	-	-
f. Client Protection Fund	(1,059,587)	(1,406,492)
j. Other	-	2,068,514
Profit or (loss) before regulatory adjustment	**54,745,315**	**111,774,915**
Regulatory adjustment		
a. (Interest Receivable)/previous accured interest received	(3,236,825)	(699,508)
b. (Short loan loss provision in accounts)/reversal	-	-
c. (Short provision for possiable loss in investment)/Reversal	-	-
d. (Short loan loss provision on Non Banking Asset)/Reversal	-	-
e. (Deffered tax asset reconized)/Reversal	(2,603,178)	(542,986)
f. (Goodwill recognized)/Impairment of Goodwill	-	-
g. (Bargain purchase gain reconized)/Reversal	-	-
h. (Acturial loss regognized)/Reversal	-	-
i. Other	-	-
Net Profit for the Period	**48,905,312**	**110,532,421**
Opening Retained Earning	119,946,662	181,576,133
Adjustment +-		-
Distribution:	**(116,888,862)**	**(172,161,892)**
Bonus Share Issued	(111,044,421)	(86,080,946)
Cash Dividend Paid	(5,844,441)	(86,080,946)
Total Distributabe Profit or (Loss) as on Year End Date	**51,963,112**	**119,946,662**
Distributable Profit/Loss Per Share	**5.08**	**9.72**

First Microfinance

First Microfinance Laghu Bitta Bittiya Sanstha Limited
Notes to the Financial Statements
For the 3rd Quarter Ended 31st Chaitra 2081

1. Reporting Entity

First Microfinance Laghu Bitta Bittiya Sanstha Limited ('The Microfinance') domiciled and incorporated in Nepal under the Companies Act 2063 on 26th Ashwin, 2066 with the Office of Company Registrar. The Microfinance obtained license from Nepal Rastra Bank on 13th Poush, 2066 as 'D Class' financial institution to carry on wholesale micro credit lending. The Microfinance registered with the Inland Revenue Department with PAN 303854726. The Microfinance was promoted by Global IME Bank Limited, Prabhu Bank Limited, Kumari Bank Limited, Rastriya Banijya Bank Limited, ICFC Finance Limited and other reputed national personalities. The Microfinance is operating its business from Corporate Office at Gyaneshwor-30, Kathmandu.

The principal objective of the Microfinance is to provide wholesale lending to licensed retail microfinance institutions and co-operative societies to provide financial access and livelihood support of the deprived people as prescribed by Nepal Rastra Bank.

Authorized capital, issued capital and paid-up capital of the Microfinance is NPR 1,34,48,71,323 (13,448,713.23 Shares of NPR 100 each). The shareholders composition of the Microfinance as of 31st Chaitra, 2081 comprise of 'A Class' licensed institution, other licensed institution, other institutions and individuals with 30%, 4%, 10% and 56% shares respectively.

2. Basis of Preparation

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 specified.

2.1 Going Concern

The financial statements are prepared on a going concern basis, as the Microfinance has the resources to continue in business for the foreseeable future. In making this assessment, the Board of Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

2.2 Statement of Compliance

The financial statements have been prepared on a going concern basis under historical cost conventions except where the standards require otherwise. Financial statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRS)-2018 laid down by the Institute of Chartered Accountants of Nepal (ICAN) and in compliance with the requirements of the Companies Act, 2063.

Financial statements comprise Statement of Financial Position, Statement of Profit or Loss, Statement of Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Accounts on the format prescribed by NRB Directive No. 4.

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2.3 Reporting Period Approval of Financial Statements

Reporting Period

The Microfinance follow the Nepali Financial Year.

Relevant Financial Statements	Nepalese Calendar
Statement of Financial Position	31st Chaitra, 2081
Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity	1st Shrawan, 2081 to 31st Chaitra, 2081

2.4 Functional and Presentation Currency

The financial statements are presented in Nepalese Currency (NPR) which is the functional and presentation
currency of the Microfinance.
The financial information presented has been rounded off to nearest rupee except where otherwise stated.

2.5 Use of Estimates, Assumptions and Judgments

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

Information about assumptions, estimates and judgement used in preparation of financial statements for 2080/81 that have a significant risk of resulting in a material adjustment within the next financial year are:

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

2.6 Changes in Accounting Policies

The Microfinance has consistently applied the accounting policies to all periods presented in these financial statements except for new or revised statements and interpretations implemented during the year. The nature and effect of new standards and interpretations are discussed in the note that follows.

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2.7 New Reporting Standards in Issue But not Yet Effective

There have been amendments to the Standards issued by the Institute of Chartered Accountants of Nepal (ICAN) and applicability of the new Standards have been notified for IFRS. But the amendments and new standards become applicable only when ICAN pronounces them.

The Microfinance has availed the Carve-outs on NFRS-9 Financial Instruments.

2.8 New Standard and Interpretation not Adopted

Financial statements of the Microfinance have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) issued by the Institute of Chartered Accountants of Nepal (ICAN) to the extent applicable.

2.9 Discounting

The Microfinance determines amortized cost of a financial asset or a financial liability using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of a financial asset or a financial liability to the net carrying amount of the financial asset or liability. If expected life cannot be determined reliably, then the contractual life is used.

In case where the Microfinance assesses that the transaction amount of a financial asset or a financial liability does not represent its fair value, the related future cash flows are discounted at prevailing interest rate to determine the initial fair value.

2.10 Prior Period Errors

Prior period errors may be due to omission or misstatements in an entity's financial statements. Such omissions may relate to one or more prior period. Correction of error done by calculation of cumulative effect of the change on the financial statements for the period as if new method or estimate had always been used for all the affected previous period financial statements. Details of prior period adjustment has been shown in explanatory notes (if any).

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3. Significant Accounting Policies

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

3.1 Basis of Measurement

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

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

3.2 Cash and Cash Equivalents

Cash and cash equivalent comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value and carried at amortized cost.

The cash and cash equivalents for the purpose of cash flow statement include cash in hand, balances with banks, money at call and money market funds and financial assets with original maturity less than 3 months from the date of acquisition.

3.3 Financial Assets and Financial Liabilities

a. Recognition

The Microfinance recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are measured at fair value on initial recognition. Transaction costs in relation to financial assets and financial liabilities, other than those carried at fair value through profit or loss (FVTPL), are added to the fair value on initial recognition.

Transaction costs in relation to financial assets and financial liabilities which are carried at fair value through profit or loss (FVTPL), are charged to the Statement of Profit or Loss.

b. Classification

Financial assets and liabilities are subsequently measured at amortized cost or fair value based on business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Classification of Financial assets

I. Financial Assets 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 or Loss.

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II. **Financial Assets Measured at Fair Value Through Other Comprehensive Income**
Financial assets that are held within a business model whose objective is achieved by both, selling financial assets and collecting contractual cash flows that are solely payments of principal and interest, are subsequently measured at fair value through other comprehensive income. Fair value movements are recognized in the other comprehensive income (OCI).

III. **Financial Assets Measured at Fair Value Through Profit or 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 FVTOCI, is classified as FVTPL.

Classification of Financial liabilities

I. **Financial Liabilities at Fair Value Through Profit or 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 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.

II. **Financial Liabilities Measured at Amortized Cost**
All financial liabilities other than measured at fair value though profit or loss are classified as subsequently measured at amortized cost using effective interest method.

c. Derecognition

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

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

d. Determination of Fair Value

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

Fair value measurement hierarchy is as follows:

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

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

Level 3 valuations are those where significant inputs are not based on observable market data.

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

e. Impairment

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

I. Impairment of Financial Assets Class-1 (ACTPL)

Individual Impairment Test

The Microfinance reviews its individually significant financial assets 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 assets.

Top borrowers and loans classified as non-performing assets as per NRB norms forming part of 25% of the portfolio are tested for individual impairment. Each impaired asset is assessed on its merits to estimate the recoverable amount of cash flows. The Microfinance considers the following factors in assessing objective evidence of impairment:

- Whether the counterparty is in default of principal or interest payments,
- When a counterparty files for bankruptcy and this would avoid or delay discharge of its obligation,
- Where the Microfinance initiates legal recourse of recovery in respect of a credit obligation of the counterpart,
- Where the Microfinance consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments,
- Where there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

Collective Impairment Test

A collective impairment provision is established for:

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

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

II. Impairment of Financial Assets Class-2 (FVTOCI)

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

3.4 Trading Asset

Financial assets are classified as trading assets (held for trading) if they have been acquired principally for the purpose of selling in the near term, or form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short- term profit taking. They are recognized on trade date, when the Microfinance enters into contractual arrangements with counterparties, and are normally derecognized when sold. They are initially measured at fair value, with transaction costs taken to profit or loss. Subsequent changes in their fair values are recognized in profit or loss.

3.5 Property and Equipment

a) Recognition and Measurement

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

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

b) Depreciation-Rate Applied as per NAS-16

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

For assets purchased/sold during the year, depreciation is provided up to the date of use on pro-

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rata basis.

Assets	Useful Life	Rate of Depreciation
Motor Car	8 Years	12.5%
Motor Bike	7 Years	14.3%
Furniture and Fixtures	9 Years	11.11%
Hording Board	2 Years	50%
Computers and Office Equipment	5 Years	20%
Air Conditioner	10 Years	10%
Leasehold Improvements	Life of the Lease Period	

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date. The value of the assets fully depreciated but continued to be in use is not considered material. At each reporting date, assets are also assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately to the recoverable amount.

Assets with costs less than NPR 10,000 are charged off on purchase as revenue expenditure. Gains and losses on disposals are included in the Statement of Profit or Loss.

3.6 Goodwill and Intangible Assets

a. Goodwill

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. The Microfinance follows the partial goodwill method for the computation of goodwill in business combinations. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

b. Intangible Assets

Intangible assets are recognized when the cost of the assets can be measured reliably, there is control over the assets as a result of past events, future economic are expected from the assets. These intangible assets are recognized at historical cost less impairment less amortization over their estimated useful life. Amortization of the intangible assets is calculated using the straight-line method over the useful life of 5 years as follows:

Class of Assets	Useful Life	Rate of Depreciation
Computer Software	5 years	20%

3.7 Investment Property

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

Investment properties are initially measured at cost, including transaction costs. Subsequently all investment properties not intended for owner-occupied use are reported at fair value with any gains or losses in fair value reported in the Statement of Profit or Loss as they arise. No depreciation is charged in investment property as they are not intended for the owner-occupied use.

Investment properties intended for owner-occupied use are reported at fair value with any gains or losses in fair value reported through other comprehensive income loss as they arise.

3.8 Income Tax

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

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

a. Current Tax

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

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

b. Deferred Tax

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

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

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

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

3.9 Deposits, Debt Securities Issued and Subordinated Liabilities

a. Deposits

Deposits by MFIs & customers are financial liabilities of the Microfinance as there is an obligation to deliver cash or financial assets back to the depositing bank or customer and are initially recognized at fair value, plus for those financial liabilities not at fair value through profit or loss. The transaction price is considered as the fair value for measuring deposits.

b. Debt Securities Issued

Debt Securities are initially measured at the fair value less incremental direct cost and subsequently at their amortized cost using effective interest method except where the bank designates liabilities at fair value through profit t or loss.

c. Subordinated Liabilities

These are the liabilities subordinated, at the event of winding up, to claims of depositors, debt securities issued and other creditors. It shall include redeemable preference shares, subordinated notes issued, borrowings etc.

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3.10 Provision

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

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

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

A disclosure for contingent liabilities is made where there is:

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

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

Commitments- Where the Microfinance has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees, whether cancellable or not and the Microfinance has not made payments at the reporting date, those instruments are included in these financial statements as commitments.

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

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

3.11 Revenue Recognition

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

a. Interest Income

For all financial assets measured at amortized cost, interest bearing financial assets are classified as fair value through other comprehensive income, interest income is recorded using the that closely

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approximates the EIR because the Microfinance considers that the cost of exact calculation of effective interest rate method exceed the benefit that would be derived from such compliance. EIR is the rate that accurately discounts estimated future cash payments or receipts through the expected life of financial instruments or shorter period, which is appropriate, to the net carrying amount of the financial assets or financial liabilities.

Interest income presented in the Statement of Profit or Loss includes accrual Interest income on financial assets measured at amortized cost. These financial assets include loans and advances including staff loans.

b. Fee and Commission Income

Fees and commission income that are integral to the effective interest rate on financial assets are included in measurement of effective interest rate. Other fees and commission income includes loans service fee, prepayment charge, penal charges etc.

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

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

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

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

c. Dividend Income

Dividends on equity instruments are recognized in the Statement of Profit or Loss within other income when the Microfinance's right to receive payment is established.

Dividend on investment in a resident company is recognized when the right to receive payment is established. Dividend income are presented in other operating income, net income from other financial instruments at fair value through profit or loss or other revenue based on the underlying classification of the equity instruments

d. Net Trading Income

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

e. Net Income from Other Financial Instrument at Fair Value Through Profit or Loss

Net income from other financial instruments measured at fair value through profit or loss includes all gains/(losses) arising from the revaluation of financial instruments at fair value.

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3.12 Interest Expenses

Interest expense on all financial liabilities are recognized in the Statement of Profit or Loss. The interest expenses so recognized closely approximates the interest expenses that would have been derived under effective interest rate method. The difference is not considered material.

3.13 Employee Benefits

a. Short Term Employee Benefits

The Microfinance's short-term employee benefits mainly include wages, salaries, allowances, social security expenses, bonuses as provided in the law and other employee related expenses. Short term employee benefits are measured on an undiscounted basis and are charged to Statement of Profit or Loss as and when the related service is provided.

b. Long Term Employee Benefits

I. Defined Contribution Plans

The contributions to defined contribution plans are recognized in profit or loss as and when the services are rendered by employees which the Microfinance contributes fixed percentage of the salary to the Employee's Provident Fund. The Microfinance has no further obligations under these plans beyond its periodic contributions.

II. Defined Benefit Plans

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

The Microfinance's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on corporate bonds, that have maturity dates approximating the terms of the Microfinance's obligation and that are denominated in the currency in which the benefits are expected to be paid.

The defined benefit obligation is recognized on the basis of the report of qualified actuary using the
Projected Unit Credit Method. The Microfinance recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefits plans in employee benefit are expensed in profit or loss account.

Measurements of the net defined benefit liability comprise actuarial gains and losses. The return on
plan assets (excluding interest income) and the effect of the assets ceiling (if any excluding interest)
are recognized immediately in Other Comprehensive Income. The Microfinance determines the net interest expense (income) on the net defined liability (assets) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefits liability (assets), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefits payments. Net interest expenses and other expenses related to defined benefit plans are recognized as personnel expenses in Statement of Profit or Loss. The Microfinance provides gratuity and leave encashment as the defined benefits plans to its employees.

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3.14 Leases

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

a. The Microfinance as a Lessee

- At the commencement date, a lessee shall recognize a right-of-use asset and a lease liability.
- At the commencement date, a lessee shall measure the right-of-use asset at cost.

  The cost of the right-of-use asset shall comprise: (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the lessee; and (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.
- At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.
- Subsequent measurement of the right-of-use asset

  After the commencement date, a lessee shall measure the right-of-use asset applying a Cost Model.

b. Cost Model

To apply a cost model, a lessee shall measure the right-of-use asset at cost: (a) less any accumulated depreciation and any accumulated impairment losses; and (b) adjusted for any re-measurement of the lease liability specified in paragraph 36(c). A lessee shall apply the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, subject to the requirements in paragraph 32.

c. Subsequent Measurement of Lease Liability

After the commencement date, a lessee shall measure the lease liability by: (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) re-measuring the carrying amount to reflect any reassessment or lease modifications specified in paragraphs 39–46, or to reflect revised in-substance fixed lease payments. Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. After the commencement date, a lessee shall recognize in profit or loss, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both: (a) interest on the lease liability; and (b) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

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3.15 Share Capital and Reserve

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

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

The reserves include regulatory and other reserves excluding retained earnings.

3.16 Earnings Per Share (EPS) Including Diluted EPS

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

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

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

3.17 Segment Reporting

The Microfinance is organized for management and reporting purposes into segments such as: 'D Class' microfinance institutions and co-operative societies. The products offered to these client segments are summarized under 'Income by product' below. The focus is on broadening and deepening the relationship with clients, rather than maximizing a particular product line.

Segment Description: The Microfinance has disclosed its operations under the following segments:

Segment Definition	**Activity**
'D Class' Microfinance	Loans and advances to licensed 'D Class' microfinance institutions and income received from such loans.
Co-operative Societies	Loans and advances to community based Co-operative Societies and income received from such loans.

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4.1 Shareholders Having Shareholding 4% or More During the Year

Shareholders	As of Current Year			As of Previous Year		
	Promoter Holding %	Public Holding %	Total Holding %	Promoter Holding %	Public Holding %	Total Holding %
Prabhu Bank Limited	10.93%	0.00%	10.93%	10.93%	0.00%	10.93%
Global IME Bank Limited	9.99%	0.17%	10.16%	9.99%	0.17%	10.16%
Kumari Bank Limited	3.64%	0.41%	4.05%	3.64%	0.41%	4.05%
Rastriya Bannijja Bank Ltd.	4.50%	0.00%	4.50%	2.93%	0.00%	2.93%

4.2 Transaction with Major Shareholders & Subsidiary of Significant Shareholders

Global IME Capital and Global IME Laghubitta Bittiya Sanstha Ltd. are subsidiaries of Global IME Bank, a significant shareholder. Transaction with the related party during the reporting period is presented below:

NPR '000'

Transaction during the year	Global IME Bank	Prabhu Bank	Rastriya Bannijja Bank	Kumari Bank	ICFC Finance	Global IME Capital
Borrowings (Chaitra End)	1,329,363.00	181,380.15	524,104.12	167,857.14	250,000.00	-
Interest Exp. on Borrowings	61,366.11	18,648.92	8,448.65	1,890.05	291.29	-
Bank Balance (Chaitra End)	193,361.23	1,673.01	2,301.80	46,458.20	251,172.76	-
Loans and Advances	-	-	-	-	-	-
Interest Income on Loans	-	-	-	-	-	-
Other Transactions	80.00	-	750.00	-	-	111.42

4.2.1 Transaction with and Payments to Directors of the Microfinance

The details relating to compensation paid to directors including Board Meeting Fee, Other Committee Meeting Fee, Board Meeting Expenses and Communication & Paper Allowances were as follows:

(Amount in NPR)

Particulars	Current Year	Previous Year
Director's Fee	1,047,000	1,015,000
Meetings Expenses	91,282	159,942
Communication & Papers Allowances	153,000	219,000
Total	**1,291,282**	**1,393,942**

Details of the board of directors and their composition, and changes if any during the period, are disclosed in the director's report. There have been no payments or other transactions with the close family members of the directors.

4.2.2 Transaction with and Payment to Key Management Personnel (KMP)

The key management personnel are those persons having authority and responsibility of planning, directing and controlling the activities of the entity, directly or indirectly. The name of the key management personnel who were holding various positions in directly management of the Microfinance as follows:

Name of the Key Management Personnel	Position
Numanath Poudel	Chief Executive Officer
Dana Raj Pant	Deputy Chief Executive Officer
Baburam Neupane	Chief Business Officer
Bijay Sharma	Chief Finance Officer/Company Secretary

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Gyanendra Wagle	Chief Credit Officer
Dina Dongol	Chief-Internal Audit & Compliance
Shailaja Baba Amatya	Head Credit Admin
Sadikshya Rijal	Head General Support Service
Devraj Nepal	Head Risk Management

Compensation to Key Management Personnel

Salary and allowances are provided to the Chief Executive Officer and other members of the Key Management Personnel (KMP). Salary and allowances paid to the Chief Executive Officer is based on the contract entered by the Microfinance with him whereas compensation paid to other members of KMP are governed by Employees Byelaws 2066 and decisions made by the Board from time to time in this regard. In addition to salaries and allowances, non- cash benefits like vehicle facility, subsidized rate employees' loan termination benefits are also provided to KMP.

The details relating to compensation paid to key management personnel other than directors were as follows:

(Amount in NPR)

S.N.	Name	Position	Remuneration
1	Numanath Poudel	CEO	38,26,000
2	Dana Raj Pant	Deputy CEO	30,14,162
3	Other Management Personnel (7 staffs)	Management	95,89,516
Total			**11,597,037**

Benefits are paid to the CEO as per the Contract. Vehicle facilities are provided to the present CEO.

There has been no payment or transactions with the close family member of the key managerial person