DEPROSC LAGHUBITTA BITTIYA SANSTHA LIMITED

Interim Financial Statement (Unaudited)

For the Quarter ended 31st Aswin 2079

Published Date: 28th Kartik 2079

Deprosc Laghubitta Bittiya Sanstha Limited
Unaudited Condensed Statement of Financial Position
As on Quarter ended 31 Aswin, 2079

Figures in NPR

Assets	This Quarter Ending	Immediate Previous Year Ending
Cash and Cash Equivalent	525,522,639	683,927,342
Statutory Balances and Due from Nepal Rastra Bank	-	-
Placement with Bank and Financial Institutions	-	-
Derivative Financial Instruments	-	-
Other Trading Assets	-	-
Loan and Advances to MFIs & Cooperatives	-	-
Loans and Advances to Customers	18,731,871,795	18,344,799,061
Investment Securities	152,000,000	152,000,000
Current Tax Assets	-	20,966,182
Investment Property	-	-
Property and Equipment	55,653,682	59,258,697
Goodwill and Intangible Assets	2,286,055	2,492,538
Deferred Tax Assets	-	-
Other Assets	202,397,824	128,921,722
Total Assets	**19,669,731,995**	**19,392,365,542**
Liabilities		
Due to Bank and Financial Institutions	-	-
Due to Nepal Rastra Bank	-	-
Derivative Financial Instruments	-	-
Deposits from Customers	8,205,631,538	7,970,178,757
Borrowings	7,954,680,194	7,961,147,064
Current Tax Liabilities	42,484,694	-
Provisions	-	-
Deferred Tax Liabilities	17,191,291	17,191,291
Other Liabilities	266,832,015	354,415,772
Debt Securities Issued	-	-
Subordinated Liabilities	-	-
Total Liabilities	**16,486,819,732**	**16,302,932,884**
Equity		
Share Capital	1,156,248,611	1,156,248,611
Share Premium	-	-
Retained Earning	1,066,205,993	1,007,006,058
Reserves	960,457,659	926,177,989
Total Equity	**3,182,912,263**	**3,089,432,658**
Total Liabilities and Equity	**19,669,731,995**	**19,392,365,542**

Deprosc Laghubitta Bittiya Sanstha Limited
Unaudited Condensed Statement of Profit or Loss
For the Quarter ended 31 Aswin, 2079

Figures in NPR

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)
Interest Income	704,288,590	704,288,590	601,628,968	601,628,968
Interest Expense	(371,824,523)	(371,824,523)	(242,488,612)	(242,488,612)
Net interest income	**332,464,067**	**332,464,067**	**359,140,356**	**359,140,356**
Fee and Commission Income	56,602,096	56,602,096	53,985,061	53,985,061
Fee and Commission Expense	-	-	-	-
Net fee and Commission income	**56,602,096**	**56,602,096**	**53,985,061**	**53,985,061**
Net interest fee and commission income	**389,066,163**	**389,066,163**	**413,125,417**	**413,125,417**
Net Trading Income	-		-	-
Other Operating Income	11,765,276	11,765,276	477,029	477,029
Total operating income	**400,831,439**	**400,831,439**	**413,602,446**	**413,602,446**
Impairment charge/(reversal) for loans and other losses	39,552,802	39,552,802	(27,808,491)	(27,808,491)
Net Operating income	**361,278,637**	**361,278,637**	**441,410,937**	**441,410,937**
Operating expense		-		-
Personal Expense	(168,746,152)	(168,746,152)	(152,534,460)	(152,534,460)
Other Operating Expenses	(46,556,970)	(46,556,970)	(36,375,442)	(36,375,442)
Depreciation and Amortization	(4,359,867)	(4,359,867)	(3,500,000)	(3,500,000)
Operating Profit	**141,615,648**	**141,615,648**	**249,001,034**	**249,001,034**
Non operating income	-	-	-	-
Non operating expense	-	-	(1,019,429)	(1,019,429)
Profit before income tax	**141,615,648**	**141,615,648**	**247,981,605**	**247,981,605**
Income tax expense	42,484,694	42,484,694	74,394,481	74,394,481
Current tax	42,484,694	42,484,694	74,394,481	74,394,481
Deferred tax income/(expense)	-		-	
Profit/(Loss) for the Period	**99,130,954**	**99,130,954**	**173,587,123**	**173,587,123**

Statement of Comprehensive Income

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)
Profit or Loss for the period	**99,130,954**	**99,130,954**	**173,587,123**	**173,587,123**
Other comprehensive income, net of income tax				
a) Items that will not be reclassified to profit or loss				
• Gains/(losses) from investment in equity instruments measured at fair value	-	-	-	-
• Gains/(losses) on revaluation	-	-	-	-
• Acturial gain/(losses) on defined benefit plans	-	-	-	-
• Income tax relating to above items	-	-	-	-
Net other comprehensive income that will not be reclassified to profit or loss	**-**	**-**	**-**	**-**
b) Items that are or may be reclassified to profit or loss				
• Gains/(losses) on cash flow hedge	-	-	-	-
• Exchange gains/(losses)(arising from translating financial assets of foreign operation)	-	-	-	-
• Income tax relating to above items	-	-	-	-
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 year	**99,130,954**	**99,130,954**	**173,587,123**	**173,587,123**
Earnings per share:				
Basic earnings per share		34.29		60.05
Annualized Basic Earnings Per Share		34.29		60.05
Diluted earnings per Share		34.29		60.05

Ratios as per NRB Directives

Particulars	Current Year		Previous Year	
	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)
Capital Fund to RWA		16.30%		13.75%
Non Performing Loan (NPL) to Total Loan		3.68%		0.67%
Total Loan Loss Provision to Total NPL		22.50%		81.52%
Cost of Funds		9.25%		7.05%
Credit to Deposit and Borrowing Ratio		115.91%		115.15%
Base Rate		13.77%		11.18%
Interest Rate Spread		5.74%		8.06%

Deprosc Laghubitta Bittiya Sanstha Limited
Unaudited Condensed Statement of Changes in Equity
For the quarter ended 31 Aswin 2079
Attributable to Equity-Holders

Figures in NPR

Particulars	Share Capital	Share Premium	General Reserve	Exchange Equalisation Reserve	Regulatory Reserve	Fair Value Reserve	Client Protection Fund	Retained Earning	Other Reserve	Total Equity
Balance at Shrawan 01, 2078	1,156,248,611	-	501,673,535	-	118,630,877	10,000	175,349,827	590,223,421	10,846,098	2,552,982,367
Comprehensive Income for the year										
Profit for the year								574,022,763		
Other Comprehensive Income, Net of Tax										
Total Comprehensive Income for the year								**574,022,763**		**574,022,763**
Transfer to reserves during the year			114,804,553		30,479,479		5,740,228	(156,764,487)	5,740,228	
Transfer from reserves during the year							(25,397,175)	11,699,659	(11,699,659)	(25,397,175)
Employee Welfare Fund										
Transactions with Owners, directly recognized in Equity										
Share Issued										
Share Based Payments										
Dividend to Equity-Holders										
Bonus Shares Issued										
Cash Dividend Paid								(12,175,298)		(12,175,298)
Other										
Total Contributions by and Distributions	-		**114,804,553**		**30,479,479.00**		**(19,656,947)**	**(157,240,126)**	**(5,959,431)**	**(37,572,473)**
Balance at Ashad 32, 2079	**1,156,248,611**		**616,478,088**		**149,110,356**	**10,000**	**155,692,879**	**1,007,006,058**	**4,886,666**	**3,089,432,658**
Balance at Shrawan 01, 2079	1,156,248,611	-	616,478,088	-	149,110,356	10,000	155,692,879	1,007,006,058	4,886,666	3,089,432,658
Adjustment								(2,847,161)		(2,847,161)
Balance at Shrawan 01, 2079 after Adjustment	1,156,248,611	-	616,478,088	-	149,110,356	10,000	155,692,879	1,004,158,897	4,886,666	3,086,585,497
Comprehensive Income for the year										
Profit for the year								99,130,954		
Other Comprehensive Income, Net of Tax										
Total Comprehensive Income for the year								**99,130,954**		99,130,954
Transfer to reserves during the year			19,826,191		17,584,468		991,310	(39,393,278)	991,310	-
Transfer from reserves during the year							(2,804,187)	2,309,420	(2,309,420)	(2,804,187)
Employee Welfare Fund										
Transactions with Owners, directly recognized in Equity										
Share Issued										
Share Based Payments										
Dividend to Equity-Holders										
Bonus Shares Issued										
Cash Dividend Paid										-
Other										
Total Contributions by and Distributions			**19,826,191**		**17,584,468**		**(1,812,878)**	**62,047,095**	**(1,318,110)**	**96,326,766.36**
Balance at Aswin 31, 2079	**1,156,248,611**		**636,304,278**		**166,694,824**	**10,000**	**153,880,001**	**1,066,205,993**	**3,568,556**	**3,182,912,263**

Deprosc Laghubitta Bittiya Sanstha Limited
Unaudited Statement of Cash Flows
For the Quarter ended 31 Aswin, 2079

Figures in NPR

Particulars	Upto this Quarter	Corresponding Previous year Upto this quarter
Cash flows from operating activities		
Interest Received	676,376,736	601,628,968
Fee and other income received	56,602,096	53,985,061
Dividend Received		
Receipts from other operating activities	11,765,276	646,104
Interest paid	(371,824,523)	(242,488,612)
Commission and fee paid		
Cash payments to employees	(153,011,080)	(124,980,949)
Other expense paid	(49,361,157)	(43,273,844)
Operating cash flows before change in operating assets and liabilities	**170,547,348**	**245,516,728**
(Increase)/Decrease in operating assets	**(451,223,602)**	**(1,097,252,001)**
Due from Nepal Rastra Bank		
Placement with bank and financial institutions		
Other Trading assets		
Loan and advances to bank and financial institutions		
Loan and advances to customers	(398,713,683)	(1,163,007,903)
Other Assets	(52,509,920)	65,755,902
Increase/(Decrease) in operating liabilities	**122,819,921**	**(123,051,112)**
Due to bank and financial institutions		
Due to Nepal Rastra Bank		
Deposits from customers	#	360,968,754
Borrowings	(6,466,870)	(358,229,755)
Other Liabilities	(106,165,990)	(125,790,111)
Net Cash flow from operating activities before tax paid	**(157,856,333)**	**(974,786,385)**
Income taxes paid		
Net Cash flow from operating activities	**(157,856,333)**	**(974,786,385)**
Cash flows from investing activities		
Purchase of investment securities		
Receipts from sale of investment securities		
Purchase of plant and equipment	(548,369)	(20,735,502)
Receipt from sale of property and equipment		
Purchase of intangible assets		
Receipt from sale of intangible assets		
Purchase of investment properties		
Receipt from the sale of investment properties		
Interest received		
Dividend received		
Net cash used in investing activities	**(548,369)**	**(20,735,502)**
Cash flows from financing activities		
Receipt from issue of debt securities	-	-
Repayment of debt securities	-	-
Receipt from issue of subordinated liabilities	-	-
Repayment of subordinated liabilities	-	-
Receipt from issue of shares	-	-
Dividend paid	-	-
Interest paid	-	-
Other receipt/payment	-	-
Net cash from financing activities	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	**(158,404,702)**	**(995,521,887)**
Cash and Cash Equivalents at Shrawan 01	683,927,342	1,531,470,020
Effect of exchange rate fluctuations on cash and cash		-
Closing Cash and Cash Equivalents	**525,522,639**	**535,948,134**

Details about the distributable profit

	Figures in NPR
Net Profit for the period end 1st Quarter	**99,130,954**
1. Appropriations	
1.1 Profit required to be appropriated to:	**21,808,811**
a. General Reserve	19,826,191
b. Capital Redemption Reserve	
c. Exchange Fluctuation Fund	
d. CSR Fund	991,310
e. Employees Training Fund	
f. Client Protection Fund	991,310
g. Other	
1.2 Profit required to be transferred to Regulatory Reserve	**17,584,468**
a. Transferred to Regulatory Reserve	17,584,468
b. Transferred from Regulatory Reserve	-
Net Profit for the period end 31 Aswin 2079 Quarter available for distribution	**59,737,675**

Deprosc Laghubitta Bittiya Sanstha Limited

Notes to Interim Financial Statements
For the quarter ended 31st Aswin, 2079

1. Reporting Entity

Deprosc Laghubitta Bittiya Sanstha Limited ('the Microfinance') is domiciled and incorporated in Nepal under then Development Bank Act, 2052 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 "DDBL" after issuing its shares to the general public. The microfinance has been promoted in lead of Development Project Service Centre (Deprosc Nepal (NGO)), Nabil Bank Limited, Nepal Bank Limited, Agriculture Development Bank Limited, Lumbini Development Bank Limited, (former Lumbini finance and leasing company limited), Center for Environmental and Agricultural Policy Research, Extension and Development (CEAPRED) and several reputed persons. The registered address of the microfinance is located at Narayangarh, Chitwan Nepal and corporate office is at Ward no-4, Nagarjun Municipality, Sitapaila, Kathmandu.

2. Basis of preparation

The interim financial statements of the Microfinance have been prepared in accordance with the Nepal Financial Reporting Standards (NFRS) issued by the Accounting Standards Board of Nepal on 13th September 2013.
NFRS conform, in all material respect, to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 information have been based on the formats prescribed by Nepal Rastra Bank. The Interim Financial Statement don'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 Condensed Statement of Financial Position:- Aswin 31, 2079
2. For Condensed Statement of Profit & Loss:- 1st Shrawan, 2079 to Aswin 31, 2079
3. For Condensed Statement of Cash Flows:- 1st Shrawan, 2079 to Aswin 31, 2079

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 or where the cost to benefits analysis is not in favour of the microfinance.

3. Use of Estimates, assumptions and judgments

The preparation of the interim financial statements in accordance with NFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses which are explained herein. The management believes that the estimates used in the preparation of the financial statement are prudent and reasonable. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized prospectively.

4. Changes in Accounting policies

The microfinance has adopted NFRS 09 for classification of financial instruments, earlier classified as per NAS 39, as issued by ASB Nepal. The Microfinance applies its accounting policies consistently from year to year except where deviations have been explicitly mandated by the applicable accounting standards.

5. Significant Accounting Policies

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

5.1. Basis of Measurement

The interim financial statements have been prepared on historical cost basis except for following material items in the statement of financial position:

- ✓ Financial assets other than measured at amortized cost are measured at fair value
- ✓ Non-derivative financial instruments at fair value through profit or loss are measured at fair value
- ✓ Derivative financial instruments are measured at fair value, if any
- ✓ Inventories are measured at cost or net realizable value whichever is lower
- ✓ Net defined benefit liabilities are measured at Present Value of Defined Benefits Obligation less the Total Plan Assets.

The financial statements have been prepared on a going concern basis where the accounting policies and judgements as required by the standards are consistently used and in case of deviations disclosed specifically.

5.2. Basis of Consolidation

The microfinance does not have control over any other entity for consolidation of financial statements. Investments in associates are accounted for in financial statements as per equity method although associate's financial statements are not prepared using uniform accounting policies for like transactions and events in similar circumstances as it is impracticable to do so.

5.3. Cash and Cash Equivalent

Cash and cash equivalent comprise the total amount of cash-in -hand, balances with other bank and financial institutions, money at call and short notice, and highly liquid financial assets with original maturities period of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Microfinance in the management of its short-term commitments.

Cash and Cash equivalents are measured at amortized cost in the statement of financial position.

5.4. Financial assets and Financial liabilities

The Microfinance classifies its financial assets into the following measurement categories:

a. financial assets held at fair value through profit or loss;
b. financial assets held at fair value through Other Comprehensive Income, and
c. financial assets held at amortized cost.

Financial liabilities are classified as either

a. held at fair value through profit or loss, or
b. held at amortized cost.

5.4.1. Recognition

The microfinance initially recognizes a financial asset or a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of an instrument. The microfinance initially recognize loans and advances, deposits; and debt securities/ subordinated liabilities issued on the date that they are originated which is the date that the microfinance becomes party to the contractual provisions of the instruments. Investments in equity instruments, bonds, debenture, Government securities, NRB bond or deposit auction, reverse repos, outright purchase are recognized on trade date at which the microfinance commits to purchase/ acquire the financial assets. Regular purchase and sale of financial assets are recognized on trade date.

5.4.2. Measurement

Initial Measurement

At initial recognition, the Microfinance measures a financial assets or financial liability at its fair value plus or minus, in the case of financial asset or financial liability not at fair value through profit or loss, transaction cost that are incremental and directly attributable to the acquisition or issue of the financial assets or financial liability, such as commission and fees. The transaction cost of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

5.4.2.1 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 Value 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.

5.4.2.2 Financial Liability

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.

5.4.3. Derecognition

5.4.3.1. Derecognition of Financial Assets

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

5.4.3.2. Derecognition of Financial Liabilities

A financial liability is derecognized when, and only when it is extinguished (i.e. when the obligation specified in contract is discharged, cancelled or expired). If the liability is renegotiated with the original lender on substantially different contractual terms, the original liability is derecognized and new liability is recognized.

5.4.4. 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 Group has access at that date.

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.

5.5. Impairment

The Microfinance reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Statement of Profit or Loss. The Management's judgement is extensively used in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the provisions made. The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about the number of factors including a borrower's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits to estimate the recoverable amount of cash flows. A collective impairment provision is established for:

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

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

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

- Collateral Loan (Micro-Enterprise Loan)
- General Loan
- Discipline Loan
- Emergency Loan
- Smart Phone Loan
- Maternity Loan
- Loan Against Group Saving

Carveout adopted for assessment of impairment charge

The Microfinance has opted to apply carveout on impairment of loans and receivables. Accordingly, individual and collective impairment loss amount calculated as per NFRS is compared with the impairment provision required under NRB directive no. 2, higher of the amount derived from these measures is taken as impairment loss for loans and receivables.

The Microfinance has insured all the loans disbursed after 15 January 2018 on Deposit and Credit Guarantee Fund established under the Nepal Government, thereby takes the benefits of provisioning only 25% of the total impairment required under NRB directive no. 2

5.6. Trading Assets

The microfinance classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking. Held for trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established. Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

The microfinance does not own any trading assets during the reported period.

5.7. Property, Plant and Equipment

Recognition and measurement: All Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Microfinance and the cost of the item can be measured reliably.

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:

Types of Assets	Depreciation Rate
Building	5%
Computer & Accessories	25%
Vehicles & Motorcycles	20%
Furniture & Fixtures	25%
Office Equipment	25%
Other Assets	20%
Intangible Assets	Rate are set by dividing the cost of the property over the period of useful life from the date of purchase of date of use which is assumed to be 5 years

5.8. Goodwill and Intangible assets

Intangible assets include externally generated capitalized software enhancements. Intangible assets, which have been determined to have a finite useful life, are amortized on a straight-line basis over their estimated useful life. Intangible assets with finite useful lives are reviewed at each reporting date to assess whether there is any indication that they are impaired. If any such indication exists the recoverable amount of the asset is determined and, in the event, that the asset's carrying amount is greater than its recoverable amount, it is written down immediately.

5.9. Investment Property and Noncurrent Assets held for sale

Investment Property

Investment property is the land or building or both held either for rental income or for capital appreciation or for both, but not sold in ordinary course of business and owner-occupied property.

Non-Current Assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and carried at lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The assets are not depreciated or amortized while they are classified as held for sale. Any impairment loss on initial classification and subsequent measurement is recognized as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognized) is recognized in the statement of Profit or Loss.

5.10. Income Tax

5.10.1. 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.

5.10.2. 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.

5.11. Deposit from Members

Deposits from members 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. The microfinance does not collect any deposit from the public other than its member.

5.12. 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. The expense relating to any provision is presented in Statement of Profit or Loss net of any reimbursement in other operating expenses

During the quarter review, the microfinance has filled its lawsuit against its staff in High Court, Tulsipur Dang, through Government Attorney Office under Banking Offence and Punishment Act. For the related case of embezzlement, a provision of NPR. 3,116,543.27 has been made.

Similarly, the microfinance has filled a case against the Large Tax Payer's Office on Revenue Tribunal Office for the disputed amount calculated for FY 2072.073 by the Large tax Payer's Office. The disputed amount for the said fiscal year is NPR 13,453,643.56 where 25 percent has been deposited in concerned authority as deposit for filing the case.

Similarly, the microfinance has filled an application for reassessment of the tax assessment made by the Large Tax Payer's Office for the Fiscal year 2073.074 in Inland Revenue Department. The disputed amount for the said fiscal year was NPR. 10,639,060.96 where 25 percent has been deposited in concerned authority as deposit for the reassessment.

5.13. Revenue Recognition

Revenue is recognized only when it is probable that the economic benefits will flow to Microfinance and the consideration can be reliably measured. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed. The following specific recognition criteria shall also be met for revenue recognition:

5.13.1. Interest income

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation of effective interest rate includes all charges and fee paid or received that are integral part of the effective interest only if considered material. Such a charges are not amortized over the life of the loan and advances as the income so recognized closely approximates the income that would have derived under effective interest method and are recognized directly in statement of profit and loss. Because of different factors like Mid-Term Loan disbursement and the nominal service charge levied on disbursement (within the policy of NRB), the microfinance assumes that the cost to benefit on amortization is not in favour to the microfinance. Hence, Interest income is recognized in the profit or loss as per accrual basis of accounting and as per NRB Circular No. 1 of F/Y 2076-77- Interest Income Recognition.

5.13.2. Fees and Commission

Fees and commission income including management fee, service charges, and syndication fee and forex transaction commission are recognized on accruals basis as the related services are performed.

5.13.3. Dividend Income

Dividend on investment in resident company is recognized when the right to receive payment is established. Dividend income are presented in net trading 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.

5.13.4. Net trading income

Gain and losses arising in changes in fair value of financial instrument held at fair value through profit or loss are included in Statement of Profit or Loss in the period in which they arise.

5.14. Interest Expenses

Interest expense on all financial liabilities including deposits are recognized in profit or loss using effective interest rate method. Interest expense on all trading liabilities are considered to be incidental to the microfinance's trading operations and are presented together with all other changes in fair value of trading assets and liabilities in net trading income. The Microfinance uses ASB carve- outs and treat coupon rate as effective interest rate.

5.15. 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.

5.15.1. Defined Contribution Plan

A defined contribution plan is a post-employment plan under which an microfinance 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.

5.15.2. 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 microfinance annually measures the value of the promised retirement benefits for gratuity and leave, 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.

5.16. Foreign Currency Translation

The interim financial statements are presented in Nepalese Rupees, which is the microfinance's functional and presentation currency.

5.17. 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 fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

5.17.1. 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.

5.17.2. 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.

5.18. Share Capital and Reserve

5.18.1. 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.

The paid of capital of microfinance as on Ashadh end 2078 was NPR 1,156,248,610.69. The microfinance then proposed the 20% stock dividend amounting to NPR. 231,249,722.14 which was approved by the Nepal Rastra Bank via letter dated 2078/05/31 which was declared and approved by the AGM on 2078/06/23. However, it has not been underwritten by the Office of the Company Registrar as Nepal Rastra Bank refused to give approval for underwriting the proposed stock dividend via letter dated 2078/09/21. The reported paidup capital on previous published quarterly reports was NPR 1,387,498,332.83 but as the proposed stock dividends are yet to be underwritten, the paid up capital for the this quarter ended is NPR 1,156,248,610.69 as per NFRS.

Further, the Nepal Rastra Bank has also refused to give approval for the issuance of dividend to the shareholders via letter dated 2078/09/07 unless and until it acquire/merge another microfinance.

5.18.2. Statutory General Reserves

The microfinance allocates 20% of the net profit as stated in Bank and financial Institution Act, 2073 and 50% of additional amount of Dividend 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.

5.18.3. 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.

5.18.4. 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. However, the fund as above stated has not been allocated for the quarter which shall be allocated in the annual report.

5.18.5. 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.

5.18.6. 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 2079 not recovered. Reserve on deferred tax assets, non-banking assets, reduction in fair value of investment in equity below cost price, actuarial loss etc.

5.18.7. 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.

5.18.8. Client protection fund

Client protection fund is created at 1% of net profit. In addition to this, 25% of dividend in excess of 20% declared and distributed is also allocated to this fund as per NRB Directives.

5.18.9. 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 microfinance 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.

5.18.10. 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: Province 1, Madhesh Pradesh, Bagmati Province, Gandaki Province, Lumbini Province, Karnali Province and Far Western 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.

5.18.11. 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 microfinance. 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 microfinance.

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)

Particular		Revenue from External Customers	Intersegment Revenues	Segment Profit/Loss Before Tax	Segment Assets	Segment Liabilities
Province 1	Current Quarter	64,171	-	49,037	1,639,795	619,986
	Corresponding Previous Year Quarter	52,952	-	45,183	1,416,150	471,515
Madhesh Province	Current Quarter	260,528	-	195,489	6,906,129	2,161,033
	Corresponding Previous Year Quarter	243,484	-	220,648	6,155,646	1,834,648
Bagmati Province	Current Quarter	155,757	-	105,692	3,975,384	2,342,505
	Corresponding Previous Year Quarter	142,467	-	111,261	3,761,990	2,010,109
Gandaki Province	Current Quarter	81,611	-	59,327	2,044,772	1,065,582
	Corresponding Previous Year Quarter	72,901	-	58,716	1,923,588	908,834
Lumbini Province	Current Quarter	66,027	-	36,910	1,750,625	1,151,897
	Corresponding Previous Year Quarter	63,939	-	48,106	1,662,118	989,049
Karnali Province	Current Quarter	40,768	-	28,456	1,053,469	566,587
	Corresponding Previous Year Quarter	31,047	-	23,192	813,457	436,892
Sudur-Paschim Province	Current Quarter	57,352	-	40,969	1,457,537	726,439
	Corresponding Previous Year Quarter	44,073	-	33,591	1,145,909	540,901
Total	Current Quarter	**726,214**	**-**	**515,880**	**18,827,711**	**8,634,029**
	Corresponding Previous Year Quarter	**650,863**	**-**	**540,697**	**16,878,858**	**7,191,948**

Note:

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. Reconciliation of Reportable Segment Profit or Loss

Amount ('000)

Particulars	Current Quarter	Corresponding Previous Year Quarter
Total Profit before tax for reportable segment	515,880	540,697
Profit before tax for other segment		
Elimination of inter-segment profit		
Elimination of discontinued operation		
Unallocated amounts:		
Other corporate expenses	(374,264)	(292,715)
Profit before tax	**141,616**	**247,982**

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 concessionary rates.

7.1. Entity with significant influence over the Microfinance

Followings have been identified as related parties for microfinance under NAS 24 Related parties:

a. Lumbini Bikas Bank Limited (former Lumbini Finance & Leasing Company Limited)- Deepak Khanal as the representative honouring as chairman of the board.
b. Agriculture Development Bank Limited- Dirgha Bahadur Aryal as the representative honouring as director of the board.
c. Nepal Bank Limited
d. Nabil Bank Limited
e. Development Project Service Center (DEPROSC Nepal)- Ganesh Kumar KC as the representative honouring as director of the board.
f. Center for Environmental and Agricultural Policy Research, Extension and Development (CEAPRED)

7.2. Parents and ultimate controlling parties

The microfinance doesn’t have an identifiable parent of its own.

7.3. Transaction with Key Managerial Personnel.

As per NAS-24 Related Party Disclosure, key managerial personnel are defined as those persons 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 Personnel

Compensation to the Board of Directors:

Particulars	**Amount (NPR)**
Director’s Sitting Fees	381,000.00
Other Meeting Expenses	109,829.00
Telephone/Newspaper Allowance	54,250.00
Foreign Study Visit	2,539,979.16
Total	**3,085,058.16**

Compensation to the Chief Executive Officer:

Particulars	**Amount (NPR)**
Short Term Benefits	862,500.00
Festival Allowance	260,000.00
Bonus	425,583.23
Total	**1,548,083.23**

In addition to above, the Microfinance also provide other facilities like Vehicles Facilities, Telephone, Newspaper Allowance, Dress Allowance Accidental Insurance, Travelling Allowance and Leave encashment facilities as per the approved employee facilities of the Microfinance to the Chief Executive Officer.

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

No any such activities were reported during the quarter review.

9. **Events after Interim Period**

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

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

No such events occurred.