

**SAMUDAYIK LAGHUBITTA BITTIYA  
SANSTHA LIMITED**



**INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)**

**SECOND QUARTER-END**

**F/Y 2082/83**

Samudayik Laghubitta Bittiya Sanstha Limited  
Unaudited Interim Financial Statements  
Condensed Statement of Financial Position  
As on Quarter Ended 30 Poush, 2082

*Amount in NPR*

Particulars	This Quarter Ending	Immediate Previous Year Ending
<b>Assets</b>		
Cash and Cash Equivalents	388,244,610	117,554,750
Statutory Balances & due from Nepal Rastra Bank	-	-
Placement with Bank and Financial Institutions	23,000,000	20,000,000
Derivative Financial Instruments	-	-
Other Trading Assets	-	-
Loans and Advances to MFIs & Co-operatives	-	-
Loans and Advances to Customers	2,005,034,624	1,858,877,370
Investment Securities	1,000,000	1,000,000
Current Tax Assets	5,201,585	-
Investment Property	-	-
Property and Equipment	21,457,735	9,736,680
Goodwill and Intangible Assets	760,867	-
Deferred Tax Assets	7,115,919	13,134,012
Other Assets	36,406,318	123,852,498
<b>Total Assets</b>	<b>2,488,221,657</b>	<b>2,144,155,310</b>
<b>Liabilities</b>		
Due to Bank and Financial Institutions	-	-
Due to Nepal Rastra Bank	-	-
Derivative Financial Instruments	-	-
Deposits from Customers	771,907,667	624,751,910
Borrowings	1,473,482,842	1,022,945,070
Current Tax Liabilities	-	-
Provisions	23,667,794	20,709,214
Deferred Tax Liabilities	-	-
Other Liabilities	53,279,020	291,440,396
Debt Securities Issued	-	-
Subordinated Liabilities	-	-
<b>Total Liabilities</b>	<b>2,322,337,324</b>	<b>1,959,846,590</b>
<b>Equity</b>		
Share Capital	170,805,000	170,805,000
Share Premium	-	-
Retained Earnings	(87,512,382)	(57,646,000)
Reserves	82,591,715	71,149,720
<b>Total Equity</b>	<b>165,884,333</b>	<b>184,308,720</b>
<b>Total Liabilities and Equity</b>	<b>2,488,221,657</b>	<b>2,144,155,310</b>

**Condensed Statement of Profit or Loss**  
As on Quarter Ended 30 Poush, 2082

*Amount in  
NPR*

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Interest Income	73,968,432	154,005,252	59,979,130	106,939,110
Interest Expense	32,682,949	67,120,384	33,113,080	65,950,990
<b>Net Interest Income</b>	<b>41,285,483</b>	<b>86,884,868</b>	<b>26,866,050</b>	<b>40,988,120</b>
Fee and Commission Income	5,750,588	11,137,379	5,705,603	11,253,140
Fee and Commission Expense	1,630	2,130	-	-
<b>Net Fee and Commission Income</b>	<b>5,748,958</b>	<b>11,135,249</b>	<b>5,705,603</b>	<b>11,253,140</b>
<b>Net Interest, Fee and Commission Income</b>	<b>47,034,441</b>	<b>98,020,116</b>	<b>32,571,653</b>	<b>52,241,260</b>
Net Trading Income	-	-	-	-
Other Operating Income	254,777	551,773	175,119	281,652
<b>Total Operating Income</b>	<b>254,777</b>	<b>551,773</b>	<b>175,119</b>	<b>281,652</b>
Impairment Charge/ (Reversal) for Loans and Other Losses	(17,050,765)	(14,469,698)	(6,954,580)	(1,713,540)
<b>Net Operating Income</b>	<b>64,339,983</b>	<b>113,041,588</b>	<b>39,701,352</b>	<b>54,236,452</b>
<b>Operating Expense</b>				
Personnel Expenses	28,978,019	61,508,482	21,413,020	47,998,960
Other Operating Expenses	8,670,259	16,965,739	9,198,040	16,669,381
Depreciation & Amortisation	1,091,996	1,843,253	-	436,549
<b>Operating Profit</b>	<b>25,599,709</b>	<b>32,724,113</b>	<b>9,090,292</b>	<b>(10,868,438)</b>
Non Operating Income	-	1,062,761	-	-
Non Operating Expense	464,526	471,988	-	-
<b>Profit Before Income Tax</b>	<b>25,135,183</b>	<b>33,314,886</b>	<b>9,090,292</b>	<b>(10,868,438)</b>
Income Tax Expense				
Current Tax				
Deferred Tax	-	-	-	-
<b>Profit/(loss) for the Year</b>	<b>25,135,183</b>	<b>33,314,886</b>	<b>9,090,292</b>	<b>(10,868,438)</b>

**Condensed Statement of Comprehensive Income**  
As on Quarter Ended 30 Poush, 2082

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Up to This Quarter	This Quarter	Up to This Quarter
<b>Profit &amp; Loss for the Period</b>	<b>25,135,183</b>	<b>33,314,886</b>	<b>9,090,292</b>	<b>(10,868,438)</b>

<b>Other Comprehensive Income, Net of Income Tax</b>				
<b>a) Items that will not be reclassified to profit or loss</b>				
Gains/(losses) from investment in equity instruments measured at fair value	-	-	-	-
Gains/(losses) on revaluation	-	-	-	-
Actuarial gains/(losses) on defined benefit plans	-	-	-	-
Income tax relating to above items	-	-	-	-
<b>Net other comprehensive income that will not be reclassified to profit or loss</b>	-	-	-	-
<b>b) Items that are or may be reclassified to profit or loss</b>				
Gains/(losses) on cash flow hedge	-	-	-	-
Exchange gains/(losses)(arising from translating financial assets of foreign operation)	-	-	-	-
Income tax relating to above items	-	-	-	-
<b>Net other comprehensive income that are or may be reclassified to profit or loss</b>				
<b>c) Share of other comprehensive income of associate accounted as per equity method</b>				
<b>Other Comprehensive Income for the period, net of income tax</b>				
<b>Total Comprehensive Income for the Period</b>	<b>25,135,183</b>	<b>33,314,886</b>	<b>9,090,292</b>	<b>(10,868,438)</b>
<b>Profit for the Period</b>				
<b>Total</b>				
<b>Earnig Per Share</b>				
Basic Earnings per Share		19.50		(6.36)
Annualized Basic Earnings Per Share		39.01		(6.36)
Diluted earnings per share	-			

Ratios as per NRB Directives

Particulars	Current Year		Previous Year Crossponding	
	This Quarter	Up to This Quarter (YTD)	This Quarter	Up to This Quarter (YTD)
Capital fund to RWA		6.26%		8.51%
Non-performing loan (NPL) to total loan		7.25%		4.89%
Total loan loss provision to Total NPL		106.62%		139.66%
Cost of Funds		6.52%		8.12%
Credit to Deposit and borrowing Ratio		278.78%		297.54%
Base Rate		14.16%		16.36%
Interest Rate Spread		8.35%		6.88%

**Samudayik Laghubitta Bittiya Sanstha Limited**  
**Condensed Statement of Changes in Equity**  
**As on Quarter ended 30 Poush 2082**

**Attributable to Equityholders**

Particulars	Share Capital	Share Premium	General Reserve	Exchange equalization reserve	Regulatory reserve	Fair value reserve	Revaluation reserve	Retained Earning	Other reserve	Total equity
<b>Balance at Shrawan 1, 2081</b>	170,805,000	-	22,128,884	15,154	29,758,484	-	-	(54,834,534)	59,918,443	227,791,432
Adjustment								21,721,208	(21,721,208)	-
Profit for the period								(50,898,270)		(50,898,270)
Other comprehensive income, net of tax								-		-
<b>Total Comprehensive income</b>	-	-	-	-	-	-	-	<b>(50,898,270)</b>	-	<b>(50,898,270)</b>
Transfer to Reserves during the year	-	-	-	-	20,132,808	-	-	(20,132,808)	974,763	<b>974,763</b>
Transfer from reserve during the year	-	-	-	(15,154)	-	-	-	-	-	<b>(15,154)</b>
Other Adjustments	-	-	-	-	-	-	-	-	(2,481,619)	<b>(2,481,619)</b>
<b>Contributions from and distributions to owners</b>										
Share issued										
Share based payments										
Dividends to equity holders										
- Bonus shares issued										
- Cash dividend paid										
Other										
<b>Total contributions by and distributions</b>	-	-	-	-	-	-	-	-	-	-
<b>Balance as at Ashad End, 2082</b>	<b>170,805,000</b>	-	<b>22,128,884</b>	-	<b>49,891,292</b>	-	-	<b>(104,144,403)</b>	<b>36,690,380</b>	<b>175,371,152</b>
<b>Balance at Shrawan 1, 2082</b>	170,805,000	-	22,128,884	-	49,891,292	-	-	(104,144,403)	36,690,380	175,371,152
Adjustment					(7,115,919)			7,115,919	-	-
Profit for the period								9,516,102		9,516,102
Other comprehensive income, net of tax								-		-
<b>Total Comprehensive income</b>	-	-	-	-	-	-	-	<b>9,516,102</b>	-	<b>9,516,102</b>
Transfer to Reserves during the year	-	-	6,662,977	-	16,136,360	-	-	-	999,447	<b>23,798,784</b>
Transfer from reserve during the year	-	-	-	-	-	-	-	-	(26,332)	<b>(26,332)</b>
Other Adjustments	-	-	-	-	-	-	-	-	-	-
<b>Contributions from and distributions to owners</b>										
Share issued										
Share based payments										
Dividends to equity holders										
- Bonus shares issued										
- Cash dividend paid										
Other										
<b>Total contributions by and distributions</b>	-	-	-	-	-	-	-	-	-	-
<b>Balance as at Poush End, 2082</b>	<b>170,805,000</b>	-	<b>28,791,861</b>	-	<b>58,911,733</b>	-	-	<b>(87,512,382)</b>	<b>37,663,494</b>	<b>208,659,706</b>

<b>Condensed Statement of cash flows</b>		
For the Period (Shrawan1, 2082 to 30th Poush, 2082) ended 2nd Quarter F/Y 2082-83		
		<i>Amount in NPR</i>
<b>Particulars</b>	<b>Up to This Quarter</b>	<b>Corresponding Previous Year Up to this Quarter</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>4,552,081</b>	<b>(12,145,429)</b>
Interest Received	137,868,892	106,939,110
Fee and Other Income Received	11,137,379	11,253,140
Dividend Received	-	-
Receipts from Other Operating Activities	1,614,534	281,652
Interest Paid	67,120,384	65,950,990
Commissions and Fees Paid	2,130	-
Cash Payment to Employees	61,508,482	47,998,960
Other Expenses Paid	17,437,727	16,669,381
<b>Operating Cash Flows before Changes in Operating Assets and Liabilities</b>	<b>(615,821,857)</b>	<b>(1,025,949,860)</b>
<b>(Increase) Decrease in Operating Assets</b>	<b>(199,927,909)</b>	<b>(507,514,978)</b>
Due from Nepal Rastra Bank	-	-
Placement with Banks and Financial Institutions	-	-
Other Trading Assets	-	-
Loans and Advances to Bank and Financial Institutions	-	-
Loans and Advances to Customers	(185,959,363)	(407,744,615)
Current/TAX	(1,519,254)	1,651,169
Other Assets	(12,449,292)	(101,421,532)
<b>Increase (Decrease) in Operating Liabilities</b>	<b>415,893,948</b>	<b>518,434,882</b>
Due to Banks and Financials Institutions	-	-
Due to Nepal Rastra Bank	-	-
Deposit from Customers	60,702,274	43,800,549
Borrowings	398,365,279	252,424,095
Other Liabilities	(43,173,606)	222,210,238
<b>Net Cash Flow from Operating Activities before Tax Paid</b>	<b>220,518,120</b>	<b>(1,225,524)</b>
Income Tax Paid	-	-
<b>Net Cash Flow from Operating Activities</b>	<b>220,518,120</b>	<b>(1,225,524)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investment Securities	-	-
Receipts from Sale of Investment Securities	-	-
Purchase of Property and Equipment	7,132,390	(2,110,414)
Receipts from Sale of Property and Equipment	-	-
Purchase of Intangible Assets	(0)	-
Purchase of Investment Properties	-	-
Receipts from Sale of Investment Properties	-	-
Interest Received	-	-
Dividend Received	-	-
<b>Net Cash Used in Investing Activities</b>	<b>7,132,389</b>	<b>(2,110,414)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts from Issue of Debt Securities	-	-
Repayments of Debt Securities	-	-
Receipts from Issue of Subordinated Liabilities	-	-
Repayments of Subordinated Liabilities	-	-
Receipt from Issue of Shares	-	-
Dividends Paid	-	-
Interest Paid	-	-
Other Receipts/Payments	-	-
<b>Net Cash from Financing Activities</b>	<b>-</b>	<b>-</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>227,650,509</b>	<b>(3,335,938)</b>
Cash and Cash Equivalents at Shrawan 01, 2081	160,594,101	120,890,688
Effect of Exchange Rate fluctuations on Cash and Cash Equivalents Held		-
<b>Cash and Cash Equivalents at Poush 30, 2082</b>	<b>388,244,610</b>	<b>117,554,750</b>

**Details about the distributable Profit or Loss  
As on Quarter Ended 30 Poush, 2082**

Particulars	Amount (NPR)
<b>Net profit or (loss) for the 2nd quarter end Poush 2082</b>	<b>33,314,886</b>
<b>1. Appropriations:</b>	
<b>1.1 Profit required to be appropriated to:</b>	<b>7,662,424</b>
<i>a. General Reserve</i>	6,662,977
<i>b. Capital Redemption Reserve</i>	-
<i>c. Exchange Fluctuation Fund</i>	-
<i>d. Corporate social responsibility (CSR) Fund</i>	333,149
<i>e. Employee Training Fund</i>	-
<i>f. Client Protection Fund</i>	666,298
<i>g. Other</i>	-
<b>1.2 Profit required to be transferred to Regulatory Reserve:</b>	<b>16,136,360</b>
<i>a. Transferred to Regulatory Reserve</i>	16,136,360
<i>b. Transferred from Regulatory Reserve</i>	-
<b>Net Profit for the period end 2nd Quarter 2082/83 available for distribution</b>	<b>9,516,102</b>
Opening Retained Earning as on Shrawan 1 2082	(104,144,403)
Adjustment (+/-)	7,115,919
<b>Distribution:</b>	
Bonus shares issued	-
Cash Dividend Paid	-
<b>Total Distributable profit or (loss) as on Quarter end 30th Poush 2082</b>	<b>(87,512,382)</b>
<b>Annualised Distributable Profit/Loss per share</b>	<b>(51.24)</b>

# **SAMUDAYIK LAGHUBITTA BITTIYA SANSTHA LIMITED**

## **Notes to the Interim Financial Statements**

For the Quarter ended 30th Poush, 2082

### **General Information of Reporting Entity**

Samudayik Laghubitta Bittiya sanstha Limited is a 'D' class level financial institution, registered at Office of Company Registrar with registration number of 114029/069/070 under Companies Act 2063 and Bank and Financial Institution Act, 2073. The institution provides credit and technical support related to micro loans to its member. The microfinance institution operates its business from its corporate office at Banepa, Kavrepalanchowk having total 44 branch offices spread over 16 districts of Nepal (11 districts of Bagmati province and 5 districts of Koshi Province). Samudayik Laghubitta Bittiya Sanstha Limited is listed on Nepal Stock Exchange and is trading under the code "SLBSL".

#### **1. Basis of Preparation**

The financial statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRS): NAS 34 as published by the Accounting Standards Board (ASB) Nepal and pronounced by The Institute of Chartered Accountants of Nepal (ICAN) within the format issued by Nepal Rastra Bank through NRB Directives to "D" Class Financial institutions, 2082.

#### **2. Statement of Compliance with NFRSs**

The interim financial statements comprise the Condensed Statement of Financial Position, Condensed Statement of Profit or Loss, Condensed Statement of Other Comprehensive Income, Condensed Statement of Changes in Equity, Condensed Statement of Cash Flows and the selected Notes to the Interim Financial statements.

##### **2.1 Reporting Period**

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

1.For Statement of Financial Position: Poush 30, 2082

2.For Statement of Profit & Loss: Kartik 1, 2082 to Poush 30, 2082.

##### **2.2 Functional and Presentation Currency**

The financial statements are presented in Nepalese Rupees (NPR) which is also the Laghubitta's functional currency. All financial information presented in NPR has been rounded off to the nearest rupee except indicated otherwise.

#### **3. Use of Estimates, Assumptions and Judgements**

The Laghubitta, under NFRS, is required to apply accounting policies to most appropriately suit its circumstances and operating environment. Further, the Laghubitta is required to make judgments in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the financial statements. This may later be determined that a different choice could have been more appropriate.

The NFRS requires the Laghubitta to make estimates and assumptions that will affect the assets, liabilities, disclosure of contingent assets and liabilities, and profit or loss as reported in the financial statements. The Laghubitta applies estimates in preparing and presenting the financial statements and such estimates and underlying assumptions are reviewed periodically. The revision to accounting estimates are recognized in the period in which the estimates are revised and are applied prospectively.

#### **4. Changes in Accounting Policies**

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

##### **4.1 Limitation of NFRS Implementation**

Wherever the information is not adequately available, and/or it is impracticable to adopt, such exception to NFRS implementation has been noted and disclosed in respective sections.

## 5. Significant Accounting Policies

The principal accounting policies applied by the Laghubitta in the preparation and presentation of these Financial Statements are presented below. These policies has been consistently applied to all the years presented unless otherwise stated.

### 5.1 Basis of Measurement

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

- Investment property is measured at fair value.
- Liabilities for cash-settled, share-based-payment arrangements are measured at fair value.
- Defined benefit schemes, surpluses and deficits are measured at fair value. Impairment of asset is measured at fair value and related disposal cost.

### 5.2 Cash and Cash equivalent

Cash and cash equivalents include cash in hand, balances with Bank and Financial Institutions, money at call and highly liquid financial assets with original maturities of three months or less from the acquisition dates that are subject to an insignificant risk of changes in their fair value and are used by the Laghubitta in the management of its short-term commitments.

### 5.3 Financial Assets and Financial Liabilities

#### A. Recognition

The Laghubitta 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 the instrument. The Laghubitta 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 Laghubitta 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 Laghubitta commits to purchase/ acquire the financial assets. Regular way purchase and sale of financial assets are recognized on settlement date.

#### B. Classification

##### I. Financial Assets

The Laghubitta classifies the financial assets subsequently measured at amortized cost or fair value on the basis of the Laghubitta's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The two classes of financial assets are as follows:

##### a. Financial assets measured at amortized cost

The Laghubitta classifies a financial asset measured at amortized cost if both of the following conditions are met:

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

##### b. Financial asset measured at fair value

Financial assets other than those measured at amortized cost are measured at fair value. Financial assets measured at fair value are further classified into two categories as below:

##### i. Financial assets at fair value through profit or loss.

Financial assets are classified as fair value through profit or loss (FVTPL) if they are held for trading or are designated at fair value through profit or loss. Upon initial recognition, transaction cost is directly attributable to the acquisition are recognized in profit or loss as incurred. Such assets are subsequently measured at fair value and changes in fair value are recognized in Statement of Profit or Loss

##### ii. Financial assets at fair value through other comprehensive income

Investment in an equity instrument that is not held for trading and at the initial recognition, the Laghubitta makes an irrevocable election that the subsequent changes in fair value of the instrument is to be recognized in other comprehensive income are classified as financial assets at fair value though other comprehensive income. Such assets are subsequently measured at fair value and changes in fair value are recognized in other comprehensive income.

## **II. Financial Liabilities**

The The Laghubitta classifies its financial liabilities as follows:

### **i. Financial Liabilities at Fair Value through Profit or Loss**

Financial liabilities are classified as fair value through profit or loss (FVTPL) if they are held for trading or are designated at fair value through profit or loss. Upon initial recognition, transaction costs directly attributable to the acquisition are recognized in Statement of Profit or Loss as incurred. Subsequent changes in fair value are 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 rate method.

## **C. Measurement**

### **i. Initial Measurement**

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

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

### **ii. Subsequent Measurement**

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

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

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

## **D. De-recognition**

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

## **E. Determination of Fair Value**

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

Level 1: Quoted (unadjusted) prices for identical assets or liabilities in active markets;

Level 2: Significant inputs to the fair value measurement are directly or indirectly observable or valuations of quoted for similar instrument in active markets or quoted prices for identical or similar instrument in inactive markets; and

Level 3: Significant inputs to the fair value measurement are unobservable. Investment in Unquoted Equity Instrument are carried at cost as the market price of such shares could not be ascertained with certainty at the reporting date.

## F. Impairment

At each reporting date, the Laghubitta 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.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Laghubitta on terms that the Laghubitta would not otherwise consider, indications that a borrower or issuer will enter Bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Laghubitta. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

In case of financial difficulty of the borrower, the Laghubitta considers to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

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

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

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

## 5.4 Property and Equipment

### a. Recognition and Measurement

Property and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures directly attributable to the acquisition of the asset. Assets with costs less than NPR 5000 are charged off on purchase as revenue expenditure.

### b. Depreciation

Property and equipment are depreciated from the date they are available for use on property on straight-line method over estimated useful lives. Depreciation is recognized in profit or loss.

ROU Assets (Leased assets) under the finance lease are depreciation over the shorter of the lease term and their useful life.

Land is not depreciated. Charging of depreciation is ceased from the earlier of the date from which the asset is classified as held for sale or is derecognized.

Depreciation has been calculated on the rates as prescribed by income tax act 2058.

Property & Equipment Category	Useful Life	Depreciation Rate
Building		5%

Leasehold Improvement		Lease Period
Furniture & Fixtures	4 Years	25%
Computer and Accessories	4 Years	25%
Vehicles	5 Years	20%
Office Equipment & Others	4 Years	25%
Plant & Machinery	7 years	
Other Assets	7 years	

**c. De-recognition**

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

**5.5 Intangible Assets/ 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. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. There is no Goodwill held by Laghubitta during the period.

Certain computer software costs are capitalized and recognized as intangible assets based on materiality, accounting prudence and significant benefits expected to flow therefrom for a period longer than one year. These intangible assets are recognized at historical cost less impairment /amortization over their estimated useful life.

**5.6 Investment Property**

Investment properties include land or land and buildings other than those classified as property and equipment and non-current assets held for sale. Generally, it includes land, land and building acquired by the Laghubitta as non-banking assets but not sold as on the reporting date. However, the Laghubitta does not have Investment Property during the period.

**5.7 Income Tax**

Income Tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognized in profit or loss, except to the extent they relate to the items recognized directly in equity or in other comprehensive income.

**a. 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.

**b. Deferred Tax**

Deferred tax is recognized in respect of temporary differences between the carrying amount and tax base of assets and liabilities; and carry forward of unused tax losses. Deferred tax is measured at

the tax rate that is expected to be applied to temporary differences when they reverse, using tax rate enacted or substantially enacted at the reporting date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which it can be utilized. Deferred tax assets are reviewed at each reporting date and appropriately adjusted to reflect the amount that is reasonably/ virtually certain to be realized. Deferred tax asset and deferred tax liabilities are off set if all of the following conditions met:

- if there is a legally enforceable right to offset the current tax liabilities and assets;
- the taxes are levied by the same authority on the same tax entity; and
- the entity intends to settle the current tax liabilities and assets on net basis or the tax assets and liabilities will be realized simultaneously.

## **5.8 Deposits, debts securities issued and subordinated liabilities**

### **a. Deposits**

Deposits by members clients 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.

### **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 or loss.

### **c. Subordinated Liabilities**

Subordinated liabilities are those liabilities which at the event of winding up are subordinate to the claims of depositors, debt securities issued and other creditors.

## **5.9 Provisions**

The Laghubitta recognizes a provision if, as a result of past event, the Laghubitta has a present constructive or legal obligation that can be reliably measured and it is probable than an outflow of economic benefit will be required to settle the obligation. A disclosure for contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

A provision for onerous contract is recognized when the expected benefits to be derived by the Laghubitta from a contract are lower than the unavoidable cost of meeting its obligation under the contract.

## **5.10 Revenue Recognition**

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

### **a. Interest Income**

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.

### **b. Fee & Commission**

Fees and commission income that are integral to the effective interest rate on a financial asset are included in measurement of effective interest rate. Other fees and commission income including management fee, service charges, commission on remittance transactions and other commission income are recognized as the related services are performed.

**c. Dividend Income**

Dividend on investment in resident company is recognized when the right to receive payment is established.

**d. Net Trading Income**

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends. The Laghubitta does not have Net Trading Income during the period.

**e. Net Income from other financial instrument at fair value through Profit or Loss**

Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at fair value through profit or loss and non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest and dividends.

**5.11 Interest expense**

Interest expense on all financial liabilities including deposits and Borrowings are recognized in profit or loss using effective interest rate method. Interest expense on all trading liabilities are considered to be incidental to the Laghubitta's trading operations and are presented together with all other changes in fair value of trading assets and liabilities in net trading income.

**5.12 Employees Benefits**

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

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

**a. Short Term Employee Benefits**

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is also recognized for the amount expected to be paid under bonus required by the Bonus Act, 2030 to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably under short term employee benefits.

Short-term employee benefits include all the following items (if payable within 12 months after the end of the reporting period):

- wages, salaries and social security contributions,
- paid annual leave and paid sick leave,
- profit-sharing and bonuses and
- non-monetary benefits

**b. Post-Employment Benefits**

Post-employment benefit plan includes the followings:

**i. Defined Contribution Plan**

Under defined contribution plans the Laghubitta's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Obligations for contributions to defined contribution

plans are recognized as personnel expense in profit or loss in the periods during which the related service are rendered by employees. Prepaid contributions are recognized as an asset to the extent that cash refund or reduction in future payments is available. Contributions to a defined contribution plan being due for more than 12 months after the end of the period in which the employee renders the service are discounted at their present value.

In accordance with law, all employees of the Laghubitta are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Laghubitta contribute monthly at a pre-determined rate (currently, 10% of the basic salary plus grades). Laghubitta does not assume any future liability for provident fund benefits other than its annual contribution.

## **ii. Defined Benefit plan**

The Laghubitta provides Gratuity Plan as defined benefits to its employees. These benefits are post-employment benefits plans and are paid based on length of service. The Gratuity plan provides for lump sum payments to vested employees at retirement or upon death while employment or on termination of employment for an amount equivalent defined days' eligible salary payable for each completed years' service. The Laghubitta does not account for the defined benefit plan on actuarial basis.

## **iii. Termination Benefits**

Termination benefits are recognized as expense when the Laghubitta is demonstrably committed, without realistic possibility of withdrawal, to a formal plan to provide termination benefits to employees as a result of an offer made to encourage voluntary redundancy. Termination benefits are recognized if the Laghubitta has made an offer for voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be measured reliably. If the benefits are payable in more than 12 months after the reporting date, they are discounted to their present value.

## **5.13 Leases and Right of Use Assets**

Right-of-use assets are measured at cost, less any accumulated depreciation. The right-of-use assets are depreciated on a straight-line basis over the remaining lease term. Lease Liability is the present value of the lease payments that are not paid at that date and has been created to comply with NFRS-16. It has been recognized and measured initially at the present value of the lease payments that are not paid at that date. Incremental borrowing rate used during the measurement of lease liability has been considered as per published NRB Rate.

No lease liability has been calculated for Short-term lease and Leases for which the underlying asset is of low value.

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

The discount rate that is used to measure the liability is the incremental borrowing rate for the Laghubitta as the rate implicit in the lease cannot be readily determined. The incremental borrowing rate is determined by using a rate that is readily observable, such as the standard borrowing rate for Laghubitta like bank rate.

## **5.14 Share Capital and Reserves**

### **5.14.1 Share Capital**

The Laghubitta classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity is defined as residual interest in total assets of the Laghubitta after deducting all its liabilities. Common shares are classified as equity of the Laghubitta and distributions thereon are presented in statement of changes in equity. Dividends on ordinary shares classified as equity are recognized in equity in the period in which they are paid. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments considering the tax benefits achieved thereon.

#### 5.14.2 Reserves

The reserves include retained earnings and other statutory reserves such as general reserve, Capital Reserve fund, regulatory reserve, investment adjustment reserve, Other Reserve fund, Client protection fund, Employee training fund, CSR reserve etc.

##### a. General Reserve

General Reserve is the statutory reserve. In this reserve, 20% of the net profit computed as per regulatory books is set aside as per the Bank and Financial Institutions Act, 2073. The reserve is the accumulation of setting aside profits over the years. Further, if the dividend is declared for more than 20%, then 50% of the amount more than 20% is also added in the general reserve as per the Clause 13 of NRB Directive No. 1/82.

##### b. Corporate Social Responsibility Fund

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

##### c. Client Protection Fund

Client protection fund is created at 2% of net profit as per the clause 1 (ja) of NRB Unified Directives, 2082, No.4/82. In addition, if the Microfinance distribute dividend in excess of 20%, client protection has to be created at 25% of such excess dividend distributed amount.

##### d. Fair Value Reserves

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

##### e. Revaluation Reserve

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

##### f. Regulatory Reserve

The amount that is allocated from profit or retained earnings of the 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, Reserve on deferred tax assets, non-banking assets, reduction in fair value of investment in equity below cost price, actuarial loss etc.

##### g. Actuarial Gain/Loss Reserve

The amount that is allocated from profit or retained earnings of the Laghubitta 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.

##### h. Employee Training and Capacity Development Fund

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

##### i. Other reserves

Any reserves created with the specific or non-specific purpose (except stated above) is presented under this by disclosing accounting heads. Staff Welfare Fund and Restructured/Rescheduled Loan write back fund etc have been classified under Other reserves.

## 5.15 Earnings per share

The Laghubitta presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Laghubitta by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

## 6. Segment Information

The Laghubitta has identified the company itself as a reportable segment as the business activities from which it earns revenues and incurs expenses whose operating results are reviewed by the management to make decision about resource allocation to each segment and assess its performance. The Microfinance's segmental reporting is as per NFRS 8-Operating Segments. Operating segments are reported in a manner consistent with the internal reporting provided to the microfinance's management committee, which is responsible for allocating resources and assessing the performance of the operating segments.

Segment report include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Detailed information on the Microfinance's Operating segment is presented in 6.A.

### 6.A. Information about profit or loss, assets and liabilities

Particulars		Revenues from external customers	Inter segment revenues	Segment profit / (loss)	Segment assets	Segment liabilities
Province 1	Current Quarter	43,807,301	-	6,047,525	669,916,571	663,869,046
	Corresponding Previous Year Quarter	35,435,379	-	2,195,597	583,427,609	581,232,011
Province 3	Current Quarter	103,891,493	-	14,832,655	3,339,826,813	3,193,882,631
	Corresponding Previous Year Quarter	82,213,550	-	(13,063,847)	2,641,946,603	2,467,024,380
Total	Current Quarter	<b>147,698,794</b>	-	<b>20,880,180</b>	<b>4,009,743,384</b>	<b>3,857,751,677</b>
	Corresponding Previous Year Quarter	<b>117,648,929</b>	-	<b>(10,868,250)</b>	<b>3,225,374,211</b>	<b>3,048,256,392</b>

### 6. B. Reconciliation of Reportable Segment profit or loss

Particulars	Upto Current Quarter	Upto Corresponding Previous Year Quarter
Total profit before tax for reportable segments	13,476,872	(10,868,438)
Profit before tax for other segments	-	-
Elimination of inter-segment profit	-	-
Elimination of discontinued operation	-	-
Unallocated amounts:		
-interest income recognized on accrual basis	16,136,360	-
-Other corporate expenses (Employee Bonus Provision & Others)	3,701,654	-
<b>Profit Before Tax</b>	<b>33,314,886</b>	<b>(10,868,438)</b>

## 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.

### a. Parents and Ultimate Controlling Parties

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

### b. Transactions with Key Management Personnel

As per NAS-24 Related Party Disclosure, key managerial personnel are defined as that person having authority and responsibility for planning, directing and controlling the activities of the entity. Board of Directors and Chief Executive Officer of the microfinance are considered as key managerial personnel of the microfinance.

#### Compensation of Board of Directors

Particulars	Amount
Meeting Fees	3,64,000
News Paper and Telephone Allowances	1,29,000
<b>Total</b>	<b>4,9,3000</b>

#### Compensation of Chief Executive Officer

Particulars	Amount
Short Term Employee Benefits	11,55,000
Bonus	-
Post Employee Benefits	-
Other Long Term Employee Benefits	-
<b>Total</b>	<b>11,55,000</b>

## 8. Dividend paid (aggregate or per share) separately for ordinary shares and other shares.

No dividend has been paid during the period reported.

## 9. Events after interim Period

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

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

No such events occurred.