Mirmire Laghubitta Bittiya Sanstha Limited

Banepa, Kavreplanchowk

Condensed Statement of Financial Position

As on Quarter Ended 30th Chaitra 2079 (13th April 2023)

Amount (NPR)

Particulars	This Quarter Ending	Immediate Previous Year Ending
Assets		
Cash and Cash Equivalents	491,269,834	679,458,590
Statutory Balances and due from Nepal Rastra Bank	26,590	26,315
Placement with Bank & Financial Institutions	-	-
Derivative Financial Instruments	-	-
Other Trading Assets	-	-
Loan and advances to MFIs & Cooperatives	-	-
Loans and Advances to Customers	8,426,174,463	8,862,633,660
Investment Securities	75,454,793	49,125,618
Current Tax Assets	11,038,544	15,303,652
Investment Property	-	-
Property and Equipment	92,431,335	90,434,777
Goodwill and Intangible Assets	1,120,211	1,440,856
Deferred Tax Assets	8,320,015	8,718,768
Other Assets	62,297,166	8,598,851
Total Assets	**9,168,132,951**	**9,715,741,087**
Liabilities		
Due to Bank and Financial Institutions	-	-
Due to Nepal Rastra Bank	-	-
Derivative Financial Instruments	-	-
Deposits from Customers	2,709,442,752	2,742,302,041
Borrowings	5,089,108,494	5,674,055,844
Current Tax Liabilities	-	-
Provisions	-	-
Deferred Tax Liabilities	-	-
Other Liabilities	341,145,641	320,205,503
Debt Securities Issued	-	-
Subordinated Liabilities	-	-
Total Liabilities	**8,139,696,887**	**8,736,563,388**
Equity		
Share Capital	653,382,628	522,085,388
Share Premium	-	-
Retained Earnings	36,119,219	152,218,963
Reserves	338,934,216	304,873,347
Total Equity	**1,028,436,063**	**979,177,699**
Total Liabilities and Equity	**9,168,132,951**	**9,715,741,087**

Mirmire Laghubitta Bittiya Sanstha Limited
Banepa, Kavreplanchowk
Condensed Statement of Profit & Loss
For the Quarter Ended 30th Chaitra 2079 (13th April 2023)

Amount (NPR)

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	**Upto This Quarter**	**This Quarter**	**Upto This Quarter**
Interest Income	311,598,312	964,810,971	320,964,898	903,902,043
Interest Expense	208,047,639	620,487,602	179,456,938	450,746,893
Net Interest Income	**103,550,673**	**344,323,369**	**141,507,959**	**453,155,150**
Fee and Commission Income	14,870,967	60,066,144	30,502,094	119,952,819
Fee and Commission Expense	22,366	65,923	44,085	141,276
Net Fee and Commission Income	**14,848,601**	**60,000,221**	**30,458,009**	**119,811,544**
Net Interest, Fees and Commission Income	**118,399,273**	**404,323,590**	**171,965,968**	**572,966,694**
Net Trading Income	-	-	-	-
Other Operating Income	1,109,510	1,351,322	4,226,036	4,534,460
Total Operating Income	**119,508,783**	**405,674,912**	**176,192,004**	**577,501,154**
Impairment Charge/(reversal) for Loans and Other Losses	18,041,214	15,540,767	5,681,303	13,431,025
Net operating income	**101,467,569**	**390,134,145**	**170,510,701**	**564,070,129**
Operating Expense				
Personnel Expenses	64,181,175	209,301,565	74,510,354	218,977,549
Other Operating Expenses	17,249,804	74,484,623	16,800,765	65,730,616
Depreciation & Amortization	1,848,616	6,899,193	1,622,143	4,437,802
Operating Profit	**18,187,974**	**99,448,764**	**77,577,440**	**274,924,161**
Non-Operating Income	-	-	-	-
Non-Operating Expense	-	-	-	-
Profit before Income Tax	**18,187,974**	**99,448,764**	**77,577,440**	**274,924,161**
Income Tax Expense				
Current Tax	5,456,392	29,834,629	23,273,232	82,477,248
Deferred Tax				
Profit for the Period	**12,731,582**	**69,614,135**	**54,304,208**	**192,446,913**

Condensed Statement of Comprehensive Income

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Profit or loss for the Period	**12,731,582**	**69,614,135**	**54,304,208**	**192,446,913**
Other Comprehensive Income				
a) Items that will not be reclassified to profit or loss				
-Gains/(losses) from investments in equity instruments measured at fair value		930,423		
-Gain/(loss) on revaluation				
-Actuarial gain/loss on defined benefit plans				
-Income tax relating to above items				
Net other compressive 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 compressive income that are or may be reclassified to profit or loss				
c) Share of other comprehensive income of associate accounted as per equity method				
Other comprehensive income for the period, net of income tax				
Total Comprehensive Income for the period	**-**	**930,423**	**-**	**-**
Total Profit for the Period	**12,731,582**	**70,544,557**	**54,304,208**	**192,446,913**
Earnings per share				
Basic earnings per share		10.80		36.86
Annualized Basic Earnings Per Share		14.40		49.15
Diluted earnings per share		14.40		49.15

Ratios as per NRB Directive

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Capital Fund to RWA	-	9.48%	-	10.24%
Non Performng loan(NPL) to Total Loan	-	4.93%	-	1.94%
Total Loan Loss Provision to Total NPL	-	33.78%	-	87.78%
Cost of Funds	-	11.57%	-	10.08%
Credit to Deposit and Borrowing Ratio	-	108.05%	-	105.30%
Base Rate	-	16.92%	-	14.26%
Interest Rate Spread	-	3.39	-	4.82

Details about the Distributable Profit

Net profit For the end of 30th Chaitra 2079	**69,614,135**
1. Appropriation	
1.1 Profit required to be appropriated to:	**15,315,110**
a. General Reserve	13,922,827
b. Capital Redeemption Reserve	-
c. Exchange Fluctuation Fund	-
d. Corporate Social Responsibility Fund	696,141
e. Employee Training Fund	-
f. Client Protection Fund	696,141
g. Other	-
1.2 Profit required to be transferred to Regulatory Reserve	**14,935,337**
a. Transferred to Regulatory Reserve	14,935,337
b. Transferred from Regulatory Reserve	-
Profit for the end of 30th Chaitra 2079 Available for Distribution	**39,363,688**

Note:

1. Figures presented above may vary with the audited figures if instructed by regulators/statutory auditor.
2. The microfinance has applied alternative treatment in the crave out issued by the Institute of Chartered Accountants of Nepal with respect to the Impairment of Loans and Advances.
3. Loans and Advances are presented net of impairment charges
4. Actuarial Valuation has been done on annual basis for Employee Benefits.
5. Figures are regrouped/rearranged/restated wherever necessary for consistent and fair presentation and comparison.
6. The interim financial statements has been uploaded in the website www.mirmirebank.com.np

Mirmire Laghubitta Bittiya Sanstha Limited

Banepa, Kavreplanchowk

Condensed Statement of Changes in Equity

As on Quarter Ended 30th Chaitra 2079 (13th April 2023)

Amount (NPR)

Particulars	Attributable to Equity-Holders of the Institution									
	Share Capital	**Share Premium**	**General Reserve**	**Exchange Equalisation Reserve**	**Regulatory Reserve**	**Fair Value Reserve**	**Revaluation Reserve**	**Retained Earning**	**Other Reserve**	**Total Equity**
Balance at Shrawan 01, 2078	**435,071,157**	**-**	**119,636,905**	**-**	**43,307,770**	**(400,421)**	**-**	**172,073,413**	**69,446,524**	**839,135,349**
Profit for the Period								155,636,101	134,468	**155,770,569**
Other Comprehensive Income						(9,706,660)		-		**(9,706,660)**
Total Comprehensive Income	**-**	**-**	**-**	**-**	**-**	**(9,706,660)**	**-**	**155,636,101**	**134,468**	**146,063,909**
Contributions from and distributions to owners										
Share Issued										-
Share Based Payments										-
Dividend to Equity-Holders										-
Bonus Shares Issued	87,014,231							(76,450,423)	(10,563,809)	-
Cash Dividend Paid									-	-
Other			39,095,301		31,799,455			(99,040,128)	22,123,813	**(6,021,559)**
Total Contributions from and distributions to owners	**87,014,231**	**-**	**39,095,301**	**-**	**31,799,455**	**-**	**-**	**(175,490,551)**	**11,560,004**	**(6,021,559)**
Balance at Ashadh 31, 2079	**522,085,388**	**-**	**158,732,206**	**-**	**75,107,226**	**(10,107,081)**	**-**	**152,218,963**	**81,140,997**	**979,177,698**
Balance at Shrawan 01, 2079	**522,085,388**	**-**	**158,732,206**	**-**	**75,107,226**	**(10,107,081)**	**-**	**152,218,963**	**81,140,997**	**979,177,698**
Profit for the period								**69,614,135**		**69,614,135**
Other Comprehensive Income						930,423		(155,463,432)	2,880,000	
Total Comprehensive Income	522,085,388	-	158,732,206	-	75,107,226	(9,176,658)	-	66,369,666	84,020,997	897,138,824
Contributions from and distributions to owners										
Share Issued										-
Share Based Payments										-
Dividend to Equity-Holders										-
Bonus Shares Issued	122,177,239									**122,177,239**
Cash Dividend Paid										-
Other	9,120,000		13,922,827		14,935,337			(30,250,446)	1,392,283	**9,120,000**
Total Contributions from and distributions to owners	131,297,239	-	13,922,827	-	14,935,337	-	-	(30,250,446)	1,392,283	**131,297,239**
Balance at Ashadh 31, 2080	**653,382,628**	**-**	**172,655,033**	**-**	**90,042,563**	**(9,176,658)**	**-**	**36,119,219**	**85,413,279**	**1,028,436,063**

Mirmire Laghubitta Bittiya Sanstha Limited

Banepa, Kavreplanchowk

Condensed Statement of Cash Flows

As on Quarter Ended 30th Chaitra 2079 (13th April 2023)

Amount (NPR)

Particulars	Upto This Quarter	Immediate Previous Year Ending
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	941,737,028	1,199,912,200
Fees and other income received	61,417,466	82,776,844
Divided received		
Receipts from other operating activities	-	10,839,603
Interest paid	(620,487,602)	(656,910,923)
Commission and fees paid	(65,923)	(167,761)
Cash payment to employees	(209,301,565)	(256,494,167)
Other expense paid	(74,484,623)	(110,255,905)
Operating cash flows before changes in operating assets and liabilities	**98,814,781**	**269,699,891**
(Increase)/Decrease in operating assets	**390,692,537**	**(2,116,462,248)**
Due from Nepal Rastra Bank	(275)	1,592,613
Placement with bank and financial institutions	-	-
Other trading assets	-	-
Loan and advances to bank and financial institutions	-	-
Loans and advances to customers	443,992,374	(2,076,653,912)
Other assets	(53,299,562)	(41,400,948)
Increase/(Decrease) in operating liabilities	**(596,866,500)**	**2,104,617,489**
Due to bank and financial institutions	(584,947,350)	
Due to Nepal Rastra Bank	-	(401,272,228)
Deposit from customers	(32,859,289)	858,780,973
Borrowings	-	1,550,571,288
Other liabilities	20,940,139	96,537,455
Net cash flow from operating activities before tax paid	**(107,359,183)**	**257,855,132**
Income taxes paid	(25,569,521)	(110,454,528)
Net cash flow from operating activities	**(132,928,704)**	**147,400,605**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(26,329,175)	-
Receipts from sale of investment securities	-	5,282,574
Purchase of property and equipment	(8,575,106)	(9,802,358)
Receipt from the sale of property and equipment	-	-
Purchase of intangible assets	-	-
Receipt from the 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	**(34,904,281)**	**(4,519,784)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt from issue of debt securities	-	-
Repayment of debt securities	-	-
Receipt from issue of subordinated liabilities	-	-
Repayment of subordinated liabilities	-	-
Receipt from issue of shares	-	-
Dividends paid	-	-
Interest paid	-	-
Other receipt/payment	(20,355,769)	(7,511,685)
Net cash from financing activities	**(20,355,769)**	**(7,511,685)**
Net increase (decrease) in cash and cash equivalents	**(188,188,755)**	**135,369,135**
Beginnning Cash and cash equivalents at 1st Shrawan 2079	**679,458,590**	**544,089,455**
Effect of exchange rate fluctuations on cash and cash equivalents held	-	-
Closing Cash and cash equivalents at Quarter Ended 30th Poush 2079	**491,269,835**	**679,458,590**

Significant Accounting Policies and Notes to the Accounts

1 Reporting Entity

Mirmire Laghubitta Bittiya Sanstha Limited (‘D-class Microfinance Development Bank' or “the Company”) is a public company incorporated under the Companies Act, 2063 and licensed by Nepal Rastra Bank to conduct banking transaction as a “D” Class Financial Institution under the Bank and Financial Institution Act, 2073. The Microfinance has its Corporate Office at Banepa-8, Kavrepalanchwok. The Microfinance received the license to commence banking operations on 7thAshwin, 2067 BS (September 23, 2010 AD). The Microfinance’s Equity Shares are listed in Nepal Stock Exchange. The objective of the Microfinance is to serve the poor backward communities of rural areas and to uplift the economic status of Nepal by investing in different economic sectors under economic liberalization policy, understanding diverse customer needs and providing broad mix of financial services to business and individuals.

2 Basis of Preparation

The financial statements of the Microfinance have been prepared on accrual basis of accounting except the Cash flow information which is prepared, on a cash basis, using the indirect method. The interest income is recognized on effective interest rate method.

The financial statements comprise the Statement of Financial Position, Statement of Profit or Loss and Statement of Other Comprehensive Income shown in two separate statements, the Statement of Changes in Equity, the Statement of Cash Flows and the Notes to the Accounts. The significant accounting policies applied in the preparation of financial statements are set out below in point number 3. These policies are consistently applied to all the years presented, except for the changes in accounting policies disclosed specifically.

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, 2006.The financial statements have been prepared on the going-concern basis.

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

The Interim Financial Statement do not 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 and approval of financial statements

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

1. For Statement of Financial Position :- Chaitra 30, 2079
2. For Statement of Profit & Loss :- 1st Shrawan, 2079 to Chaitra 30, 2079
3. For Statement of Cash Flows :- 1st Shrawan, 2079 to Chaitra 30, 2079

2.3 Functional and presentation currency

The financial statements are presented in Nepalese Currency (NPR) (rounded to the nearest Rupee unless otherwise stated), which is the company's functional currency. The Microfinancedetermines the functional currency and items included in the financial statements are measured using that functional currency.

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.

2.5 Use of Estimates, assumptions and judgments

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

2.6 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.

2.7 New Standards and interpretation not adapted

All Nepal Accounting Standards and Nepal Financial Reporting Standards and other interpretation issued by ASB of Nepal have been adapted while preparing financial statements.

2.8 Discounting

Non- current assets and liabilities are discounted where discounting is material.

3 Significant Accounting Policies

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

3.1 Basis of Measurement

The financial statements are prepared on the historical-cost basis except for the following material items in the statement of financial position:

- Financial assets, held for trading are recorded in the statement of financial position at fair value and the changes in the value have been routed through profit or loss statement,
- Available for sale investments (quoted) are measured at fair value,
- Liabilities for defined benefit obligations and staff loans provided at subsidized interest rates as per Employee Bylaws of the Bank are recognized at the present value of the defined benefit obligation less the fair value of the plan assets.

3.2 Cash and cash equivalent

Cash and cash equivalents include cash at vault and agency bank account balances, unrestricted balances with NRB, highly liquid financial assets with original maturity of 3 months from the date of its acquisition and are readily convertible to cash, which are subject to an insignificant risk of changes in value. Cash and Cash equivalent are measured at amortized cost in the statement of financial position.

Statement of Cash Flows has been prepared by using the ‘Direct Method’ in accordance with NAS 07- Statement of Cash Flows.

3.3 Financial assets and financial liabilities

Recognition

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

Classification

i. 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.

1. *Financial assets measured at amortized cost*

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

2. *Financial asset measured at fair value*

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

a) *Financial assets at fair value through profit or loss*

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

b) *Financial assets at fair value through other comprehensive income*

Investment in an equity instrument that is not held for trading and at the initial recognition, the Microfinance 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 Microfinance classifies the financial liabilities as follows:

a) *Financial liabilities at fair value through profit or loss*

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

b) *Financial liabilities measured at amortized cost*

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

Measurement

Financial assets at FVTOCI

On initial recognition, the Company can make an irrevocable election (on an instrument-by instrument basis) to present the subsequent changes in fair value in other comprehensive income pertaining to investments in equity instruments. This election is not permitted if the equity investment is held for trading. These elected investments are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the ‘Reserve for equity instruments through other comprehensive income’. The cumulative gain or loss is not reclassified to Statement of Profit and Loss on disposal of the investments.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Dividends on these investments in equity instruments are recognised in Statement of Profit and Loss when the Company’s right to receive the dividends is established, it is probable that the economic benefits associated with the dividend will flow to the entity, the dividend does not represent a recovery of part of cost of the investment and the amount of dividend can be measured reliably. Dividends recognised in Statement of Profit and Loss are included in the ‘Other income’ line item.

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Company irrevocably elects on initial recognition to present subsequent changes in fair value in other comprehensive income for investments in equity instruments which are not held for trading.

Debt instruments that do not meet the amortised cost criteria or FVTOCI criteria (see above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria or the FVTOCI criteria but are designated as at FVTPL are measured at FVTPL.

A financial asset that meets the amortised cost criteria or debt instruments that meet the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in Statement of Profit and Loss. The net gain or loss recognised in Statement of Profit and Loss incorporates any dividend or interest earned on the financial asset and is included in the 'Other income' line item. Dividend on financial assets at FVTPL is recognised when the Company's right to receive the dividends is established, it is probable that the economic benefits associated with the dividend will flow to the entity, the dividend does not represent a recovery of part of cost of the investment and the amount of dividend can be measured reliably.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Company is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and NFRS 9 permits the entire combined contract to be designated as at FVTPL in accordance with NFRS 9.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in Statement of Profit and Loss. The net gain or loss recognized in Statement of Profit and Loss incorporates any interest paid on the financial liability and is included in the 'Other income' line item.

However, for non-held-for-trading financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss, in which case these effects of changes in credit risk are recognised in Statement of Profit and Loss. The remaining amount of change in the fair value of liability is always recognised in Statement of Profit and Loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are reflected immediately in retained earnings and are not subsequently reclassified to Statement of Profit and Loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in the 'Finance costs' line item.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

De-recognition

i. De-recognition of financial assets

The Microfinance derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or 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.

Any interest in such transferred financial assets that qualify for de-recognition that is created or retained by the Microfinance is recognized as a separate asset or liability. On de-recognition of a financial asset, the difference between the carrying amount of the asset, and the sum of

(i) The consideration received and
(ii) Any cumulative gain or loss that had been recognized in other comprehensive income is recognized in Statement of Profit or Loss.

The Microfinance enters into transactions whereby it transfers assets recognized on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example repurchase transactions.

ii. De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in Statement of Profit or Loss.

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. The fair value of a liability reflects its non-performance risk.

When available, the Microfinance measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Microfinance uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The fair value measurement hierarchy is as follows:

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

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

Level 3 portfolios are those where there are unobservable inputs of the instruments. The inputs are not based on observable market data.

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

Impairment

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

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 Microfinance on terms that the Microfinance 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 group. 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 Microfinance 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.

Impairment of financial assets measured at amortized cost

The Microfinance considers evidence of impairment for loans and advances and investment securities measured at amortized cost at both specific asset and collective level. The Microfinance first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant and that are not individually significant are assessed on collectively.

If there is objective evidence on that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

All individually significant loans and advances; and investment securities measured at amortized cost found not to be specifically impaired and those that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

All individually significant loans and advances and investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

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

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Microfinance. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write off is later recovered, the recovery is recognized in the 'Other operating income'.

Impairment of investment in equity instrument classified as fair value though other comprehensive income

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

3.4 Trading assets

Interest income on all trading assets 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.

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.

3.5 Property and Equipment

a) Recognition and Measurement

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

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

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss if any. Neither any class of the property and equipment are measured at revaluation model nor is their fair value measured at the reporting date.

Subsequent expenditure is capitalized if it is probable that the future economic benefits from the expenditure will flow to the entity. Ongoing repairs and maintenance to keep the assets in working condition are expensed as incurred.

Any gain or losses on de-recognition of an item of property and equipment is recognized in profit or loss.

b) Capital work in progress

Assets in the course of construction are capitalised in the assets under capital work in progress account (CWIP). At the point when an asset is capable of operating at management's intended use, the cost of construction is transferred to the appropriate category of property, plant and equipment and depreciation commences. Where an obligation (legal or constructive) exists to dismantle or remove an asset or restore a site to its former condition at the end of its useful life, the present value of the estimated cost of dismantling, removing or restoring the site is capitalized along with the cost of acquisition or construction upon completion and a corresponding liability is recognized.

c) Depreciation

Property and equipment's are depreciated based on the remaining useful life basis from the date of adoption of NFRS as determined by the Management. Depreciation is recognized in profit or loss. 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.

The estimated useful lives of significant items of property and equipment for current year and comparative periods are as follows:

Class of Assets	Useful Life	Rate of depreciation
Building	20 years	5.00%

Leasehold Assets	10 Years	10.00%
Vehicles	10 years	10.00%
Furniture and Fixtures	7 Years	14.29%
Machinery	7 years	14.29%
Vault & Safe lockers	20 years	5%
Equipment and Others	7 years	14.29%

- The capitalized value of Software Purchase and installation costs are amortized over a maximum 5 years' period or within the ownership period.
- Assets costing less than Rs. 5,000 are fully depreciated in the year of purchase. For assets purchased/sold during the year, depreciation is provided upto the date of use on pro-rata basis.

3.6 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The intangible asset with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Certain computer software costs are capitalized and recognised as intangible assets based on materiality, accounting prudence and significant benefits expected to flow therefrom for a period longer than one year.

The estimated useful lives of significant items of intangible assets for current year and comparative periods are as follows:

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

3.7 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 for sale in ordinary course of business and owner-occupied property. The Microfinance holds investment property that has been acquired through the enforcement of security over the loan and advances.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Investment properties which are initially measured at cost are subsequently measured at cost less accumulated depreciation and impairment loss if any.

Fair values are evaluated annually by an accredited external, independent valuator.

Investment properties are derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

3.8 Income tax

The Company is subject to tax laws of Nepal. Income Taxes have been calculated as per the provisions of the Income Tax Act, 2058. Deferred tax is recorded on temporary differences between the tax bases of assets and liabilities and their carrying amounts, at the rates that have been enacted or substantively enacted at the reporting date. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable profits during the periods in which those temporary differences and tax law carry-forwards become deductible. The company considers the expected reversal of deferred tax liabilities and projected future taxable income making this assessment. The amount of the deferred tax assets considered realisable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of profit and loss except to the extent it relates to items directly recognised in equity or in other comprehensive income.

Current Tax

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

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

Deferred Tax

Deferred tax is recognised on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is determined using tax rates (and laws) enacted or substantively enacted at the reporting date and that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are reviewed at each reporting date and reversed if it is no longer probable that the related tax benefits will be realised. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

i. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
ii. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

3.9 Deposits, debt securities issued and subordinated liabilities

Microfinance deposits consist of money placed into the Microfinance by its customers. These deposits are made to various saving deposit accounts. Details and further disclosures about deposits have been explained in Note that follows.

3.10 Provisions

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

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

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

A disclosure for contingent liabilities is made where there is:

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

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

Commitments include the amount of purchase order (net of advances) issued to parties for completion of assets.

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

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

3.11 Revenue Recognition

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

Interest income

Interest income is recognized in profit or loss using effective interest method. Effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of financial asset or liability to the carrying amount of the asset or liability. The calculation of effective interest rate includes all transactions cost and fee and points paid or received that are integral part of the effective interest. The transaction costs include incremental costs that are directly attributable to the acquisition or issue of financial assets.

Interest income presented in statement of comprehensive income includes:

- Interest income on financial assets measured at amortized cost calculated on an effective interest rate method. These financial assets include loans and advances including staff loans, investment in government securities, investment in corporate bonds, investment in NRB Bond and deposit instruments, reverse repos, inter banking lending etc.
- Interest on investment securities measured at fair value, calculated on effective interest rate.
- Income on discounted instruments like bills purchased, documents negotiation is recognized over the period of discounting on accrual basis using effective interest rate.

  Interest income on all trading assets 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.

Fee and commission income

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, syndication fee, forex transaction commission, commission of issue of guarantee are recognized as the related services are performed.

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.

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

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

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in Net gain or loss on financial assets and liabilities designated at fair value through profit or loss is recognised in statement of Profit or Loss. Interest earned or incurred is accrued in Interest income or Interest expense, respectively, using the effective interest rate (EIR), while dividend income is recorded in other operating income when the right to the payment has been established.

3.12 Interest expense

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.

3.13 Employees 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 prevailing Bonus Actto 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 Benefit Plan

Post-employment benefit plan includes followings:

i. Defined Contribution Plan

A defined contribution plan is a post-employment benefit plan under which an entity pays a fixed contribution to a separate entity and has no legal or constructive obligation to pay future amounts. 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. Pre-paid 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 render the service are discounted at their present value. The following are the defined contribution plan provided by the Microfinance to its employees:

a) Employees Provident Fund

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

ii. Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Microfinance's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality corporate bonds, that have maturity dates approximating the terms of the Microfinance's obligation and that are denominated in the currency in which the benefits are expected to be paid. The calculation of obligation is performed annually by a qualified actuary using projected unit credit method.

The Microfinance recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefits plans in employee benefit are expensed in profit or loss.

The following are the defined benefit plans provided by the Microfinance to its employees:

a) Gratuity

Microfinance provides for gratuity on accrual basis covering eligible employees in terms of Employee Service Byelaws of the Microfinance. The plan provides for lump sum payments to vested employees at retirement or upon death while in employment or on termination of employment for an amount equivalent defined days' eligible salary payable for each completed years of service.

b) Leave Salary

The employees of the Microfinance are entitled to carry forward a part of their unavailed/ unutilized leave subject to a maximum limit. The employees can encash unavailed/ unutilized leave partially in terms of Employee Service Byelaws of the Microfinance. The Microfinance accounts for the liability for entire accumulated outstanding leave balance on accrual basis as per Employee Service Byelaws of the Microfinance.

c) Termination Benefits

Termination benefits are recognized as expense when the Microfinance 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 Microfinance has made an offer for voluntary redundancy, it is probable that the offer will be accepted and the number of acceptance 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.

3.14 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Company as a Lessee:

Microfinance leases that transfer to the company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Microfinance charges are recognised in finance cost in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases that do not transfer to the company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Where the rentals are structured solely to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases, such increases are recognised in the year in which such benefits accrue. Contingent rentals are recognised as an expense in the period in which they are incurred.

Company as a Lessors

Leases in which the Company does not transfer substantially all of the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.
Currently, the accompanying Quarterly financials have not been prepared considering the application of NFRS 16.

3.15 Share capital and reserves

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

The Microfinance is required to maintain the capital adequacy ratio imposed by the regulator. The ratio is fixed at 8% for current year and the Microfinance has maintained the required ratio.

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

3.16 Earnings per share including diluted

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

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

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of earnings per share.

3.17 Events after Interim Period

No any events have occurred after the interim period, which is material and reportable.

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

Mirmire Laghubitta and Buddhajyoti Laghubitta Limited have completed merger with the agreed swap ratio. The Joint transaction commenced from 15 Bhadra 2079. The total Assets size of Buddhajyoti Ltd at the date of merger was added in the asset size of Mirmire Laghubitta. Similarly, the Net profit of the Buddhajyoti till the date of merger i.e. 15th Bhadra 2079 has been transferred to Reserve & Surplus in the books of accounts of Mirmire Laghubitta.