Samriddhi Finance Company Limited

Statement Of Financial Position
As on 2nd Quarter Ended Poush end 2080

In "000"

Particulars	This Quarter Ending	Immediate Previous Year Ending
Assets		
Cash and cash equivalent	166,577	409,277
Due from Nepal Rastra Bank	84,739	126,040
Placement with Bank and Financial Institutions	-	-
Derivative financial instruments	-	-
Other trading assets	-	-
Loans and advances to B/FIs	-	15,555
Loans and advances to customers	1,411,803	1,513,181
Investment securities	404,442	315,738
Current tax assets	6,790	5,677
Investment in subsidiaries	-	-
Investment in associates	-	-
Investment property	108,839	113,577
Property Plant and Equipment	140,220	141,750
Goodwill and Intangible assets	2,397	2,718
Deferred tax assets	27,391	25,768
Other assets	28,704	35,827
Total Assets	**2,381,904**	**2,705,106**
Liabilities		
Due to Bank and Financial Institutions	127,661	354,755
Due to Nepal Rastra Bank	-	-
Derivative financial instruments	-	-
Deposits from customers	1,537,505	1,610,644
Borrowing	-	-
Current Tax Liabilities	-	-
Provisions	-	-
Deferred tax liabilities	-	-
Other liabilities	100,284	105,850
Debt securities issued	-	-
Subordinated Liabilities	-	-
Total Liabilities	**1,765,450**	**2,071,249**
Equity		
Share Capital	818,911	818,911
Share premium	19,703	19,703
Retained Earnings	(482,081)	(439,270)
Reserves	259,920	234,512
Total Equity Attributable To Equity Holders	**616,454**	**633,857**
Non-Controlling Interest	-	-
Total Equity	**616,454**	**633,857**
Total Equity & Liabilities	**2,381,904**	**2,705,106**
Net assets value per share	75.28	77.40

Samriddhi Finance Company Limited

Statement Of Profit Or Loss
For the 2nd Quarter Ended Poush end 2080

In "000"

Particulars	Current Year		Previous Year	
	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)
Interest income	57,425	117,833	67,432	138,370
Interest expense	39,795	81,985	46,924	93,694
Net interest income	**17,630**	**35,848**	**20,507**	**44,676**
Fee and commission income	1,366	2,062	1,523	3,966
Fee and commission expense	-	-	-	-
Net fee and commission income	**1,366**	**2,062**	**1,523**	**3,966**
Net interest, fee and commission income	**18,996**	**37,910**	**22,030**	**48,643**
Net trading income/(expenses)	-	-	-	-
Other operating income	1,006	5,747	645	814
Total operating income	**20,002**	**43,657**	**22,675**	**49,456**
Impairment charge/(reversal) for loans and other losses	797	6,253	41,120	78,957
Net operating income	**19,205**	**37,405**	**(18,444)**	**(29,501)**
Operating expense				
Personnel expenses	17,082	35,236	15,357	29,279
Other operating expenses	8,845	17,976	10,449	20,588
Depreciation & Amortization	4,686	9,288	1,657	3,041
Operating Profit	**(11,408)**	**(25,095)**	**(45,907)**	**(82,409)**
Non operating income	153	3,953	-	5,039
Non operating expense	202	202	-	-
Profit before income tax	**(11,457)**	**(21,345)**	**(45,907)**	**(77,370)**
Income tax expense				
Current Tax expenses	-	-	-	-
Deferred Tax Expenses/(Income)	-	-	-	-
Profit for the period	**(11,457)**	**(21,345)**	**(45,907)**	**(77,370)**
Profit attributable to:				
Equity holders of the Finance company	(11,457)	(21,345)	(45,907)	(77,370)
Non-controlling interest	-	-	-	-
Profit for the period	**(11,457)**	**(21,345)**	**(45,907)**	**(77,370)**
Earnings per share				
Basic earnings per share	(2.61)	(2.61)	(9.45)	(9.45)
Annualized basic earnings per share	(5.21)	(5.21)	(18.90)	(18.90)

Samriddhi Finance Company Limited

Statement Of Comprehensive Income
For the 2nd Quarter Ended Poush end 2080

In "000"

Particulars	Current Year		Previous Year	
	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)
Profit for the year	**(11,457)**	**(21,345)**	**(45,907)**	**(77,370)**
Other comprehensive income, net of income tax				
a) Items that will not be reclassified to profit or loss				
Gains/(Losses) from investments in equity instruments measured at fair value	5,535	(5,410)	7,712	(2,610)
Gains/(Losses) on revaluation	-	-	-	-
Actuarial gain/(loss) on defined benefit plans	-	-	-	-
Income tax relating to above terms	(1,660)	1,623	(2,314)	783
Net other comprehensive income that will not be reclassified to profit or loss	**3,875**	**(3,787)**	**5,398**	**(1,827)**
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 terms	-	-	-	-
Reclassify to profit or loss	-	-	-	-
Net other comprehensive income that are or may be reclassified to profit or loss	**-**	**-**		**-**
c) Share of other comprehensive income of associate accounted as per equity method		-		-
Other comprehensive income for the year, net of income tax	**3,875**	**(3,787)**	**5,398**	**(1,827)**
Total comprehensive income for the period	**(7,582)**	**(25,132)**	**(40,509)**	**(79,196)**
Total comprehensive income attributable to:				
Equity holders of the Finance company	(7,582)	(25,132)	(40,509)	(79,197)
Non-controlling interest				
Total comprehensive income for the period	**(7,582)**	**(25,132)**	**(40,509)**	**(79,197)**

Samriddhi Finance Company Limited

Statement Of Changes In Equity
For the 2nd Quarter Ended Poush end 2080

In "000"

Particulars	Share Capital	Share Premium	General Reserve	Exchange Equalization Reserve	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Other Reserve	Total	Non-Controlling Interest	Total Equity
Balance as at Shrawan 1, 2079	**742,175**	**20,037**	**97,165**	**-**	**90,069**	**(12,969)**	**5,089**	**(315,892)**	**70**	**625,743**	**-**	**625,743**
Adjustment/Restatement	-	-	-	-	-	-	-	642	-	**642**		**642**
Adjusted/Restated balance at 1 Shrawan 2079	**742,175**	**20,037**	**97,165**	**-**	**90,069**	**(12,969)**	**5,089**	**(315,250)**	**70**	**626,385**		**626,385**
Comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	(70,067)	-	**(70,067)**	-	**(70,067)**
Other Comprehensive income, net of tax	-	-	-	-	-	-	-	-		**-**		**-**
Gains/(losses) from investments in equity instruments measured at fair value	-	-	-	-	-	7,196	-	-	-	**7,196**	-	**7,196**
Gains/(losses) on revaluation	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Actuarial gains/(losses) on defined benefit plans	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Gains/(Losses) on Cash flow hedge	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Exchange gain/(losses) arising from translating financial assets of foreign operation	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**7,196**	**-**	**(70,067)**	**-**	**(62,871)**		**(62,871)**
Transfer to reserve during the year	-	-	-	-	(12,969)	-	-	(60,932)	(70)	**(73,971)**	-	**(73,971)**
Transfer from reserve during the year	-	-	-	-	60,492	-	-	6,980	440	**67,912**	-	**67,912**
Transactions with owners, directly recognised in equity	-	-	-	-	-	-	-	-	-			
Right share issued	76,737	(334)	-	-	-	-	-	-	-	**76,403**	-	**76,403**
Advance Share Capital Received from Promoter	-	-	-	-	-	-	-	-	-			
Dividend to equity shareholders	-	-	-	-	-	-	-	-	-			
Bonus shares issued	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Cash dividend paid	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Total contributions by and distributions	**76,737**	**(334)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**76,403**	**-**	**76,403**
Balance as at Ashad end, 2080	**818,911**	**19,703**	**97,165**	**-**	**137,592**	**(5,773)**	**5,089**	**(439,270)**	**440**	**633,857**	**-**	**633,857**
Adjustment/Restatement	-	-	-	-	5,376	-	-	3,157	-	**8,533**		**8,533**
Adjusted/Restated balance at 1 Shrawan 2080	**818,911**	**19,703**	**97,165**	**-**	**142,968**	**(5,773)**	**5,089**	**(436,112)**	**440**	**642,391**	**-**	**642,391**
Comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	(21,345)	-	**(21,345)**	-	**(21,345)**
Other Comprehensive income, net of tax												
Gains/(losses) from investments in equity instruments measured at fair value	-	-	-	-	-	(3,787)	-	-	-	**(3,787)**	-	**(3,787)**
Gains/(losses) on revaluation	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Actuarial gains/(losses) on defined benefit plans	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Gains/(Losses) on Cash flow hedge	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Exchange gain/(losses) arising from translating financial assets of foreign operation	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(3,787)**	**-**	**(21,345)**	**-**	**(25,132)**	**-**	**(25,132)**
Transfer to reserve during the year	-	-	-	-	(5,773)	-	-	(30,397)	-	**(36,170)**	-	**(36,170)**
Transfer from reserve during the year	-	-	-	-	29,592	-	-	5,773	-	**35,365**	-	**35,365**
Transactions with owners, directly recognised in equity												
Share issued	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Dividend to equity shareholders												
Bonus shares issued	-		-	-	-	-	-	-	-	**-**	-	**-**
Cash dividend paid		-	-	-	-	-	-	-	-	**-**	-	**-**
Gain on disposal of investments in equity instruments measured at fair value through OCI	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Total contributions by and distributions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at 3rd Quarter Ended Poush end, 2080	**818,911**	**19,703**	**97,165**	**-**	**166,786**	**(9,560)**	**5,089**	**(482,081)**	**440**	**616,454**	**-**	**616,454**

Samriddhi Finance Company Limited

Statement of Distributable Profit or Loss
For the 2nd Quarter Ended Poush end 2080
(As per NRB Regulation)

Particulars	This Quarter Ending
Opening Retained Earning before current year adjustment	(439,270)
Adjustment for Prior Period	3,157
Adjusted retained earning available for distribution before current year profit	**(436,112)**
Net profit or (loss) as per statement of profit or loss	(21,345)
Appropriations:	
a. General reserve	-
b. Foreign exchange fluctuation fund	-
c. Capital redemption reserve	-
d. Corporate social responsibility fund	-
e. Employees' training fund	-
f. Other	(805)
Profit or (loss) before regulatory adjustment	**(458,262)**
Regulatory adjustment :	
a. Interest receivable (-)/previous accrued interest received (+)	(21,394)
b. Short loan loss provision in accounts (-)/reversal (+)	-
c. Short provision for possible losses on investment (-)/reversal (+)	-
d. Short loan loss provision on Non Banking Assets (-)/reversal (+)	2,985
e. Deferred tax assets recognised (-)/ reversal (+)	(1,623)
f. Goodwill recognised (-)/ impairment of Goodwill (+)	-
g. Bargain purchase gain recognised (-)/reseresal (+)	-
h. Acturial loss recognised (-)/reversal (+)	-
i. Other (+/-) (Fair Value)	(3,787)
Distributable profit or (loss)	**(482,081)**

Samriddhi Finance Company Limited

Ratio as per NRB Directives

Particulars	Current Year		Previous Year Corresponding	
	This Quarter Ending	Upto This Quarter (YTD)	This Quarter Ending	Upto This Quarter (YTD)
Capital Fund to RWA		19.31		23.61
Non-Performing Loan(NPL) to Total Loan		4.68		13.92
Total Loan Loss Provision to Total NPL		139.92		55.31
Cost of Funds		9.41		9.32
Credit to Deposit Ratio		85.57		87.67
Average Credit to Deposit Ratio		85.78		-
Base Rate		16.66		14.90
Interest Spread Rate		4.58		4.94

Samriddhi Finance Company Limited
Notes to Financial Statements
For the 2nd Quarter Ended Poush end 2080

1 Basis of Preparation

The interim financial statements of the finance company have been prepared in accordance with the Nepal Financial Reporting Standards (NFRS) adopted by the Accounting Standards Board of Nepal.

2 Statement of Compliance

These interim financial statements, which comprise of the statement of financial position, statement of profit or loss, statement of other comprehensive income, statement of changes in equity, statement of cash flows and notes thereto have been prepared in all material aspects in accordance with requirements applicable Nepal Financial Reporting Standards (NFRS) and the relevant presentation requirements thereof as laid down by the Institute of Chartered Accountants of Nepal (ICAN), and comply with requirements of Company Act, 2063 of Nepal and applicable directives issued by Nepal Rastra Bank.

3 Use of Estimates, Assumptions and Judgments

The preparation of the financial statements in conformity with Nepal Financial Reporting Standards (NFRS) requires the use of certain critical accounting estimates and judgments. It also requires management to exercise judgment in the process of applying the company's accounting policies. The company makes certain estimates and assumptions regarding the future events. Estimates and judgments are continuously evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual result may differ from these estimates and assumptions. The estimates and assumptions that might result in adjustment to the carrying amounts of assets and liabilities within the next financial year are on the following components:

1. Classification of financial assets

Classification of financial assets into Amortized cost or at fair value (either through profit or loss or through other comprehensive income) depends upon the intention of management whether to hold or trade the assets. At the reporting dates, the classification been based on the intention of management on particular group of financial assets. The classification of financial assets may change based on the economic circumstances and intention of management.

2. Fair value of financial assets

Fair value of financial statements is determined on three levels on the basis of available market on reporting date and the measurement may change depending on available market circumstances.

The fair value of financial instruments that are traded in an active market is the closing price on the reporting dates. Whenever the instruments are not actively traded in active market, they are determined using other techniques considering the observable market inputs to the extent possible.

The Bank measures fair values using the following fair value hierarchy as provided in NFRS 13.
Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. Company has used its own data (accounting value) and considered if there exists factors that would otherwise result in changes to the book value of assets or liabilities.

3. Impairment loss on financial assets

Impairment loss on financial assets is provided on the higher of loan loss provision as per NRB Directive 2078 and para 63 of NAS 39. On calculating loss as per para 63, estimates are made on amount of loans that are considered to require individual assessment, grouping of loans for collective assessment, parameters for assessing impairment, future cash flow estimates, historical data on similar types of loan or group of loans.

4. Useful life and salvage value of property and equipment

Management reconsiders the economic useful life and salvage value of property and equipment on each reporting dates based on the information available on such dates.

5. Impairment loss of non financial assets

Impairment loss is calculated if carrying amount exceeds the recoverable amount. For recoverable amount, value in use is estimated and an estimated discount rate is used to arrive the present value of value in use.

6. Current Tax and Deferred tax

Significant management judgment is required to arrive at the figure of current tax and deferred tax, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The Finance based its assumptions and estimates on parameters available when the financial statements were prepared.

7. Employee benefit obligations

Judgment is required to determine the estimated liability that shall arise on part of accumulated leave of staff which is generally paid out on retirement or termination of employment. Valuation of such is done by qualified actuary using assumption like interest rate, rate of increase in annual compensation, remaining service period etc. Factors considered may change depending on market changes or legal changes which are beyond the control of the company. Considering the cost benefit analysis, Finance has not done actuarial valuation and carried the liability at book value.

3 Reporting Period

3.1 Reporting Period

The reporting period for this financial statements is fiscal year 2079-80, starting from 1st Shrawan 2080 and ending on 29 Poush 2080. Financial information of following period/dates are provided on the financial statements.

3.2 Functional and Presentation Currency

The financial statements are presented in Nepalese Rupee, which is also the functional currency of Finance. Figures are rounded off to nearest Rupee, accordingly, minor rounding off error may exist.

3.3 New Standards in Issue but not Yet Effective

Standards as pronounced by the Institute of Chartered Accountants of Nepal (ICAN) have been used in the preperation of financial statements. Any departure from the requirements of NFRS, if any, has been seperately disclosed in the explanatory notes.

A new number of standards and amendments to the existing standards and intrepretations have been issued by International Accounting Standards Board (IASB) after the pronouncements of NFRS with the varying effective dates. Those become applicable when ICAN incorporates them within NFRS.

3.4 Discounting

Discounting has been applied whenever the assets and liabilities are of non-current in nature and the impact of discounting is material.

3.5 Going Concern

The financial statements are prepared on the assumption that Finance is going concern entity.

3.6 Standalone Financial Statements

The presented financial statements is the standalone financial statement of Finance. Finance does not have subsidiary, accordingly, preparation of consolidated financial statement is not required.

3.7 Changes in Accounting Policies

There has been no signifi cant change in the accounting policies adopted by the bank except where required due to adoption of Nepal Financial Reporting Standards.

4 Significant Accounting Policies

4.1 Basis of Measurement

Financial statements are prepared on historical cost convention except for the following material items:

Particulars	Measurement Basis
Investment in shares and mutual fund schemes	Fair value
Non-banking assets	Lower of Market Value or Outstanding Receivable at the date of booking NBA
Loans to employees	Amortized cost
Property and equipment, investment property and intangible assets	Deemed cost as fair value

4.2 Basis of consolidation

Finance does not have subsidiary companies, accordingly, consolidation of financial statements is not a requirement.

4.3 Cash and cash equivalent

Cash and cash equivalent comprises of cash, demand deposit and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. In general, short term investments with original maturity of up to three months are considered as cash equivalent. Cash and cash equivalent are presented at amortized cost on the financial statements.

4.4 Financial assets and financial liabilities

Financial assets is any assets that is cash, equity instrument of another entity or any contractual right to receive cash or financial assets of another entity.

Financial liability is any liability with contractual obligation to deliver cash or other financial assets to another entity.

4.4.1 Recognition

The Finance initially recognises financial assets or financial liability on the date of which the Finance becomes party to the contractual arrangement.

4.4.2 Classification and Measurement

Financial Assets: The classification and measurement of financial assets depend on how these are managed i.e. the Finance's business model and their contractual cash-flow characteristics. Based on these factors, financial assets are classified on following three categories:

i) At Amortized Cost
ii) At Fair Value through Profit or Loss (FVPL)
iii) At Fair Value through Other Comprehensive Income (FVOCI)

i) At amortized cost: Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments for which the Finance has intent and ability to hold till maturity. They are initially measured at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, such financial assets are measured at amortized cost using effective interest rate method less any impairment losses.

ii) At fair value through profit or loss: Financial assets are classified at fair value through profit or loss if the Finance manages such instruments and makes purchases and sales decisions based on its fair value. Attributable transaction costs and changes in fair value are taken to profit or loss.

iii) At fair value through other comprehensive income: Financial assets at FVOCI are non-derivative financial assets that are not classified in any of the above category. Financial assets at FVOCI are measured at fair value. Subsequent to initial recognition, financial assets are measured at fair value, as far as such fair value is available, and changes therein are recognized in other comprehensive income and presented in the fair value reserve in equity. Finance has opted to classify the investment made in shares and mutual fund schemes as financial assets at FVOCI on initial recognition.

Financial Liabilities: Finance classifies its financial liabilities, other than financial guarantee and loan commitments, as measured at amortised cost or fair value through profit or loss. Financial liability is measured initially at fair value, or an item not at fair value through profit or loss, at transactions costs that are directly attributable to its acquisition or issue.

4.4.3 De-recognition

Financial Assets

Financial assets are partially or fully de-recognized in any of the following condition:
- termination of contractual rights to cash flow
- upon transfer of the contractual cash flows in a transaction in which substantially all of the risk and rewards of the ownership of the financial assets are transferred or in which the Finance neither transfer nor retains substantially all of the risk and rewards of the ownership and it does not retain control of the financial assets.

On derecognition of a financial assets, the difference between the carrying amount of the assets (or the carrying amount allocated to the portion of the assets derecognised) and the sum of (i) the consideration received (including any new assets obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in statement of profit or loss.

Financial Liabilities

Upon settlement or termination of any liability related to financial liability, financial liability is de-recognized. The difference between carrying amount and settlement amount is accounted through statement of profit or loss.

4.4.4 Determination of fair value

Fair 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. Fair value is initially considered based on quoted rate where the assets or liabilities are principally transaction, in the absence of which the most advantageous market is the active market.

When available, the Finance measures the fair value of an instrument using the quoted price in an active market for that instrument. The market is regarded as active if transactions for the assets 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 Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise 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.

Fair value of non-financial assets like property & equipment, investment property and intangible assets are considered the deemed cost of such assets in line with NFRS 1.

Fair Value Hierarchy

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values.
Level 1: Fair value is determined based on quoted price of financial instruments in active market.
Level 2: Fair value is determined based on quoted price of similar financial instruments within consideration to significant observable inputs.

Level 3: Fair value is determined used using other method as the inputs for valuation are unobservable inputs for the asset or liability. Finance has used its own data (accounting value) and considered if there exists factors that would otherwise result in changes to the book value of assets or liabilities for this level of valuation.

4.4.5 Impairment

At each reporting date, the Finance assesses whether there is objective evidence that financial assets are impaired. The financial assets 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 and that the loss has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes:
- significant financial difficulty of the borrower or issuer
- default or delinquency by a borrower
- the restructuring of a loan or advance by the Finance on terms that the Finance would not consider otherwise;
- indication that a borrower or issuer will enter bankruptcy
- the disappearance of an active market for a security; or
- 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 net worth below its book value is objective evidence of impairment.

The Finance considers evidences of impairment for loans and advances and investment securities at both specific asset and at collective level. 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 investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities with similar risk characteristics.

In assessing the collective impairment, the Finance uses the statistical modelling of historic trends of the probability of default, the time of recoveries and the amount of loss incurred and makes an adjustment if the current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historic trends. Default rates, loss rates and expected timing of future recoveries are regularly benchmarked against the actual outcomes to ensure that they remain appropriate.

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

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss (through OCI for such investments measured at fair value through OCI on which there exists fair value reserve).

The Finance writes off a loan or an investment security, either partially or in full and any related allowance for impairment losses, when the Finance determines that there is no realistic prospect of recovery.

Finance has individually assessed impariment of Loan and Advances and Impairment of Loan and Advances as per NFRS and NRB regulation.

4.4.6 Amortized cost measurement

The 'amortised cost' of a financial asset and 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 amortisation using the effective interest method of any difference between initial amount recognised and the maturity amount minus any reduction for impairment.

4.4.7 Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

4.5 Trading assets

Trading assets are those assets that the Finance acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

4.6 Derivatives assets and derivative liabilities

Derivative assets and liabilities are initially measured at fair value on the contract date and are subsequently remeasured to fair value at each reporting date. The changes in value of instruments are accounted through profit or loss.

4.7 Property and Equipment

Non-financial tangible assets that are held for service providing to customers and for administrative use of the Finance are classified as Property and Equipment.

Recognition

Property and Equipment are recognized in books whenever it is probable that future economic benefits associated with such assets will flow to the entity and the amount of assets can be reliably measured.

Measurement

At initial recognition, items of property and equipment are measured at cost. Cost includes the purchase price and other directly attributable costs as well as the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions. Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow in to the Finance. Ongoing repair and maintenance are expensed off as incurred.

Subsequent to the initial measurement, there is option to measure the assets either on cost or on revaluation. Finance has measured all items at cost on subsequent measurement. On transition to NFRS, the Finance has elected to continue with the carrying value of all of its property and equipment measured as per the previous NAS and use that carrying value as the deemed cost as fair value in line with provisions of NFRS 1.

Derecognition

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

Assets not capitalized

Items of property and equipment with original cost up to Rs.5,000 are directly accounted as expenses.

Capital Work in Progress

Assets in the course of construction are capitalized in the assets under capital work in progress (CWIP). At the point when an asset is operating at management's intended use, the cost of construction is transferred to the appropriate category of property, plant and equipment and depreciation commences.

Salvage Value

Salvage value of assets has not been considered.

Depreciation

Depreciation is charged upon the assets is available for use and does not cease until the assets is disposed off, classified as held for sale or ceases to generate economic benefits.

Freehold land is not depreciated. Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation is provided on all other items of property and equipment so as to write-off their carrying value over the expected useful economic lives.

Items of property and equipment are depreciated on WDV method using the rates and method prescribed by Income Tax Act.

4.8 Goodwill and Intangible assets

Goodwill

Goodwill arises on the acquisition financial institutions when the aggregate of the fair value of the consideration transferred exceed the amount of the identifiable assets and liabilities acquired. If the amount of the identifiable assets and liabilities acquired is greater, the difference is recognised immediately in the Statement of profit or loss.

Goodwill is allocated to cash generating units (CGU) at the lowest level at which goodwill is monitored for internal management process. Impairment testing is performed annually, and whenever there is an indication that CGU may be impaired. If the present value of expected cash inflows is less than carrying amount, impairment loss is recognized and accounted through Statement of Profit or Loss. Goodwill is stated at cost less accumulated impairment losses.

Acquired Intangible Assets

Intangible assets are recognized whenever the cost of assets can be reliably measured, by the past experience it is demonstrated .Finance has control over such assets for the specified period and it is probable that future economic benefits could be derived from such assets. Finance has followed NAS 38 for accounting of intangible assets.

In the financial statements, softwares are presented as intangible assets.

Computer Software

Computer software are capitalised on the basis of the purchase cost of software or license and costs incurred to bring it to use. Cost of internally developed software includes directly attributable costs.

Intangible assets are amortized over the period of its estimated use, or incase of licenses, over the period of contractual right of use. Whenever there is no specific life or license period, such softwares are amortized over the period of five years.

At each reporting date, impairment test of intangible assets is done in order to oversee whether the carrying amount exceeds recoverable amount. Impairment loss is charged to Statement of Profit or Loss.

On transition to NFRS, the Finance has elected to continue with the carrying value of all of its intangible assets measured as per the previous NAS and use that carrying value as the deemed cost as fair value in line with provisions of NFRS 1.

4.9 Investment Property

Investment property is land and building held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the supply of services or for administrative purpose.

Land or building or both acquired by the Finance as part of Non-Banking Assets are carried at the lower of fair value or the total receivable amount of loan, which is the cost of assets to bank.

Useful life of building held as investment property is considered to be same as that of property and equipment (i.e. 40 years) with 5% salvage value.

4.10 Income tax

Income tax expenses include current tax, deferred tax and any adjustments recognised in the period for current tax of prior periods.

Current Tax

Current tax is the amount of income tax payable in respect of taxable profit. This is calculated as per the provisions of Income Tax Act with the effective tax rate for current period. Taxable profit differs from the profit reported in the statement of profit or loss, because some item of income or expense are taxable or deductible in different years or may never be taxable or deductible. Income tax rate applicable for Finance is 30%.

Deferred Tax

Deferred tax is calculated using balance sheet approach on temporary differences between tax base of assets and liabilities and carrying amount in the financial statements. Deferred tax is calculated using known future tax rate on each reporting date.

Deferred tax is recognized when it is probable that future taxable profit will be available to adjust the impact of temporary differences. Changes in deferred tax over period is recognized as deferred tax income/expenses in Statement of Profit or Loss.

In line with NRB Directives, deferred tax reserve is created to the amount equal to deferred tax assets.

Income tax on items of OCI

Income tax arising on the items of other comprehensive income is charged to statement of OCI itself.

4.11 Deposits, debt securities issued and subordinated liabilities

Deposit are financial liabilities and are generally repayable on demand except fixed period deposit accepted by Finance from its customers. Deposits include noninterest bearing deposits, saving deposits, term deposits and call deposits.

The Finance borrows money by issuing debt securities and subordinated debt. The borrowing is acknowledged or evidenced by issue of a negotiable instrument. The negotiable instrument can be certificate of deposit, commercial paper or debt note. Subordinated debt is issued to meet the capital requirements at bank level and to supply the capital to various operations. This debt generally consists of negotiable instruments and is usually listed on exchanges providing an active secondary market for the debt.

4.12 Provisions

Provision is a liability with uncertain timing and event. Provision is recognised if as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent Liabilities: Contingent liabilities are i) possible obligations arising from past events whose existence will be confirmed on happening or not happening or uncertain future events not wholly within the control of Finance, or ii)a present obligation arising from past events but are not recognized because outflow of resources to settle may not be required or such amount can not be reliably estimated.

Contingent liabilities are separately disclosed in financial statements.

4.13 Revenue Recognition

Revenue is recognized in line with NAS 18 Revenue when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

4.13.1 Interest income

Interest, in general, is recognized using effective interest rate on the particular assets. Finance has opted to use the carve-out mentioned in Note 2.1.1 (c) and continued to use the actual interest rate to account for interest income.

Finance, in general, generates interest income from loan to customers, investment in debt securities and on call deposits in Bank and Financial institutions .

4.13.2 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided or significant act performed. The fees and commission income and expense that are integral to the effective interest rate on the financial assets and financial liability are included in the measurement of the effective interest rate. Finance has opted to use carve-out as mentioned in Note 2.1.1 (c) on this matter and accounted all realized fee and commission income upfront.

Commission on guarantees issued that are for less than one year are immediately accounted as income. If the period of guarantee is more than one year, then proportionate amount of fee is accounted as income.

4.13.3 Dividend income

Dividend income is recognized when the right to receive dividend is established i.e. dividend is approved by general meeting of companies.

Dividend income if related to period earlier than the date of acquisition of shares and it amount related to pre and post acquisition could be segregated, then the pre-acquisition period dividend is adjusted to cost of investment.

4.13.4 Net trading income

Income derived from buying/selling of assets and liabilities classified as for trading purpose are accounted as net trading income. Gain and loss on trading assets and liabilities are recognized on mark to market basis and not on realization basis.

4.13.5 Other Operating Income

Income other than interest, fees & commission and trading income are accounted as other operating income. This primarily comprises of changes in foreign exchange rate, dividend income, gain on disposal of non-financial assets etc.

4.14 Interest expense

Interest on deposit accepted from customer and borrowings of the Finance are accounted on accrual basis.

4.15 Employees Benefits

Employee expenses includes the amount paid to employees of bank in respect of their service. Payment in respect of services are for the current service and long term benefits. Long term benefits are in the form of defined contribution plan and defined benefit plan. Expenses under defined contribution plan are accounted as they incur and on defined benefit plan as per the actuarial valuation.

Employee benefits are accounted using normal calculation method. Actuarial valuation has not been done considering the cost benefit and materiality impact.

Short term employee benefits include salary, allowance, encashment of unused leave, provident fund, annual bonus based on profit of the Finance, subsidized loans etc. These are provided as the services are rendered by the employees and measured on undiscounted amount of payment made.

Long term employee benefits include accumulated leave not encashed during service period. These are generally paid on retirement or termination of service of the employee.

Employee benefits are provided as per Employee Service Regulation of the Finance.

4.16 Leases

A lease is classified at the inception date as a finance lease or an operating lease. For arrangements entered into prior to 1 Shrawan 2074 the Finance has determined whether the arrangement contain lease on the basis of facts and circumstances existing on the date of transition.

Finance has not entered into finance lease.

Payment made under operating leases are recognised in profit or loss as per contractual rates with periodic adjustment on inflation. This method is more representative to the nature of expenses than the Straight line method.

4.17 Share Capital and Reserves

The Financial Institution applies NAS 32, Financial Instruments: Presentation, to determine whether funding is either a financial liability (debt) or equity. Issued financial instruments or their components are classified as liabilities if the contractual arrangement results in the Financial Institution having a present obligation to either deliver cash or another financial asset, or a variable number of equity shares, to the holder of the instrument.

5 Foreign Currency Transaction

Transaction in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the rate of exchange prevailing on that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payment during the year and the amortised cost in the foreign currency translated at the rate of exchange at the reporting date.

Non monetary assets and liabilities that measured at fair value in a foreign currency are translated into the functional currency at the rate of exchange prevailing at the date on which the fair value is determined. Non monetary items that are measured based on historical cost in the foreign currency are translated using the rate of exchange on the date of transactions. The resulting exchange gain or loss differences are generally recognised in Profit or Loss.

The finance is not involved in any kind of foreign currency transaction during the fiscal year.

6 Financial guarantee and loan commitment

Financial guarantees are contract that require the Fund to make specified payments to reimburse the holder for a loss that incurs because a specified debtors fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below -market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below market interest rate included within other liabilities.

7 Earning per share including diluted EPS

The Finance measures earning per share on the basis of the earning attributable to the equity shareholders for the Period. The number of shares is taken as the weighted average number of shares for the relevant period as required by NAS 33 Earnings per Share. EPS for prior year will be restated on the issue of bonus share during the year as per NAS 33.

8 Related Party Disclosure

The related parties of the Finance which meets the definition of related parties as defined in “NAS 24 Related Party Disclosures” are as follows

A. Board of Directors of the Financial Institution

B. Key Management Personnal

As per Para 9 of NAS 24 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity,

Particulars	Amount
Directors	
Board Meeting Fees	218,000
Committee Sitting Fees	120,000
Other Allowances	132,000
Board Meeting Expenses	22,670
Key Management Personnal	
Remuneration and Benefits Paid	4,824,800

9 Events after Interim Period

There are no such material events after the balance sheet date affecting status of the bank.

10 Segment reporting

Segment has been segregated based on the management function of Finance and accordingly, the seven states of Nepal are considered as the segments. Income and expenses directly related to such segments are reported. Assets and liabilities specific to those are presented as segment assets and liabilities. Income tax is not segregated.

Segment result and segment position for the Quarter ended on Poush 2080 *In '000'*

Particulars	Bagmati	Province 1	Madhesh	Gandaki	Lumbini	Unallocated	Total
Revenue from external customers	11,188	71	78.36	105.59	318.44	-	**11,762**
Intersegment revenues	-	-	-	-	-	-	**-**
Net revenue	**11,188**	**71**	**78**	**106**	**318**	**-**	**11,762**
Interest income	99,574	582	250	7,992	9,434		**117,833**
Interest expenses	60,407	1,167	3,763	4,944	11,703		**81,985**
Net interest revenue	**39,168**	**(585)**	**(3,513)**	**3,048**	**(2,269)**	**-**	**35,848**
Staff expenses	29,377	1,351	1,262	1,563	1,684	-	**35,236**
Operating expenses	14,014	937	936	802	1,287	-	**17,976**
Depreciation and amortization	8,389	249	252	196	202	-	**9,288**
Impairment loss	2,153	61	51	(5,012)	9,000		**6,253**
Other expenses	202			-	-		**202**
Total segment expenses	**54,134**	**2,597**	**2,501**	**(2,450)**	**12,173**	**-**	**68,955**
Segment profit/(loss)	**(3,779)**	**(3,111)**	**(5,936)**	**5,603**	**(14,123)**	**-**	**(21,345)**
Entity's interest in the profit or loss of associate accounted for using equity method							
Other material non-cash items:							
Loans	1,121,040	11,563	7,026	83,312	188,862		**1,411,803**
Deposits	1,217,747	33,108	82,725	105,091	226,494		1,665,166
Impairment of Assets	72,299	145	88	3,400	17,417		**93,349**
Segment Assets	**1,996,548**	**18,989**	**26,135**	**97,120**	**215,721**	**27,391**	**2,381,904**
Segment Liabilities	**1,389,909**	**22,100**	**32,070**	**91,518**	**229,853**	**-**	**1,765,450**