INTERIM FINANCIAL STATEMENTS

As On Poush End 2081-82

HIMALAYAN LAGHUBITTA BITTIYA SANSTHA LIMITED

CLASS "D" INSTITUTION LICENCED BY NEPAL RASTRA BANK

Himalayan Laghubitta Bittiya Sanstha Limited

Chabahil, Kathmandu

Unaudited Condensed Statement of Financial Position

As on Second Quarter ended 2081/82

Amount (NPR)

Particulars	This Quarter Ending	Immediate Previous Year Ending
Assets		
Cash and Cash Equivalents	1,240,361,689	262,559,158
Statutory Balances and due from Nepal Rastra Bank	23,000,000	23,000,000
Placement with Bank & Financial Institutions	-	-
Derivative Financial Instruments	-	-
Other Trading Assets	-	-
Loan and advances to MFIs & Cooperatives	-	-
Loans and Advances to Customers	4,694,231,283	3,743,795,732
Investment Securities	1,200,000	-
Current Tax Assets	5,088,557	16,019,449
Investment Property	-	-
Property and Equipment	47,883,604	47,391,677
Goodwill and Intangible Assets	183,302	143,302
Deferred Tax Assets	12,610,484	12,610,484
Other Assets	27,340,144	28,505,297
Total Assets	**6,051,899,062**	**4,134,025,100**
Liabilities		
Due to Bank and Financial Institutions	-	-
Due to Nepal Rastra Bank	-	-
Derivative Financial Instruments	-	-
Deposits from Customers	1,010,260,442	904,279,515
Borrowings	4,367,730,899	2,602,697,955
Current Tax Liabilities	-	-
Provisions	-	-
Deferred Tax Liabilities	-	-
Other Liabilities	191,486,660	171,070,586
Debt Securities Issued	-	-
Subordinated Liabilities	-	-
Total Liabilities	**5,569,478,000**	**3,678,048,057**
Equity		
Share Capital	319,818,200	319,818,200
Share Premium	45,543,048	45,543,048
Retained Earnings	(2,960,982)	(6,546,039)
Reserves	120,020,796	97,161,835
Total Equity	**482,421,062**	**455,977,043**
Total Liabilities and Equity	**6,051,899,062**	**4,134,025,100**

Himalayan Laghubitta Bittiya Sanstha Limited

Chabahil, Kathmandu

Condensed Statement of Profit & Loss

For the Second Quarter Ended Poush 2081

Amount (NPR)

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto This Quarter	This Quarter	Upto This Quarter
Interest Income	157,663,368	304,293,717	166,792,810	340,458,720
Interest Expense	76,426,797	150,991,837	104,824,334	223,178,909
Net Interest Income	**81,236,571**	**153,301,881**	**61,968,475**	**117,279,811**
Fee and Commission Income	15,238,019	30,395,630	8,993,462	25,105,305
Fee and Commission Expense	393,815	793,647	1,277,834	1,289,150
Net Fee and Commission Income	**14,844,204**	**29,601,984**	**7,715,628**	**23,816,155**
Net Interest, Fees and Commission Income	**96,080,775**	**182,903,865**	**69,684,104**	**141,095,966**
Net Trading Income	-	-	-	-
Other Operating Income	1,477,317	2,895,960	3,461,684	6,975,485
Total Operating Income	**97,558,092**	**185,799,825**	**73,145,788**	**148,071,451**
Impairment Charge/(reversal) for Loans and Other Losses	10,556,949	11,730,542	1,513,564	7,831,473
Net operating income	**87,001,143**	**174,069,283**	**71,632,224**	**140,239,978**
Operating Expense			-	
Personnel Expenses	48,490,116	97,094,282	44,932,802	88,650,073
Other Operating Expenses	15,446,576	30,856,783	15,979,605	34,591,707
Depreciation & Amortization	5,114,973	8,884,059	4,760,514	9,486,572
Operating Profit	**17,949,478**	**37,234,158**	**5,959,302**	**7,511,626**
Non-Operating Income	-	-	-	-
Non-Operating Expense	-	-	-	-
Profit before Income Tax	**17,949,478**	**37,234,158**	**5,959,302**	**7,511,626**
Income Tax Expense				
Current Tax	5,384,843	11,170,248	1,787,790	2,253,487
Deferred Tax	-	-		
Profit for the Period	**12,564,634**	**26,063,911**	**4,171,512**	**5,258,138**

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	**12,564,634**	**26,063,911**	**4,171,512**	**5,258,138**
Other Comprehensive Income				
Total Comprehensive Income	**12,564,634**	**26,063,911**	**4,171,512**	**5,258,138**
Earnings per share				
Basic earnings per share	-	8.15	-	1.64
Annualized Basic Earnings per share	-	16.30	-	3.29
Diluted earnings per share	-	16.30	-	3.29

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	-	8.65%	-	8.61%
Non Performng loan(NPL) to Total Loan	-	5.62%	-	3.59%
Total Loan Loss Provision to Total NPL	-	32.65%	-	37.96%
Cost of Funds	-	7.65%	-	9.31%
Credit to Deposit and Borrowing Ratio	-	87.29%	-	111.47%
Base Rate	-	14.14%	-	16.58%
Interest Rate Spread	-	7.35%	-	5.69%

Statement of Distributable Profit or Loss

For the Second Quarter Ended Poush 2081

As per NRB Regulation

Amount (NPR)

Net profit as per Statement of Profit or Loss	**26,063,911**
Appropriation	
a. General Reserve	5,212,782
b. Exchange Fluctuation Fund	-
c. Capital Redeemption Reserve	-
d. Corporate Social Responsibility Fund	260,639
e. Employee Training Fund	-
f. Other (Client Protection Fund)	260,639
Profit or (loss) before regulatory adjustment	**20,329,850**
Regulatory Adjustments	
a. Interest receivable (-)/previous accrued interest received (+)	(16,744,792)
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 (-)/resersal (+)	-
e. Deferred tax assets recognised (-)/ reversal (+)	-
f. Goodwill recognised (-)/ impairment of Goodwill (+)	-
g. Bargain purchase gain recognised (-)/resersal (+)	-
h. Actuarial loss recognised (-)/reversal (+)	-
i. Other	-
Net Profit for the Qtr. end available for Distribution	**3,585,058**
Opening Retained Earning As on Shrawan 1, 2081	**(6,546,039)**
Adjustments	
Distribution	
Bonus Share issued	-
Cash Dividend Paid	-
Total Distributable Profit or (Loss) as on Qtr. end	**(2,960,981)**
Annualised Distributable Profit/Loss per share	**-**

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 carve outs issued by the Institute of Chartered Accountants of Nepal with respect to the
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.

Interest Rate on Loan and Advances : 15% and Deposits : 7.5 % to 8.91%

Note: The detailed interim financial report has been published in the website (https://www.himalayanlaghubitta.com)

Himalayan Laghubitta Bittiya Sanstha Limited

Chabahil, Kathmandu

Condensed Statement of Changes in Equity

As on Second Quarter ended 2081/82

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, 2080	**319,818,200**	**45,543,048**	**39,552,694**	**-**	**35,648,816**	**-**	**-**	**543,707**	**17,270,659**	**458,377,123**
Profit for the Period								(7,089,747)		**(7,089,747)**
Other Comprehensive Income					3,451,609			-	1,238,057	**4,689,666**
Total Comprehensive Income	**-**	**-**	**-**	**-**	**3,451,609**	**-**	**-**	**(7,089,747)**	**1,238,057**	**(2,400,081)**
Contributions from and distributions to owners										
Share Issued										**-**
Share Based Payments										**-**
Dividend to Equity-Holders										**-**
Bonus Shares Issued										**-**
Cash Dividend Paid										**-**
Other	-		-		-			-	-	**-**
Total Contributions from and distributions to owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at Ashad 31, 2081	**319,818,200**	**45,543,048**	**39,552,694**	**-**	**39,100,425**	**-**	**-**	**(6,546,040)**	**18,508,716**	**455,977,043**
Balance at Shrawan 01, 2081	**319,818,200**	**45,543,048**	**39,552,694**	**-**	**39,100,425**	**-**	**-**	**(6,546,040)**	**18,508,716**	**455,977,043**
Profit for the period								**26,063,911**		**26,063,911**
Other Comprehensive Income										
Total Comprehensive Income	-	-	-	-	-	-	-	26,063,911	380,109	**26,444,019**
Contributions from and distributions to owners										
Share Issued										**-**
Share Based Payments										**-**
Dividend to Equity-Holders										**-**
Bonus Shares Issued	-							-		**-**
Cash Dividend Paid								-		**-**
Other	-		5,212,782		16,744,792			(22,478,853)	521,278	**(0.00)**
Total Contributions from and distributions to owners	-	-	5,212,782	-	16,744,792	-	-	(22,478,853)	521,278	**(0.00)**
Balance at Ashad 31, 2081	**319,818,200**	**45,543,048**	**44,765,476**	**-**	**55,845,217**	**-**	**-**	**(2,960,982)**	**19,410,103**	**482,421,062**

Himalayan Laghubitta Bittiya Sanstha Limited

Chabahil, Kathmandu

Condensed Statement of Cash Flows

As on Second Quarter ended 2081/82

Amount (NPR)

Particulars	Upto This Quarter	Corresponding Previous Year Upto This Quarter
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	276,698,460	302,332,338
Fees and other income received	33,291,590	32,080,790
Divided received		
Receipts from other operating activities		
Interest paid	(150,991,837)	(223,178,909)
Commission and fees paid		
Cash payment to employees	(96,078,060)	(88,629,063)
Other expense paid	(22,083,684)	(24,839,522)
Operating cash flows before changes in operating assets and liabilities	**40,836,470**	**(2,234,367)**
(Increase)/Decrease in operating assets	**(934,421,904)**	**60,298,690**
Due from Nepal Rastra Bank	-	
Placement with bank and financial institutions	-	-
Other trading assets	-	-
Loan and advances to bank and financial institutions	-	-
Loans and advances to customers	(935,587,057)	63,394,139
Other assets	1,165,153	(3,095,449)
Increase/(Decrease) in operating liabilities	**1,882,243,305**	**(222,668,889)**
Due to bank and financial institutions	1,765,032,944	(179,676,440)
Due to Nepal Rastra Bank		
Deposit from customers	105,980,926	(40,164,026)
Borrowings		
Other liabilities	11,229,435	(2,828,423)
Net cash flow from operating activities before tax paid	**988,657,871**	**(164,604,566)**
Income taxes paid	(239,355)	(2,698,307)
Net cash flow from operating activities	**988,418,516**	**(167,302,873)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(1,200,000)	-
Receipts from sale of investment securities	-	-
Purchase of property and equipment	(9,415,986)	(852,066)
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	**(10,615,986)**	**(852,066)**
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		-
Net cash from financing activities	**-**	**-**
Net increase (decrease) in cash and cash equivalents	**977,802,531**	**(168,154,939)**
Beginnning Cash and cash equivalents at 1st Shrawan 2080	**262,559,158**	**255,481,482**
Effect of exchange rate fluctuations on cash and cash equivalents held	-	-
Closing Cash and cash equivalents at Quarter Ended 29th Poush 2080	**1,240,361,689**	**87,326,543**

Himalayan Laghubitta Bittiya Sanstha Limited

Notes to the Interim Financial Statement

For the Second Quarter Ended Poush 2081

1 Reporting Entity

Himalayan Laghubitta Bittiya Sanstha Limited (Previously known as Civil Laghubitta Bittiya Sanstha Limited) ('the Microfinance') is domiciled and incorporated in Nepal under then Bank and Financial Institution Act, 2063 on 1st Chaitra 2067 (15th March 2011). The company received the national level business operating license from Nepal Rastra Bank to conduct micro-finance activities as a 'D' class financial institution on 7th Baishak 2069 (19 April 2012). The company started its operations on 21 Ashad 2069 (05 July 2012). The company has its registered central office at Chabahil, Kathmandu, Nepal. The microfinance is operating as a D Class licensed financial institution as per Bank and Financial Institution Act, 2073. The Microfinance is a limited liability company having its shares listed on Nepal Stock Exchange with trading code "HLBSL". The microfinance is a subsidiary of Himalayan Bank Limited.

2 Basis of Preparation

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

The Interim Financial Statement don't include all of the information required for a complete set of NFRS financial statements. However selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the microfinance's financial position and performance since the last published annual financial statements.

2.2 Reporting Period

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

1. For Statement of Financial Position :- Ashad 31, 2081
2. For Statement of Profit & Loss :- 1st Shrawan, 2080 to Ashad 31, 2081
3. For Statement of Cash Flows :- 1st Shrawan, 2080 to Ashad 31, 2081

2.3 Functional and Presentation Currency

The Financial Statements of the Microfinance are presented in Nepalese Rupees, which is the currency of the primary economic environment in which the company operates. There was no change in microfinance's presentation and functional currency during the year under review.

2.4 New Standards issued but not yet effective

Management has issued its assumptions and understandings for the preparation of financial statements under compliance with NFRS, however, certain interpretations might vary regarding the recognition, measurement and other related provisions where the standards are not specific and not clear.

3 Use of Estimates and Judgements

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.

4 Changes in Accounting Policies

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

5 Significant Accounting Policies

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

5.1 Basis of Measurement

The Financial Statements of Entity have been 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.

5.2 Cash and Cash Equivalents

The cash and cash equivalents include cash in hand, balances with banks and financial institutions, money at call and short notice and highly liquid financial assets with original maturity of three months or less from the acquisition date that are subject to and insignificant risk of changes in their fair values and are used by the microfinance in the management of its short-term commitments.

Cash and Cash equivalents includes cash in hands, deposits with BFIs and other short-term investments with original maturities of three months or less.

5.3 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 and Measurement

5.3.1 Financial Assets

Financial Assets are classified mainly under amortized cost, fair value through profit or loss and fair value through OCI. Financial Liabilities are classified at amortized cost or fair value through profit or loss.

a. Measured at Amortized Cost

Financial assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest, are subsequently measured at amortized cost using the effective interest rate ('EIR') method less impairment subject to Carveout 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.

b. Measured at Fair Valur through OCI

Assets are categorized under this category if the business model is to obtain the contractual cash flow from the assets but the contractual cash flow isn't solely repayment of principal and interest.

Equity Instrument which are not held for trading and initially recognized as held for trading for which the Microfinance makes an irrevocable election to carry the changes in fair value of the instrument through OCI are measured at Fair Value through other Comprehensive Income.

c. Measured at Fair Value through Profit & Loss

The Microfinance classifies the financials assets as fair value through profit or loss if they are held for trading or designated at fair value through profit or loss.

Any other financial asset not classified as either amortized cost or FVOCI, is classified as FVTPL.

5.3.2 Financial Liabilities

a. Measured at Fair Value through Profit & Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Upon initial recognition, transaction cost i.e. directly attributable to the acquisition are recognized in Statement of Profit or Loss as incurred. Subsequent changes in fair value are recognized at profit or loss.

b. Measured at Amortized Cost

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

Derecognition

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

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Determination of Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Microfinance follows three levels of the fair-value-hierarchy as described below:

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

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

Level 3: Significant inputs to the fair value measurement are unobservable.

Investment in Unquoted Equity Instrument are carried at cost as the market price of such shares could not be ascertained with certainty at the reporting date.

5.4 Impairment

The Microfinance reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided in the Statement of Profit or Loss. The Management's judgement is extensively used in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the provisions made.

The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about the number of factors including a borrower's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits to estimate the recoverable amount of cash flows. A collective impairment provision is established for:

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

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

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

- Micro Loan
- Seasonal Loan
- Emergency Loan
- Disaster Loan
- Micro Enterprise Loan (Collateral Loan)

Carveout adopted for assessment of impairment charge

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

5.5 Property, Plant & Equipment

Recognition and measurement: Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures directly attributable to the acquisition of the asset.

Depreciation & Amortization: The Microfinance depreciates property, plant and equipment following Written Down Value method applying the Depreciation rates prescribed by Income Tax Act, 2058. The rates used for depreciation of assets for the current and comparative period of significant items of property, plant and equipment are as follows:

Type of Asset	Depreciation Rate
Buildings	5%
Computer & Accessories	25%
Vehicles - Two-wheeler	20%
- Four-wheeler	20%
Furniture & Fixtures	25%
Equipment & Others - Equipment	25%
Other Assets	15%
Intangible Assets	Rate set, dividing the cost of the property by adjusting in the nearest half year of the fiscal year

The Microfinance adopts cost model for entire class of Property, Plant and Equipment. It has not measured any Property Plant and Equipment at revaluation model and at fair value. The items of Property, Plant and Equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of newly acquired assets is charged based upon the date of invoice and assets having acquisition cost less than NPR. 1,000 have been written down as an expense for the period in the Statement of Profit and Loss.

5.6 Goodwill and Intangible Assets

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired in Business Combination is recognized as goodwill. Goodwill is measured at cost less any accumulated impairment losses/accumulated amortization. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Intangible assets are recognized separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably. These intangible assets are recognized at historical cost less impairment /amortization over their estimated useful life.

5.7 Tax Expenses

Tax expenses comprises of current tax and deferred tax.

5.7.1 Current Tax

Current tax is the income tax expense recognized in the statement of Profit or Loss, except to the extent it relates to items recognized directly in equity or OCI in which case it is recognized in equity or in other comprehensive income. Current tax is the amounts expected or paid to Inland Revenue Department in respect of the current year, using the tax rates and tax laws enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years.

5.7.2 Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realized or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the group has a legal right to offset.

5.8 Deposits from Members

Deposits by members and public depositors are initially recognized at fair value, plus for those financial liabilities not at fair value through profit and loss. The transaction price is considered as the fair value for measuring the deposits.

5.8 Provisions, Liabilities and Contingent Liabilities

A provision is recognized, if as a result of a past event, the Microfinance has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate and are reversed if there is no probability of outflow of resources.

5.9 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Microfinance and the consideration can be reliably measured. The following specific recognition criteria shall also be met for revenue recognition.

5.9.1 Interest Income

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation of effective interest rate includes all charges and fee paid or received that are integral part of the effective interest only if considered material. Such a charges are not amortized over the life of the loan and advances as the income so recognized closely approximates the income that would have derived under effective interest method and are recognized directly in statement of profit and loss.

5.9.2 Fees and Comssion Income

Fees and commissions are generally recognized on an accrual basis when the service has been provided.

5.9.3 Dividend Income

Dividend income received from equity shares is recognized in the books when the right to receive the dividend is established.

5.10' Interest Expenses

Interest expense on all financial liabilities including deposits is recognized in statement of profit or loss using effective interest rate method. The Microfinance uses ASB carve- outs and treat coupon rate as effective interest rate.

5.11 Employees Benefits

Employee benefits include all forms of consideration given by an entity in exchange for service rendered by employees of for the termination of employment.

Defined Contribution Plan

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as expense in the profit or loss as and when they are due. The Microfinance operates a defined contribution plans as provident fund contribution of its employees and defined benefit plans for the Gratuity and leave payment requirement under its staff rules.

Defined Benefits Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.
Gratuity and Leave Benefits are Defined Benefit Plans. The Entity annually measures the value of the promised retirement benefits for gratuity, which is a Defined Benefit Plan. Actuarial Valuation of Defined Benefit Plan has been carried out as per the requirement of NAS 19 – Employee Benefits. Gain or loss arising as a result of changes in assumptions is recognized in other comprehensive income (OCI) in the period in which it arises.

5.12 Leases

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance Leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance lease.
However, the Microfinance doesn't hold any finance lease agreements.

Operating Leases

Lease payments under an operating lease has been recognized as an expense on straight line basis over the lease term. Majority of the lease agreement entered into by the microfinance are within the clause of normal increment which the management assumes are in line with the expected inflationary cost. The microfinance operates its branches under operating lease agreement. The payments to the lesser are structured to increase in line with the general inflation rate to compensate for the lessors expected inflationary cost increment.

5.13 Share Capiral and Reserves

5.13.1 Share Capital

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue available number of own equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as deduction net of taxes from the proceeds.
Dividends on ordinary shares classified as equity are recognized in equity in the period in which they are declared.
The shares issue expenses which can be avoided for the issue was charged in the year of issue directly through equity and disclosed in the statement of changes in equity. Tax impact is also disclosed.

5.13.2 Statutory General Reserves

20% of the net profit as stated in Bank and financial Institution Act, 2073 and 50% of additional amount of Cash Dividend and Bonus Shares if declared and distributed in excess of 20% as provisioned in NRB directive is set aside to the general reserve.

5.13.3 Corporate Social Responsibility Fund

1% of net profit is set aside in the fund as per the NRB Directives for the purpose of corporate social responsibility.

5.13.4 Employee Training Fund

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

5.13.5 Investment Adjustment Fund

It is a reserve created on investment in equity instrument if the equity doesn't get listed in Security Market within 2 years as per the directives issued by NRB.

5.13.6 Regulatory Reserve

The amount that is allocated from profit or retained earnings of the microfinance to this reserve as per the directives of NRB for the purpose of implementation of NFRS and which shall not be regarded as free for distribution of dividend shall be presented under this reserve. The regulatory reserve of the microfinance includes the reserve net of tax and employee bonus created relating to accrued interest receivable not recovered. Reserve on deferred tax assets, non-banking assets, reduction in fair value of investment in equity below cost price, actuarial loss etc.

5.13.7 Actuarial Gain/Loss Reserve

The amount that is allocated from profit or retained earnings of the microfinance both positive or negative to this reserve as per the directives of NRB for the purpose of implementation of NFRS and which shall not be regarded as free reserve for distribution of dividend are recorded in this reserve. The reserve includes actuarial gain/(loss) net of tax on defined benefit plan.

5.13.8 Client protection fund

Client protection fund is created at 1% of net profit. In addition to this, 35% of dividend in excess of 15% is also allocated to this fund as per NRB Directives.

5.14 Earnings per Share (EPS) including diluted EPS

Microfinance presents basic and diluted Earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit and loss attributable to ordinary equity holders of the microfiannce by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting both the profit and loss attributable to the ordinary equity holders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

5.15 Segment Reporting

The Microfinance's operating segments are organized and managed separately through the respective department/business managers according to the nature of products and services provided with each segment representing a strategic business unit. These business units are reviewed by Chief Executive Officer of the Microfinance.

The Microfinance has identified seven segments namely: Province 1, Madhesh Pradesh, Bagmati Province, Gandaki Province, Lumbini Province, Karnali Province and Far West Province as the seven operating segment and the segment report is set out in Notes 6.

Segment report include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The income, expenses, assets & liabilities that cannot be allocated to aforesaid segment or those related to head office are unallocated and are included in Bagmati Province. The unallocated items generally comprise of head office assets, head office expenses, and tax assets and liabilities. The geographical segment has been identified on the basis of the location of the branches in 7 different provinces of the country.

5.16 Investment in Associates

For the purpose of consolidation, NAS 28 - Investments in Associates is applied. Associates are entities in which the Microfinance has significant influence, but not control, over the operating and financial policies. The Microfinance has investment in nature of Associates i.e., it holds more than 20%, but less than 50%, of their voting shares.

The microfinance's investments in associates are initially recorded at cost and increased (or decreased) each year by the entity's share of the post- acquisition profit/(loss). The entity ceases to recognize its share of the losses of equity accounted associates when its share of the net assets and amounts due from the entity have been written off in full, unless it has a contractual or constructive obligation to make good its share of the losses.

As per the directives (4)8/077 issued to microfinances by NRB, the microfinance has to dispose all the investment within 2 years of investment. As the Microfinance has planned to subsequently dispose the investment in the said entities which are normally to be considered as the associate the Microfinance has not followed the above-mentioned method and such investment are presented as Share Investment in the Statement of Financial position and dividend income if any is shown in Statement of Profit or Loss.

6 Segment Information

A. Information about reportable segments

Segment Reporting is the reporting of the operating segment of the entity. A segment is reportable if: it has at least 10% of the revenues 10% of the profit or loss or 10% of the combined assets of the entity.

Segment can be categorized either on the basis of geographic segment or business segment. The microfinanc has categorized its segment on the basis of provinces i.e. geographic segment. Segment assets segment liabilities total revenue total expenses and operating profit are disclosed. Branches of the microfinance are classified under the regional operating structure for monitoring and supervision. The disclosure has been prepared in accordance with the requirements of NFRS.

Amount

Particulars		Revenues from External Customers	Intersegment Revenues	Segment Profit/Loss Before Tax	Segment Assets	Segment Liabilities
Koshi Province	Corresponding Previous Qtr.	60,904,105.19	44,400,405.13	16,503,700.06	869,935,479.80	877,572,899.57
	Current Qtr.	60,231,293.11	40,693,858.64	19,537,434.47	940,530,300.44	941,707,913.53
Madhesh Province	Corresponding Previous Qtr.	86,583,199.18	60,301,526.74	26,281,672.44	1,223,088,032.16	1,228,813,688.65
	Current Qtr.	81,122,424.57	54,621,545.10	26,500,879.47	1,306,245,774.07	1,308,415,663.44
Bagmati Province	Corresponding Previous Qtr.	115,922,849.22	56,281,820.53	59,641,028.69	4,961,126,359.18	4,965,958,690.83
	Current Qtr.	279,045,870.08	143,507,551.01	135,538,319.07	6,473,207,295.36	6,438,206,867.90
Gandaki Province	Corresponding Previous Qtr.	4,599,163.99	3,291,815.53	1,307,348.46	65,216,429.09	65,752,061.22
	Current Qtr.	4,023,032.07	3,116,191.76	906,840.31	70,272,118.52	70,802,655.64
Lumbini Province	Corresponding Previous Qtr.	53,476,752.37	35,052,346.88	18,424,405.49	776,838,867.92	785,653,182.70
	Current Qtr.	52,751,433.23	30,310,795.32	22,440,637.91	868,007,840.32	873,004,048.43
Karnali Province	Corresponding Previous Qtr.	2,526,260.53	1,590,320.87	935,939.66	33,538,881.57	33,769,455.41
	Current Qtr.	3,109,707.92	1,745,489.37	1,364,218.55	50,932,918.32	50,938,488.68
Sudur-Paschim Province	Corresponding Previous Qtr.	10,400,797.35	6,690,604.42	3,710,192.93	140,541,442.96	141,643,834.46
	Current Qtr.	9,704,288.42	6,002,567.94	3,701,720.48	152,524,810.12	154,144,298.20
Total	Corresponding Previous Qtr.	334,413,127.83	207,608,840.10	126,804,287.73	8,070,285,492.68	8,099,163,812.84
	Current Qtr.	489,988,049.40	279,997,999.14	209,990,050.26	9,861,721,057.15	9,837,219,935.82

a) Revenue from external customer includes the total interest revenue and non-interest revenue.

b) Intersegment revenue includes revenue from transactions with other operating segments of the microfinance.

c) Segment Assets and Liabilities includes the assets and liabilities identifiable to a particular segment.

d) The result reported include the items directly attributable to a segment.

B. Reconciliaiton of Reportable segment profit or Loss

Amount

Particulars	Corresponding Previous Qtr.	Current Qtr.
Total profit before tax for reportable segments	126,804,287.73	209,990,050.26
Profit before tax for other segments	-	-
Elimination of inter-segment profit	(207,608,840.10)	(279,997,999.14)
Elimination of discontinued operation	-	-
Unallocated amounts:	-	-
– Other corporate expenses (Employee Bonus Provision)	88,316,178.37	107,242,107.27
Profit before tax	**7,511,626.00**	**37,234,158.39**

7 Related Party Disclosure

The microfinance has carried out transactions in ordinary course of business on an arm's length basis at commercial rates with the parties as per Nepal Accounting Standard (NAS 24- Related Party Disclosure) except for the transactions that are key managerial personnel have availed under schemes uniformly applicable to all the staffs at concessionery rates.

Parents and ultimate controlling parties

Transactions with Himalayan Bank Limited(ie. Parent company of Civil Laghubitta Bitiya Sanstha Limited) is as following:

Particulars	Amount
Outstanding Borrowings from Himalayan Bank Limited	1,132,206,261.73
Balance in Himalayan Bank Limited	601,538,804.71
Interest Income from Bank Deposit	
Interest Expenes on borrowings from Himalayan Bank Limited in this F/Y	23,086,751.82

Transactions with Key Managerial Personnel

As per NAS-24 Related Party Disclosure key managerial personnel are defined as those person having authority and responsibility for planning directing and controlling the activities of the entity.

Board of Directors and Chief Executive Officer of the microfinance are considered as key managerial personnel of the microfinance.

Compensation of Key Managerial Personnels

Compensation of Board of Directors

Particulars	Amount
Meeting Fees Paid	358,000.00
Other Meeting Expenses	22,375.00
Travelling Expenses	0.00
Training Expenses	13,560.00
Total	**393,935.00**

Compensation of Chief Executive Officer

Particulars	Amount
Short Term Employee Benefits	2,260,500.00
Festival Allowance	350,000.00
Travelling	-
Training Expenses	-
Gratuity & leave Payment	-
Total	**2,610,500.00**

In addition to above the Microfinance also provide other facilities like Medical Insurance Accidental Insurance Travelling Allowance as per the approved employee facilities of the Microfinance to the Chief Executive Officer.

8 Dividend Paid

The microfinance has not declared dividend during current period.

9 Issue Purchase

None

10 Events after interim Period

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

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

No such events

Disclosure Pursuant to Securities Registration and Issue Regulation 2073
(Rule 26(1), Annexure 14)
Second Quarter of Fiscal Year 2081/82

1 Financial Statement

a) The Nepal Financial Reporting Standard (NFRS) compliant financial statement of the Fourth quarter has been published along with this report

b) Key Financial Indicators

Earnings Per Share	16.30	Liquidity Ratio	23.49%
Price Earnings Ratio	57.86	Return on Equity	13.21%
Net Worth Per Share	123.37	Total Assets Value Per Share	1892.29

2 Management Analysis

a) Quarterly analysis of the microfinance's incomes and liquidity:

The microfinance has registered NPR 26,063,911 in net profit and its liquidity ratio stands at 23.49%

b) Business Analysis and Business Plan

Having the license to operate all over Nepal, the microfinance is currently providing its services in 34 districts through 75 branches. With the aim of improving access to financial services to the poor and marginalized women members and developing micro-entrepreneurship, the microfinance is serving 77,972 households and has provided various loans to 31,969 members till the end of this quarter. The microfinance is further planning to timely improve its quality of services as per the contemporary circumstances and needs & requirements of the members. The microfinance will keep on continually developing the micro-enterpreneurship on its members through micro-credit services and training facilities.

To ease the collection of deposits and installments from its members, the microfinance has collaborated with various private digital payment service providers.Further microfinance is planning to enhance the digital services to its members.

3 Details Related to Legal Proceedings

a) No information regarding the lawsuit by or against the microfinance has been filed during the Quarterly period under review.

b) No information regarding the lawsuit on account of violation of prevailing laws or commission of criminal offences has been filed against the promoter or director of the microfinance during the quarterly period under review.

c) No information regarding the lawsuit of financial fraud/crime has been filed against the promoters and management team of the microfinance during the quarterly period under review.

4 Analysis of the Microfinance's Share Transaction

a) The shares of the microfinance are listed on Nepal Stock Exchange. The microfinance's share price is determined by the market's movement and microfinance's management is neutral in this regard.

b) The microfinance has complied with all the prevailing norms of SEBON and directives issued by NRB.

c) Details of share transaction during the quarter is as follows:

Maximum Price	1,080.00	Total Days Transacted	55.00
Minimum Price	911.60	Total Shares Transacted	501,883.00
Closing Price	943.00	Total Number of Transaction	6,760.00
		Total Amount Transacted	502,585,486.10

(Source: - www.nepalstock.com.np)

5 Problems and Challenges

The total cost of operations has been increased in recent times due to recruitment, retention of quality human resource and addition of new branches.

The challenges faced by the microfinance during this period are listed below:

i) Internal Challenges:

a) Challenges in the timely recovery of the loan installments,
b) Challenges in the management of the liquidity,
c) Challenges in retention of the skilled manpower,
d) Increased operating cost.

ii) External Challenges

a) Uncertainity in the availability of Funds in the market.
b) Changes in Regulatory provisions,
c) Challenges in the management of the liquidity,
d) Multiple Borrowings and Duplication members problem,
e) larger numbers of microfinances and Unhealthy Competition amongh them,
f) Lack of Markets for the productions of the members.

iii) Future Strategies to overcome the challenges

a) Analyzing the overall impact of the COVID-19 & Liquidity crisis and formulating & Implementing strategies accordingly,

b) Optimum and efficient utilization of the available assets and resources,
c) Enhancing the Quality of Assets,
d) Incorporaing Digital banking in every possible aspects of the services,
e) Expansion of branches to the untapped areas of the country,
f) Enhancing the competitive advantages,
g) Extension of the lending in Productive and Agricultural Sector.

6 Corporate Governance

The microfinance is committed in maintaining the highest level of ethical standards, corporate governance, and compliance. The board of directors and management strictly comply with all the regulatory norms issued by NRB and various other regulatory authorities. Further, the microfinance adheres to all the regulatory and legal requirements and the industry best practices.

7 Declaration by CEO

I, CEO of the microfinance, take responsibility for the truthfulness of the information disclosed in this report to the best of my knowledge. Further, the information disclosed herein are true and fair and have not knowingly concealed any material information which may affect the decision of the investor.