



अभियान लघुवित्त वित्तीय संस्था लिमिटेड

AVIYAN LAGHUBITTA BITTIYA SANSTHA LTD.

(नेपाल राष्ट्र बैङ्कबाट 'ब' वर्गको इजाजतपत्र प्राप्त राष्ट्रिय स्तरको वित्तीय संस्था)

**Unaudited Interim Financial Statements  
For the Period Ended Ashadh, 2080  
Fiscal Year: 2079/2080**



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# अभियान लघुवित्त वित्तीय संस्था लिमिटेड

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केन्द्रीय कार्यालय: पनौती-४, काभ्रेपलाञ्चोक फोन नं.: ०११-४४१०२०/२८

### Interim Financial Statements

#### Condensed Statement of Financial position as on 31st Ashadh 2080

Amount in NPR

Assets	This Quarter Ending	Immediate Previous Year Ending (Audited)
Cash and cash equivalents	128,929,314.15	122,399,926.00
Statutory Balance and due from Nepal Rastra Bank	-	-
Placement with Bank and Financial Institutions	-	-
Derivative Financial Instruments	-	-
Other Trading Assets	-	-
Loans and advances to MFISs & Cooperatives	-	-
Loans and advances to customers	1,772,394,397.68	2,067,149,819.89
Investment securities	-	-
Current tax assets	-	-
Investment property	-	-
Property and Equipment	18,366,463.59	20,279,982.88
Goodwill and Intangible assets	1,369,062.50	1,392,719.42
Deferred Tax Assets	582,542.00	1,195,679.60
Other assets	40,501,748.81	31,975,387.46
<b>Total Assets</b>	<b>1,962,143,528.73</b>	<b>2,244,393,515.25</b>
<b>Liabilities</b>		
Due to Bank and Financial Institutions	1,453,454,644.25	1,690,868,923.35
Due to Nepal Rastra Bank	-	-
Derivative Financial Instrument	-	-
Deposits from customers	208,425,262.29	311,574,394
Borrowings	-	-
Current Tax Liabilities	3,685,394.34	364,349.40
Provisions	-	-
Deferred Tax Liabilities	-	-
Other liabilities	19,211,713.70	62,047,401.14
Debt securities issued	-	-
Subordinated Liabilities	-	-
<b>Total Liabilities</b>	<b>1,684,777,014.58</b>	<b>2,064,855,067</b>
<b>Equity</b>		
Share Capital	250,000,000.00	152,500,000.00
Share Premium	-	-
Retained Earnings	(6,361,519.65)	4,564,233.59
Reserves	33,728,033.80	22,474,214.24
<b>Total Equity</b>	<b>277,366,514.15</b>	<b>179,538,447.82</b>
<b>Total Liabilities and Equity</b>	<b>1,962,143,528.73</b>	<b>2,244,393,515</b>



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### Interim Financial Statements

#### Condensed Statement of Profit or Loss For the quarter ended 31st Ashadh 2080

Amount in NPR

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Up to this Quarter (YTD)	This Quarter	Up to this Quarter (YTD)
Interest income	302,559,658	532,997,497	223,577,744	285,531,691
Interest expense	263,000,474	437,675,055	160,646,554	182,371,213
<b>Net interest income</b>	<b>39,559,184</b>	<b>95,322,442</b>	<b>62,931,190</b>	<b>103,160,478</b>
Fees and commission income	363,227	19,959,459	(1,980,955)	26,372,252
Fees and commission expense	-	-	-	-
<b>Net fee and commission income</b>	<b>363,227</b>	<b>19,959,459</b>	<b>(1,980,955)</b>	<b>26,372,252</b>
<b>Net interest, fee and commission income</b>	<b>39,922,411</b>	<b>115,281,901</b>	<b>60,950,235</b>	<b>129,532,731</b>
Net trading income	-	-	-	-
Other operating income	-	-	-	-
<b>Total operating income</b>	<b>39,922,411</b>	<b>115,281,901</b>	<b>60,950,235</b>	<b>129,532,731</b>
Impairment charge/(reversal) for loans and other losses	1,120,990	(1,276,578)	(13,752,228)	4,011,651
<b>Net operating income</b>	<b>38,801,421</b>	<b>116,558,479</b>	<b>74,702,463</b>	<b>125,521,080</b>
<b>Operating expense</b>	<b>28,535,817</b>	<b>116,230,413</b>	<b>68,928,059</b>	<b>108,796,825</b>
Personnel expenses	19,229,884	72,353,609	39,387,729	67,847,599
Other Operating expenses	8,400,038	40,426,963	28,599,206	37,184,731
Depreciation and Amortisation	905,895	3,449,841	941,124	3,764,495
<b>Operating Profit</b>	<b>10,265,604</b>	<b>328,066</b>	<b>5,774,404</b>	<b>16,724,255</b>
Non operating Income	(20,637,015)	-	-	-
Non operating expense	-	-	-	-
<b>Profit before income tax</b>	<b>(10,371,411)</b>	<b>328,066</b>	<b>5,774,404</b>	<b>16,724,255</b>
<b>Income tax expense</b>	<b>-</b>	<b>-</b>	<b>7,269,520</b>	<b>8,012,296</b>
Current tax	-	-	7,474,793	8,217,569
Deferred Tax	-	-	(205,274)	(205,274)
<b>Profit for the period</b>	<b>(10,371,411)</b>	<b>328,066</b>	<b>(1,495,116)</b>	<b>8,711,959</b>

#### Condensed Statement of Comprehensive Income

Particulars	Current Year		Previous Year Corresponding	
	This Quarter	Upto this Quarter	This Quarter	Upto this Quarter
<b>Profit for the period</b>	<b>(10,371,411)</b>	<b>328,066</b>	<b>(1,495,116)</b>	<b>8,711,959</b>
<b>Other Comprehensive Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Comprehensive Income</b>	<b>(10,371,411)</b>	<b>328,066</b>	<b>(1,495,116)</b>	<b>8,711,959</b>
Basic Earning Per Share		0.13	-	-
Diluted Earning per Share		0.13	-	-



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### Interim Financial Statements

#### 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		13.59%		8.56%
Non-Performing Loan (NPL) to total Loan		4.89%		2.60%
Total loan loss provision to Total NPL		37.82%		57.83%
Cost of funds		13.55%		11.19%
Credit to Deposits and Borrowing Ratio		106.65%		666.19%
Base rate		22.42%		20.90%
Interest Rate Spread		0.85%		3.64%

#### Statement of Distributable Profit or Loss

Net Profit for the period end 30th Chaitra 2079	328,066
<b>1.1 Profit required to be appropriated to:</b>	<b>72,175</b>
a. General Reserve	65,613
b. Capital redemption reserve	
c. Exchange Fluctuation reserve	
d. Corporate social responsibility fund	3,281
e. Employee's training fund	
f. Client protection fund	3,281
g. Other	
<b>1.2 Profit required to be transferred to Regulatory Reserve:</b>	<b>11,181,645</b>
a. Transferred to Regulatory Reserve	11,181,645
b. Transferred from Regulatory Reserve	
<b>Net Profit for the period end 30th Chaitra 2079 available for distribution</b>	<b>(10,925,753)</b>

#### Notes:

1. Above financial statements are prepared in accordance with Nepal Financial Reporting Standards (NFRS).
2. Loan and advances are stated at net of impairment charge and included interest receivable on loan.
3. Above figures may vary upon otherwise direction made by Statutory auditor and Regulators.
4. Figures has been regrouped/rearranged/restated wherever necessary.
5. The interim financial statements has been uploaded in the website [www.aviyanlaghubitta.com](http://www.aviyanlaghubitta.com).



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### Interim Financial Statements

#### Condensed Statement of Changes in Equity For the quarter ended 31st Ashadh 2080

	Share Capital	Share Premium	General Reserve	Client Protection Fund	CSR Reserve	Employee Training Fund	Investment Adjustment Reserve	Regulatory reserve	Revaluation reserve	Retained Earning	Deferred tax reserve	Capital Reserve	Other Reserve	Total	Total Equity
Balance at Shrawan 1, 2078	152,500,000	-	3,539,223	176,961	176,961	-	-	6,203,582	-	7,335,276	990,406	-	-	170,922,409	170,922,409
Comprehensive income for the year														-	-
Profit for the year										8,711,959				8,711,959	8,711,959
Other comprehensive income, net of tax														-	-
Gains/(losses) from investments in equity instruments measured at fair value														-	-
Gains/(losses) on revaluation														-	-
Actuarial gains/(losses) on defined benefit plans														-	-
Gains/(losses) on cash flow hedge														-	-
Exchange gains/(losses) (arising from translating financial assets of foreign operation)														-	-
<b>Total comprehensive income for the year</b>														-	-
Transfer to reserve during the year										(11,483,001)				(11,483,001)	(11,483,001)
Transfer from reserve during the year			1,742,392	(8,800)	87,120	1,260,615		8,100,481			205,274			11,387,081	11,387,081
<b>Transactions with owners, directly recognised in equity</b>														-	-
Share issued														-	-
Share based payments														-	-
Dividends to equity holders														-	-
Bonus shares issued														-	-
Cash dividend paid														-	-
Other														-	-
<b>Total Contributions by and distributions</b>														-	-
Balance at Ashadh 31, 2079	152,500,000	-	5,281,615	168,161	264,081	1,260,615	-	14,304,064	-	4,564,234	1,195,680	-	-	179,538,448	179,538,448



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### Interim Financial Statements

Balance at Shrawan 1, 2079	152,500,000	-	5,281,615	168,161	264,081	1,260,615	-	14,304,064	-	4,564,234	1,195,680	-	-	179,538,448	179,538,448
Comprehensive income for the year														-	-
Profit for the year										328,066				328,066	328,066
Other comprehensive income, net of tax														-	-
Gains/(losses) from investments in equity instruments measured at fair value														-	-
Gains/(losses) on revaluation														-	-
Actuarial gains/(losses) on defined benefit plans														-	-
Gains/(losses) on cash flow hedge														-	-
Exchange gains/(losses) (arising from translating financial assets of foreign operation)														-	-
Total comprehensive income for the year														-	-
Transfer to reserve during the year										(11,253,820)				(11,253,820)	(11,253,820)
Transfer from reserve during the year			65,613	3,281	3,281			11,181,645						11,253,820	11,253,820
Transactions with owners, directly recognised in equity														-	-
Share issued	97,500,000													97,500,000	97,500,000
Share based payments														-	-
Dividends to equity holders														-	-
Bonus shares issued														-	-
Cash dividend paid														-	-
Other														-	-
Total Contributions by and distributions														-	-
Balance at Ashadh 32, 2079	250,000,000	-	5,347,228	171,441	267,361	1,260,615	-	25,485,709	-	(6,361,520)	1,195,680	-	-	277,366,514	277,366,514



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### Interim Financial Statements

#### Condensed Statement of cash flows For quarter ended 31st Ashadh 2080

Amount in NPR

Particulars	For the Year ended Ashadh 32, 2079 (July 16, 2022)	For the Year ended Ashadh 31, 2078 (July 15, 2021) *Restated
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Interest Received	281,921,118	283,052,024
Fees and Other Income Received	26,937,794	26,372,252
Dividend received	-	-
Receipts from other operating activities	-	-
Interest Paid	-	-
Commission and Fees Paid	-	-
Cash Payment to Employees	(72,331,081)	(66,018,692)
Other Expenses Paid	(43,877,804)	(37,280,651)
<b>Operating cash flows before changes in operating assets and liabilities</b>	<b>192,650,028</b>	<b>206,124,933</b>
<b><u>(Increase) / Decrease in operating assets</u></b>		
Due from Nepal Rastra Bank	-	-
Placements with B/FIs	-	-
Other trading assets	-	-
Loans and advances to B/FIs	-	-
Loans and advances to customers	290,408,498	(543,526,782)
Other assets	3,494,308	4,997,506
	<b>293,902,806</b>	<b>(538,529,276)</b>
<b><u>(Increase) / Decrease in operating liabilities</u></b>		
Due to Nepal Rastra Bank	-	-
Due to bank and financial institutions	(237,414,279)	260,427,342
Deposit from customers	(103,149,131)	161,909,428
Borrowings	-	-
Other liabilities	(22,249,271)	14,920,358
	<b>(362,812,681)</b>	<b>437,257,128</b>
<b><u>Net cash flow from operating activities before tax paid</u></b>	<b>123,740,153</b>	<b>104,852,785</b>
Income taxes paid	(7,569,703)	(6,370,944)
<b><u>Net cash flow from operating activities</u></b>	<b>116,170,450</b>	<b>98,481,841</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities	-	-



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## Interim Financial Statements

Receipt from sale of investment securities	-	-
Purchase of property and equipment	5,363,360	(13,613,557)
Receipt from sale of property and equipment	-	-
Purchase of Intangible assets	-	(33,174)
Receipt from sale of intangible assets	-	-
Purchase of investment properties	-	-
Receipt from sale of investment properties	-	-
Interest received	3,046,536	2,479,667
Dividend received	-	-
<b>Net cash used in investing activities</b>	<b>8,409,896</b>	<b>(11,167,064)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
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	97,500,000	-
Dividend paid	-	-
Interest paid	(215,550,957)	(182,371,213)
Other receipt/payment	-	-
<b>Net cash from financing activities</b>	<b>(118,050,957)</b>	<b>(182,371,213)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>6,529,389</b>	<b>(95,056,436)</b>
<b>Cash and Cash Equivalents as at 1st Shrawan</b>	<b>122,399,925</b>	<b>217,456,361</b>
Effect of exchange rate fluctuation on Cash & Cash Equivalents	-	-
<b>Cash and Cash Equivalents as at Ashadh End</b>	<b>128,929,314</b>	<b>122,399,925</b>



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### Aviyān Laghubitta Bittiya Sanstha Ltd.

#### Notes to the Financial Statements

#### For the quarter ended 31<sup>st</sup> Ashadh 2080

### 1. Reporting Entity

Aviyān Laghubitta Bittiya Sanstha Limited '*herein referred as Microfinance or the company*' was registered at Office of Company Registrar as Public Limited Company on 2075/12/25 with an authorized capital of NPR 300,000,000 and paid-up capital of NPR 152,500,000. The Micro Finance is operating its business from its central office at Panauti-04, Kavrepalanchowk.

It had obtained license to carry on business of retail lending of micro credit in Nepal on 2076/06/01 from Nepal Rastra Bank as Class 'D' Licensed Institution and it commenced its transactions since 2076/08/01. The main objective of Microfinance is to provide micro credit lending to its members to promote the life style of deprived people as described by Nepal Rastra Bank.

The Microfinance was listed on Nepal Stock Exchange on 23 September 2022.

### 2. Basis of Preparation

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

The financial statements of the Microfinance have been prepared on accrual basis of accounting except the cash flow information which is prepared, on a cash basis, using the direct method.

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

#### 2.1 Statement of Compliance

The financial statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) as adopted by the Accounting Standards Board (ASB) – Nepal, pronounced by The Institute of Chartered Accountants of Nepal (ICAN) and as per the directives no 4 of Unified Directives, 2077 issued by Nepal Rastra Bank.

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



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## 2.2 Reporting Period

Reporting Period is a period from the first day of Shrawan (mid-July) of any year to the last day of Ashadh (mid-July) of the next year as per Nepalese calendar.

## 2.3 Functional and Presentation Currency

The Financial Statements of the Microfinance are presented in Nepalese Currency i.e. Nepalese Rupee (NPR), which is the currency of the primary economic environment in which the Microfinance operates. There was no change in the Microfinance's presentation and functional currency during the period under review. The figures are rounded to nearest integer, except otherwise indicated.

## 2.4 Use of Estimates, assumptions and judgements

The preparation of financial statements requires the management to make judgements, estimates and assumptions that are considered while reporting amounts of assets and liabilities (including contingent assets and liabilities) as of the date of the financial statements. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Future results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

## 2.5 Changes in Accounting policies

The Microfinance has applied its accounting policies consistently from year to year except for some comparatives have been grouped or regrouped to facilitate comparison, corrections of errors and any changes if any in accounting policy have been separately disclosed with detail explanation.

## 2.6 New standards issued but not yet effective

A number of new standards and amendments to the existing standards and interpretations have been issued by IASB- after the pronouncements of NFRS with varying effective dates. Those become applicable when ASB Nepal incorporates them within NFRS. The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Microfinance financial statements are disclosed below. The Microfinance intends to adopt these standards, if applicable, when they become effective.

NFRS 17 Insurance Contracts

## 2.7 New standards and interpretation not adopted

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

## 2.8 Discounting

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



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### 3. Significant Accounting Policies

The accounting policies applied and method of computation followed in the preparation of the financial statement is consistent with the accounting policies applied and method of computation followed in preparation of the annual financial statement unless stated otherwise.

#### 3.1 Basis of Measurement

The financial statements are prepared on the historical-cost basis except for the required material items in the statement of financial position where it has been disclosed as measured at fair value or otherwise.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The estimates and judgements used in the preparation of the financial statements are continuously evaluated by the Microfinance. Any revision to accounting estimates are recognized prospectively in the period in which the estimates are revised and in the future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in notes that follow.

#### Assets

All the assets except the Property Plant and Equipment and deferred tax assets are classified as current assets unless specific additional disclosures is made in the notes.

#### Liabilities

All the liabilities except the defined benefit obligations are classified as current liabilities tassets unless specific additional disclosures is made in the notes.

#### Materiality and Aggregation

In compliance with NAS 1- Presentation of Financial Statements, each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or functions are presented separately unless they are material.

#### 3.2 Cash and Cash Equivalents

The fair value of cash and cash equivalent is the carrying amount. Cash and cash equivalent represent the amount of cash in hand, balances with other bank and financial institutions and highly liquid with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their value. Cash and cash equivalent are measured at amortized cost in the financial statement.



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

## 3.3 Financial Assets and Financial Liabilities

### Recognition

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

### Classification

#### i. Financial Assets

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

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

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

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

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

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

- Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss (FVTPL) if they are held for trading purpose or are designated at fair value through profit or loss. Upon initial recognition,



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transaction cost are directly attributable to the acquisition are recognized in profit or loss as incurred. Such assets are subsequently measured at fair value and changes in fair value are recognized in Statement of Profit or Loss.

b) Financial assets at fair value through other comprehensive income

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

## ii. Financial Liabilities

The Microfinance classifies the financial liabilities as follows:

a) Financial liabilities at fair value through profit or loss

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

b) Financial liabilities measured at amortized cost

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

## Measurement

### Financial assets at FVTOCI

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or



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- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

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

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

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

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

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

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

## **Financial liabilities at FVTPL**

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

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or



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

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

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

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

## **Financial liabilities subsequently measured at amortized cost**

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

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

## **De-recognition**

### **i. De-recognition of financial assets**

The Microfinance derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Microfinance neither



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transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in such transferred financial assets that qualify for de-recognition that is created or retained by the Microfinance is recognized as a separate asset or liability. On de-recognition of a financial asset, the difference between the carrying amount of the asset, and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized is recognized in Statement of Profit or Loss.

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

### ii. De-recognition of financial liabilities

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

### Determination of fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Microfinance has access at that date. The fair value of a liability reflects its non-performance risk.

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

The fair value measurement hierarchy is as follows:

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



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

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

### **Impairment**

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

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

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

### **Impairment of financial assets measured at amortized cost**

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

If there is objective evidence on that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future



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cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

All individually significant loans and advances and investment securities 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.

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

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

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

### **Impairment of investment in equity instrument classified as fair value through other comprehensive income**

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



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## 3.4 Trading Assets

Interest income on all trading assets is considered to be incidental to the microfinance's trading operation and are presented together with all other changes in fair value of trading assets and liabilities in net trading income.

Interest expense on all trading liabilities is considered to be incidental to the microfinance's trading operation and are presented together with all other changes in fair value of trading assets and liabilities in net trading income.

## 3.5 Property and Equipment

### Recognition and Measurement

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

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

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

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

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

### Depreciation



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The microfinance had the policy of depreciating Property and equipment on Diminishing value method (WDV). Depreciation is charged from the date when the asset is put to use, and such amount is recognized in profit or loss. Charging of depreciation is ceased from the earlier of the date from which the asset is classified as held for sale or is derecognized.

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

Class of Assets	Useful Life	Rate of Depreciation
Office Equipment	5 years	25%
Vehicles	5 years	20%
Computer (Including Printer)	5 years	20%
Furniture and Fixtures	5 years	20%
Leasehold Improvements	5 years	20%
Building	40 years	2.5%

The capitalized value of Software purchased and installation costs are amortized over a maximum 5 years period or within ownership period.

Assets with costs less than NPR 2,000 are charged off on purchase as revenue expenditure.

### 3.6 Intangible Assets

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

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

The intangible asset with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at



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each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss.

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

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

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

Class of Assets	Useful Life
Computer software	5 years

### 3.7 Investment Property

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

### 3.8 Income Tax

The Microfinance is subject to tax laws of Nepal. Income taxes have been calculated as per the provisions of the Income Tax Act, 2058.

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

#### Current Tax

Current tax is the tax payable or receivable on the taxable income or loss for the year using tax rates that are enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date in the countries where the Company



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(नेपाल राष्ट्र बैंकबाट 'घ' वर्गको इजाजतपत्र प्राप्त राष्ट्रिय स्तरको वित्तीय संस्था)

केन्द्रीय कार्यालय: पनौती-४, काभ्रेपलाञ्चोक फोन नं.: ०११-४४१०२०/२८

operates and generates taxable income. Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

## Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amount and tax base of assets and liabilities; and carry forward of unused tax losses. Deferred tax is measured at the tax rate that is expected to be applied to temporary differences when they reverse, using tax rate enacted or substantially enacted at the reporting date. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which it can be utilized

Deferred tax assets are reviewed at each reporting date and appropriately adjusted to reflect the amount that is reasonably/ virtually certain to be realized.

Deferred tax asset and deferred tax liabilities are offset if all of the following conditions met:

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

## 3.9 Deposits, Debt Securities Issued and Subordinated Liabilities

Microfinance deposits consist of money placed in the Microfinance by the customer. These deposits are made to various saving deposit account. Details and further disclosure about deposits have been explained in Notes that follows.

## 3.10 Provisions

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

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



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

A disclosure for contingent liabilities is made where there is:

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

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

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

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

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

### 3.11 Revenue Recognition

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

#### Interest income

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

Interest income presented in statement of profit or loss includes:



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- Interest income on financial assets measured at amortized cost calculated on an effective interest rate method except for impaired loans and advances. These financial assets include loans and advances including staff loans.
- Interest on investment securities measured at fair value is calculated on effective interest rate.

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed.

Here, accrued interest receivable amount has been recognized as interest income.

## **Fees and Commission**

Fees and commission income that are integral to the effective interest rate on a financial asset are included in measurement of effective interest rate. Other fees and commission income including management fee, prepayment Charge, penal Charges etc are recognized as the related service are performed.

## **Net Trading Income**

Trading income/ loss is recognized for all realized interest, dividend and foreign exchange differences including any unrealized changes in fair value of trading assets and liabilities. The trading income and loss are netted off and disclosed separately in Statement of Profit or Loss.

### **3.12 Interest Expense**

Interest expense including all other fees and service charge on all financial liabilities are recognized in profit or loss. The interest expenses so recognized closely approximates the interest expenses that would have been derived under effective interest rate method.

### **3.13 Employee Benefits**

#### **a. Short Term Employee Benefits**

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

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

- wages, salaries and social security contributions;
- paid annual leave and paid sick leave
- profit-sharing and bonuses; and



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- non-monetary benefits

## b. Post-Employment Benefit Plan

Post-employment benefit plan includes followings

### i. Defined Contribution Plan

A defined contribution plan is a post-employment benefit plan under which an entity pays a fixed contribution to a separate entity and has no legal or constructive obligation to pay future amounts. Obligations for contributions to defined contribution plans are recognized as personnel expense in profit or loss in the periods during which the related services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that cash refund or reduction in future payments is available. Contributions to a defined contribution plan being due for more than 12 months after the end of the period in which the employee render the service are discounted at their present value. The following are the defined contribution plan provided by the Microfinance to its employees:

- **Employees Provident Fund**

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

### ii. Defined Benefit Plans

A defined benefit plan provided by microfinance to its employee are as follows: -

- **Gratuity**

For defined benefit plans, the liability to be recognized in the Statement of Financial Position is the present value of the defined benefit obligation less the fair value of plan assets. The Microfinance accounts for the liability for the gratuity as per the management calculation.

Likewise, the company has contributed @ 8.33% of the basic salary as per the provisions of existing bylaws of the organization.

- **Leave Salary**

The employees of the Microfinance are entitled to carry forward a part of their unveiled/ unutilized leave subject to a maximum limit. The employees can encash unveiled/ unutilized leave partially in terms of Employee Service Bye laws of the Microfinance



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## 3.14 Leases

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

## 3.15 Share Capital and Reserves

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

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

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

## 3.16 Earnings per share including diluted

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

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

There are no instruments, such as convertibles, that would require dilution of EPS.

## 3.17 Segment Reporting

An operating segment is a component of the Microfinance that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relating to transaction with any of the Microfinance's other components, whose operating results are reviewed by management to make decision about resource allocation to each segment and assess its performance. Since chief operating Unit monitors the activities of microfinance as a whole, the microfinance has classified as a single operating segment.