

CENTRAL FINANCE LTD.
Condensed Statement of Financial Position
As on quarter ended Ashad 2079

ASSETS	NOTE	This Quarter Ending	Immediate Previous Year Ending
Cash and cash equivalent	4.1	548,448,211	379,499,350
Due from Nepal Rastra Bank	4.2	307,700,480	272,014,273
Placement with Bank and Financial Institutions	4.3	-	-
Derivative financial instruments	4.4	-	-
Other trading assets	4.5	-	-
Loans and advances to B/FIs	4.6	164,624,034	95,739,000
Loans and advances to customers	4.7	5,013,830,565	4,131,833,126
Investment securities	4.8	1,629,112,975	1,704,871,044
Current tax assets	4.9	25,696,018	10,628,302
Investment in subsidiaries	4.10	-	-
Investment in associates	4.11	-	-
Investment property	4.12	681,270	2,611,789
Property Plant and Equipment	4.13	153,174,763	137,167,117
Goodwill and Intangible assets	4.14	2,002,792	425,162
Deferred tax assets	4.15	-	-
Other assets	4.16	38,946,270	103,101,156
TOTAL ASSETS		7,884,217,379	6,837,890,318
LIABILITIES			
	NOTE	ASHAD END 2079	ASHAD END 2078
Due to Bank and Financial Institutions	4.17	237,173,864	245,176,981
Due to Nepal Rastra Bank	4.18	295,530,421	65,668,685
Derivative financial instruments	4.19	-	-
Deposits from customers	4.20	6,089,460,930	5,273,346,239
Borrowing	4.21	-	-
Current Tax Liabilities	4.9	-	-
Provisions	4.22	-	-
Deferred tax liabilities	4.15	6,145,074	13,173,694
Other liabilities	4.23	37,877,169	40,479,634
Debt securities issued	4.24	-	-
Subordinated Liabilities	4.25	-	-
TOTAL LIABILITIES		6,666,187,458	5,637,845,233
EQUITY			
Share Capital	4.26	948,875,459	881,035,709
Share premium		442,546	442,546
Retained Earnings		55,897,979	106,765,650
Reserves	4.27	212,813,937	211,801,180
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS		1,218,029,921	1,200,045,085
NON-CONTROLLING INTEREST			
TOTAL EQUITY		1,218,029,921	1,200,045,085
TOTAL LIABILITIES & EQUITY		7,884,217,379	6,837,890,318

CENTRAL FINANCE LTD.

Condensed Statement of Profit or Loss
For the quarter ended Ashad 2079

IN NPR

	NOTE	Current Year		Previous Year	
		This Quarter	Upto This Quarter (YTD)	This Quarter	Corresponding Upto This Quarter (YTD)
Interest income	4.29	215,967,595	726,807,958	148,877,938	570,929,446
Interest expense	4.30	148,472,240	491,561,202	95,915,542	383,793,080
Net interest income		67,495,355	235,246,756	52,962,396	187,136,366
Fee and commission income	4.31	8,748,749	38,108,442	12,156,206	42,826,362
Fee and commission expense	4.32	-	-	-	-
Net fee and commission income		8,748,749	38,108,442	12,156,206	42,826,362
Net interest, fee and commission income		76,244,104	273,355,198	65,118,602	229,962,728
Net trading income	4.33	-	-	-	-
Other operating income	4.34	-	3,854,260	22,353,718	55,375,461
Total operating income		76,224,152	277,209,458	87,472,319	285,338,189
Impairment charge/(reversal) for loans and other losses	4.35	1,099,459	38,748,607	(2,435,664)	10,982,521
Net operating income		75,124,693	238,460,850	89,907,983	274,355,668
Operating expense		-	-	-	-
Personnel expenses	4.36	24,809,367	84,407,437	24,309,466	77,225,862
Other operating expenses	4.37	14,401,330	43,535,018	11,117,840	34,444,970
Depreciation & Amortization	4.38	3,808,097	19,671,556	2,283,880	10,697,868
Operating Profit		32,105,898	90,846,839	52,196,798	151,986,967
Non operating income	4.39	662,948	1,169,357	21,352	1,430,861
Non operating expense	4.40	-	24,350	-	221,313
Profit before income tax		32,788,798	91,991,845	52,218,150	153,196,516
Income tax expense	4.41	-	-	-	-
Current Tax expenses		9,836,639	27,597,554	14,705,293	44,998,803
Deferred Tax Expenses/(Income)		-	-	(1,008,931)	(1,008,931)
Profit for the period		22,952,159	64,394,292	38,521,788	109,206,644

CENTRAL FINANCE LTD.
Statement of Comprehensive Income
For the quarter ended Ashad 2079

IN NPR

	Current Year			Previous Year Corresponding	
	NOTE	This Quarter	Upto This Quarter (YTD)	This Quarter	Upto This Quarter (YTD)
Profit for the year		22,952,159	64,394,292	38,521,788	109,206,644
Other comprehensive income, net of income tax		-		-	
a) Items that will not be reclassified to profit or loss		-		-	
Gains/(Losses) from investments in equity instruments					
measured at fair value		(6,960,281)	(24,764,683)	5,505,841	58,293,194
Gains/(Losses) on revaluation		-	-	-	-
Actuarial gain/(loss) on defined benefit plans		-	-	1,111,495	1,111,495
Income tax relating to above terms		2,088,085	7,429,405	(1,985,201)	(17,821,407)
Net other comprehensive income that will not be reclassified to profit or loss		(4,872,196)	(17,335,278)	4,632,135	41,583,282
b) Items that are or may be reclassified to profit or loss		-		-	
Gains/(Losses) on cash flow hedge		-	-	-	-
Exchange gains/(losses) arising from translating financial assets of foreign operation		-	-	-	-
Income tax relating to above terms		-	-	-	-
Reclassify to profit or loss		-	-	-	-
Net other comprehensive income that are or may be reclassified to profit or loss		-	-	-	-
c) Share of other comprehensive income of associate accounted as per equited method		-	-	-	-
Other comprehensive income for the year, net of income tax		(4,872,196)	(17,335,278)	4,632,135	41,583,282
Total comprehensive income for the period		18,079,962	47,059,014	43,153,923	150,789,926
Basic earnings per share			6.79		12.40
Diluted earnings per share			6.79		12.40
Total comprehensive income attributable to:		-		-	
Equity holders of the bank		18,079,962	47,059,014	43,153,923	150,789,926
Non-controlling interest		-	-	-	-
Total comprehensive income for the period		18,079,962	47,059,014	43,153,923	150,789,926

CENTRAL FINANCE LTD.

STATEMENT OF CHANGES IN EQUITY
For the Ashad end 2079

Particulars	Share Capital	General Reserve	Share Premium	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Investment Adjustment Reserve	Other Reserve	Total
Balance as at Shrawan 1, 2078	881,035,709	157,144,072	442,546	19,709,977	37,728,854	-	106,765,650	-	(2,781,723)	1,200,045,085
Comprehensive income for the year										
Profit for the year							64,394,292			64,394,292
Other Comprehensive income, net of tax										
Gains/(losses) from investments in equity instruments measured at fair value					(17,335,278)					(17,335,278)
Gains/(losses) on revaluation										
Actuarial gains/(losses) on defined benefit plans										
Total comprehensive income for the year										
Transfer to reserve during the year		12,878,858		6,452,525	-		(21,291,994)		1,960,611	
Transfer from reserve during the year				(1,216,227)	-		2,943,959		(1,727,732)	
Transactions with owners, directly recognised in equity										
Right shares issued										
Share issue expenses										
Bonus shares issued	67,839,750						(67,839,750)			
Cash dividend paid							(29,074,178)			(29,074,178)
Others										
Total contributions by and distributions										
Balance as at Ashad end, 2079	948,875,459	170,022,930	442,546	24,946,275	20,393,576	-	55,897,979	-	(2,548,844)	1,218,029,921

CENTRAL FINANCE LTD.
STATEMENT OF CASH FLOWS
For the year ended Ashad End 2079

IN NPR

	ASHAD END 2079	ASHAD END 2078
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	649,563,274	540,842,503
Fees and other income received	38,108,442	42,826,362
Dividend received	-	-
Receipts from other operating activities	1,169,357	1,430,861
Interest paid	(490,840,925)	(385,698,187)
Commission and fees paid	-	-
Cash payment to employees	(91,207,949)	(72,139,977)
Other expenses paid	(43,559,368)	(34,666,283)
Operating cash flows before changes in operating assets and liabilities	63,232,830	92,595,279
(Increase)/ Decrease in operating assets		
Due from Nepal Rastra Bank	(35,686,207)	33,586,730
Placement with bank and financial institutions	-	-
Other trading assets	-	-
Loan and advances to bank and financial institutions	(69,792,335)	(5,000,000)
Loan and advances to customers	(915,810,355)	(692,677,675)
Other assets	66,779,593	(77,497,101)
(Increase)/ Decrease in operating liabilities		
Due to bank and financial institutions	(8,003,118)	245,176,981
Due to Nepal Rastra Bank	229,861,736	66,371,306
Deposits from Customers	816,114,691	757,097,727
Borrowings	-	-
Other Liabilities	3,342,722	(11,534,521)
Net Cash flow from operating activities before tax paid	150,039,558	408,118,725
Income taxes paid	(42,665,270)	(51,650,070)
Net Cash flow from operating activities	107,374,288	356,468,655
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investment securities	48,820,515	(906,871,324)
Receipt from the sale of investment securities	-	49,287,686
Purchase of property and equipment	(34,683,181)	(45,425,847)
Receipt from the sale of property and equipment	32,746	1,974,093
Purchase of intangible assets	-	-
Receipt from the sale of intangible assets	-	-
Purchase of investment properties	-	-
Receipt from the sale of investment properties	1,930,519	5,627,869

Interest received	70,591,588	51,098,508
Dividend received	3,821,512	6,768,402
Net cash used in investing activities	90,513,698	(837,540,612)

CASH FLOW 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	(28,939,130)	(24,683,759)
Interest paid	-	-
Other receipt/ payment	-	-
Net cash from financing activities	(28,939,130)	(24,683,759)

Net increase/ (decrease) in cash and cash equivalents	168,948,860	(505,755,716)
Cash and cash equivalents at Shrawan 1, 2078	379,499,350	885,255,066
Effect of exchange rate fluctuations on cash and cash equivalents held	-	-
Cash and cash equivalents at Ashad end, 2079	548,448,211	379,499,350

CENTRAL FINANCE LTD.
STATEMENT OF DISTRIBUTABLE PROFIT OR LOSS
For the year ended Ashad end 2079
(As per NRB Regulation)

	Ashad 2079	Ashad 2078
Opening Retained Earnings	9,851,722	7,699,265
<i>Net profit or (loss) as per statement of profit or loss</i>	64,394,292	109,206,644
Appropriations:		
a. General reserve	(12,878,858)	(22,246,759)
b. Foreign exchange fluctuation fund	-	-
c. Capital redemption reserve	-	-
d. Corporate social responsibility fund	(643,943)	(1,112,338)
e. Employees' training fund	(1,316,668)	-
f. Other	1,727,732	1,022,981
<i>Profit or (loss) before regulatory adjustment</i>	51,282,555	86,870,528
Regulatory adjustment :		
a) Transferred to Regulatory Reserve	(6,452,525)	-
b) Transferred from Regulatory Reserve	1,216,228	12,195,857
<i>Distributable profit or (loss)</i>	55,897,979	106,765,649

धितोपत्र दर्ता निष्काशन नियमावली २०७३ को अनुसूची १४

Particulars	Ashad 2079	Ashad 2078
Liquidity	29.76%	37.59%
Value of per share on total assets	830.90	775.71
Number of equity shares	9,488,754.59	8,810,357.09
Earnings per share (Annualized)	6.79	12.40
Net worth per share	128.37	135.86
Price earnings ratio	44.50	39.11
Closing Price	302	485

CENTRAL FINANCE LTD.
Ratios as per NRB Directive

Particulars	Current Year		Previous Year Corresponding	
	Upto this quarter		Upto this quarter	
	This quarter	(YTD)	This quarter	(YTD)
Capital fund to RWA		22.54%		26.30%
Non-performing loan (NPL) to total loan		2.52%		1.72%
Total loan loss provision to Total NPL		102.86%		131.76%
Cost of Funds		9.39%		6.98%
CD Ratio (As per NRB Directives)		83.22%		64.44%
Base Rate		11.65%		9.01%
Interest Rate Spread		4.92%		4.90%

Note:

If the Statutory Audit and supervisory authority notify any remarks to change, unaudited financial statement may change accordingly.

Central Finance Limited
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Quarter ended Ashad 32, 2079 (July 16, 2022)

1. Basis of preparation of financial statements

These financial statements, which comprise the statement of financial position, statement of profit or loss, statement of other comprehensive income, statement of changes in equity, statement of cash flows and notes thereto have been prepared in all material aspects in accordance with requirements of applicable Nepal Financial Reporting Standards (NFRS) issued by the Institute of Chartered Accountants of Nepal and in the format issued by Nepal Rastra Bank. These are prepared under accrual basis of accounting in accordance with the historical cost convention, except for certain items as follows:

- a. Investment in equity instruments and units of mutual fund are measured at fair value.
- b. Liability for defined benefit obligations is recognised at present value of the defined benefit obligation as determined by actuary.

The finance company presents its statement of financial position broadly in the order of liquidity.

The significant accounting policies applied in the preparation of financial statements are set out below in Note 4. These policies are consistently applied to all the years presented, except for the changes in accounting policies disclosed specifically.

2. Statement of compliance

The Financial Statement of the company which comprise of component mentioned above have been prepared in accordance with Nepal Financial Reporting Standard (hereafter referred as NFRS) issued by Accounting Standard Board of Nepal authorized by Institute of Chartered Accountants of Nepal and Nepal Rastra Bank and in compliance of requirement of the Companies Act 2006 and Generally Accepted Accounting Principles in the Banking industry in Nepal

2.1 Functional and presentation Currency

The financial statements are presented in Nepalese Rupees (Rs.), which is the functional and presentation currency of the company. Amounts in the financial statements are rounded off to the nearest rupee.

3. Use of Estimates, assumptions and judgements

The preparation of the financial statements in accordance with NFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from these estimates. Estimates, judgements and assumptions are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized prospectively.

Further information about key assumptions concerning the future, and other key sources of estimation uncertainty and judgement, are set out in the relevant disclosure notes for the following areas:

- Impairment of loans and advances
- Provisions, commitments and contingencies

Central Finance Limited
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Quarter ended Ashad 32, 2079 (July 16, 2022)

- Retirement benefit obligations

Disclosures of the accounting estimates have been included in the relevant sections of the notes wherever the estimates have been applied along with the nature and effect of changes of accounting estimates, if any.

3.1 New standards in issue but not yet effective

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

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

3.2 New standards and interpretations not adapted

There have been amendments to the standards issued by IASB and applicability of the new standards have been notified for International Financial Reporting Standards (IFRS). These amendments and new standards become applicable only when ICAN pronounces them.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach, resulting in earlier recognition of credit losses. The IFRS 9 impairment model has three stages. Entities are required to recognize a 12-month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk (stage 2). The assessment of whether a significant increase in credit risk has occurred is a key aspect of the IFRS 9 methodology and involves quantitative measures, such as forward-looking probabilities of default, and qualitative factors and therefore requires considerable management judgment. Stage 3 requires objective evidence of impairment, which is similar to the guidance on incurred losses in IAS 39. IFRS 9 requires the use of more forward-looking information including reasonable and supportable forecasts of future economic conditions. The need to consider multiple economic scenarios and how they could impact the loss allowance is a very subjective feature of the IFRS 9 impairment model. Loan commitments and financial guarantees not measured at fair value through profit or loss are also in scope.

These changes may result in a material increase in the finance company's impairment allowances for credit losses although the extent of any increase will depend upon, amongst other things, the composition of the finance company's lending portfolios and forecast economic conditions at the date of implementation. The requirement to transfer assets between stages and to incorporate forward looking data into the expected credit loss calculation, including multiple economic scenarios, is likely to result in impairment charges being more volatile when compared to the current IAS 39 impairment model.

The IFRS 9 expected credit loss model principally differs from the regulatory model of incurred loss model.

IFRS 15 Revenue from Contracts with Customers

Central Finance Limited
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Quarter ended Ashad 32, 2079 (July 16, 2022)

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. The new standard introduces the core principle that revenue must be recognized when the goods are transferred or services are rendered to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Financial instruments, leases and insurance contracts are out of scope of IFRS 15, and so this standard is not expected to have a significant impact on the finance company. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

a. IFRS 16 Leases

On 13 January 2016 the IASB issued IFRS 16 to replace IAS 17 Leases. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and instead, introduces a single lessee accounting model.

3.3 Provisions of carve-out adapted by the finance company

The Institute of Chartered Accountants of Nepal (ICAN) issued "Notice regarding Decision on Carve-outs in NFRS with Alternative Treatments" on September 20, 2018 and alternative treatments as per carve-outs has been adapted while preparing the financial statements. The detail of carve-out provisions adapted by the finance company is given hereunder:

a. Operating lease in the financial statements of Lessees (NAS 17 Leases, Para 33)

As per carve out prescribed by ICAN for fiscal year 2017-18, "Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless either:

- Another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis; or
- The payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other general inflation, then this condition is not met."

b. Incurred loss model to measure the impairment loss on loan and advances (NAS 39: Financial Instruments, Para 58: Recognition and Measurement)

As per carve out prescribed for fiscal year 2017-18, 2018-19 and 2019-20, "An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 of to determine the amount of any impairment loss unless the entity is bank or finance company registered as per Bank and Financial Institutions Act, 2073. Such entities shall measure impairment loss on loan and advances at the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per paragraph 63 and shall apply paragraph 63 to measure the impairment loss on financial assets other than loan and

Central Finance Limited
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Quarter ended Ashad 32, 2079 (July 16, 2022)

advances. The entity shall disclose the impairment loss as per this carve-out and the amount of impairment loss determined as per paragraph 63.

c. Impracticability to determine transactions cost of all previous years which is the part of effective interest rate (NAS 39, Para 9: Financial Instruments: Recognition and Measurement)

As per carve out prescribed for fiscal year 2017-18 and 2018-19, "The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instruments (for example, prepayment call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received, unless it is immaterial or impracticable to determine reliably, between parties to the contract that are an integral part of the effective interest rate (see NAS 18 Revenue), transaction costs and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments)."

d. Impracticability to determine interest income on amortized cost (NAS 39, Para AG93: Financial Instruments: Recognition and Measurement)

As per carve out prescribed for fiscal year 2017-18, 2018-19 and 2019-20, "Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset unless the financial asset is written off either partially or fully."

3.4 Discounting

When the realisation of assets and settlement of obligations is for more than one year, the finance company considers discounting of such assets and liabilities where its impact is material.

4. Significant accounting policies

4.1 Cash and cash equivalent

Cash and cash equivalent comprise the total amount of cash-in-hand, balances with other bank and financial institutions, money at call and short notice, and highly liquid financial assets with original maturities period of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the finance company in the management of its short-term commitments.

Cash and cash equivalents are measured at amortized cost in the statement of financial position.

Central Finance Limited
NOTES FORMING PART OF FINANCIAL STATEMENTS
For the Quarter ended Ashad 32, 2079 (July 16, 2022)

4.2 Financial assets and financial liabilities

a. Recognition

The finance company 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 an instrument. The finance company 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 institution becomes party to the contractual provisions of the instruments. Investments in equity instruments, units of mutual funds, bonds, debenture, government securities and NRB bond are recognized on trade date at which the finance company commits to purchase/acquire the financial assets. Regular purchase and sale of financial assets are recognized on trade date.

b. Classification

The finance company classifies its financial assets and financial liabilities as per NFRS 9 into the following measurement categories:

Financial assets

- Financial assets held at fair value through profit or loss;
- Financial assets held at fair value through other comprehensive income, and
- Financial assets held at amortized cost.

Financial liabilities

- Held at fair value through profit or loss, or
- Held at amortized cost.

Financial assets

The finance company classifies the financial assets as subsequently measured at amortized cost or fair value on the basis of the finance company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Interest income from these financial assets is included in Interest Income using the effective interest rate method. The two classes of financial assets are as follows:

i. Financial assets recognized at amortized cost

The finance company 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.

ii. Financial assets recognized 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*

Central Finance Limited
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For the Quarter ended Ashad 32, 2079 (July 16, 2022)

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

▪ *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 finance company 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.

Financial Liabilities

The finance company classifies financial liabilities as follows:

i. *Financial liabilities recognized at fair value through profit or loss*

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

ii. *Financial Liabilities recognized at amortized cost*

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

c. *Measurement*

Initial Measurement

Financial assets and financial liabilities are recognised when the finance company becomes party to the contractual provisions of the relevant instrument and are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value on initial recognition of financial assets or financial liabilities unless the same is measured at fair value through profit or loss. The transaction cost of financial assets and financial liabilities measured at fair value through profit or loss are expensed in profit or loss.

Subsequent Measurement

A financial asset or financial liability is subsequently measured either at fair value or at amortized cost based on the classification of the financial asset or liability.

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

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In case of loans and advances measured at amortized cost, the processing charge and documentation charges received from customers which are directly attributable to the acquisition or issue of such financial assets are booked as income in the statement of profit or loss in the reporting period in which they are received. The effective interest rate method is not applied as it is impracticable to determine the amount.

Further, once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter calculated by applying effective interest rate to the gross carrying amount of a financial asset. Interest income on financial assets (loans and advances) which has been individually impaired are not recognised.

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

d. Derecognition

▪ *Derecognition of Financial Assets*

Financial assets are derecognised when the right to receive cash flows from the assets has expired, or has been transferred, and the finance company has transferred substantially all of the risks and rewards of ownership. Financial assets are also derecognised upon write off. Any gain or loss arising on the disposal or retirement of an item of financial asset is determined as the difference between the sales proceeds and its carrying amount and is recognised in the statement of profit or loss. The cumulative gain or loss that was recognised in other comprehensive income, is recognised to statement of profit or loss except for investment in equity instruments measured at fair value through other comprehensive income.

▪ *Derecognition of Financial Liabilities*

A financial liability is derecognized when, and only when it is extinguished (i.e. when the obligation specified in contract is discharged, cancelled or expired). If the liability is renegotiated with the original lender on substantially different contractual terms, the original liability is derecognized and new liability is recognized.

The difference between the carrying amount of a liability (or portion) extinguished or transferred to another party (including related unamortized cost) and the amount paid for it (including any non-cash assets transferred or liability assumed), are included in statement of profit or loss.

e. 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 finance company has access at that date.

The fair value of a liability reflects its non-performance risk. When available, the finance company 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.

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If there is no quoted price in an active market, then the finance company 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: These are quoted prices in active markets for identical assets or liabilities that the finance company can access at the measurement date.

Level 2: These are the inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly. These would include prices for the similar, but not identical, assets or liabilities that were then adjusted to reflect the factors specific to the measured asset or liability.

Level 3: These are unobservable inputs for the assets or liability.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. Where available, the finance company measures the fair value of an instrument using quoted prices in an active market for that instrument. If a market for a financial instrument is not active, the finance company, establishes fair value using an appropriate fair valuation technique.

For all unquoted investment in equity instruments, their cost has been considered as their fair value and accordingly these are recognised at cost, net of impairment if any.

f. Impairment

At each reporting date, the finance company assesses whether there is objective evidence that a financial asset or group of financial assets not carried at fair value through the Statement of Profit or Loss are impaired.

A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the finance company on terms that the finance company 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 finance company 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.

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However, in case of loans and advances, impairment loss is measured as the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per paragraph 63 of NAS 39 – Financial Instruments: Recognition and Measurement.

i. Impairment of financial assets measured at amortized cost

Impairment of loans and advances portfolios is based on the judgements of past experience of portfolio behavior. In assessing collective impairment, the finance company 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. Further, management has taken additional external risk (inflation, market risk and risk of data incompleteness) for the impairment of loans and advances.

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 finance company.

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 'recovery of loan written off' under Note no. 4.39.

However, in case of loans and advances, impairment loss is measured as the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per para 63 of NAS 39 – Financial Instruments: Recognition and Measurement.

ii. 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.

4.3 Trading assets

The finance company classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking. Held for trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established. Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

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4.4 Property, Plant and Equipment

All Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the finance company and the cost of the item can be measured reliably. At each balance sheet date, the assets' residual values and useful lives are reviewed, and adjusted if appropriate, including assessing for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down to the recoverable amount. Gains and losses on disposals are included in the statement of profit or loss.

Repairs and maintenance are charged to the statement of profit or loss in the year in which it is incurred.

Depreciation is calculated using the diminishing value method at the rate determined as follows:

Class of Assets	Depreciation Rate
Building	5%
Leasehold properties	5%
Computer and accessories	25%
Vehicles	20%
Furniture and fixtures	25%
Equipment and others - office equipment	25%
Equipment and others - other assets	15%

Land is not depreciated. Assets costing less than Rs. 5,000 are recognised in statement of profit or loss in the year of purchase.

4.5 Intangible Assets

The intangible assets include software purchased by the finance company. All computer software costs incurred or licensed for use which are not integrally related to associated hardware, which can be clearly identified, reliably measured, and it's probable that they will lead to future economic benefits, are included in the statement of financial position under the category 'Intangible Assets'. Software is measured at cost less accumulated amortization and accumulated impairment loss if any. Software is amortized on a straight-line basis in profit or loss over its useful life, from the date that is available for use. The estimated useful life of software for the current and comparative periods is five years. Amortization method, useful lives and residual value are reviewed at each reporting date and adjusted, if any.

4.6 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 sold in ordinary course of business and owner-occupied property.

Investment property is initially measured at cost and subsequently at cost model. Accordingly, such properties are subsequently measured at cost less accumulated depreciation and impairment loss if any.

Any gain or loss on disposal of an investment property is recognized in statement of profit or loss. When the use of a property changes such that it is reclassified as property plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent reporting.

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4.7 Income tax

a. Current tax

Current tax in the statement of profit or loss is provided as the amount of tax payable in respect of taxable income for the period using tax rates and tax laws applicable during the period, together with any adjustment to tax payable in respect of previous years.

Current tax, in so far as it relates to items disclosed under other comprehensive income or equity, are disclosed separately under the statement of other comprehensive income or equity, as applicable.

Current tax assets and liabilities are offset only when there is both a legal right of offset and the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

b. Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses only if it is probable that the future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities.

Deferred tax, in so far as it relates to items disclosed under other comprehensive income or equity, are disclosed separately under the statement of other comprehensive income or equity, as applicable.

4.8 Deposit, debt securities issued and subordinated liabilities

The estimated fair value of deposits with no stated maturity period is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity period.

Debentures are recognized at amortized cost using effective interest rates. The coupon rates of these instruments represent the effective interest rates. Effective interest rate is expected to cover for the credit risk and time value of money on these instruments as these are solely for the purpose of principal and interest.

4.9 Provisions

Provisions are recognized when the finance company has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the finance company determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in statement of profit or loss net of any reimbursement in other operating expenses

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Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

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

4.10 Revenue Recognition

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.

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 finance company 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 income recognition are as below:

a. 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:

- Interest income on financial assets measured at amortized cost is calculated on an effective interest rate to the gross carrying amount of financial assets unless the financial asset is written off either partially or fully. These financial assets include loans and advances including staff loans, investment in government securities, investment in corporate bonds, investment in NRB Bond and deposit instruments, etc.
- Interest income on loans and advances to customers which are individually impaired are not recognised as per the Guidelines on Recognition of Interest Income, 2019 issued by Nepal Rastra Bank.
- Out of Accrued Interest on Loan and Advances as on Ashad end 2079, an amount of Rs.639,183,245.25/- was recovered till Ashad end 2079 and additional 4,850,811.46/ was recovered till shrawan 15 2079, leaving a balance of Rs.29,638,790.60/- which is transferred to Regulatory Reserve (after considering impact of Notional bonus and Notional tax).

b. 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 and service charges are recognized as the related services are performed.

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c. Dividend Income

Dividend on investment in equity instruments and on units of mutual fund is recognized when the right to receive payment is established. Dividend income are presented in net trading income or other operating income based on the underlying classification of the equity instruments and units of mutual fund.

d. Net trading income

Net trading income comprises of gains less losses related to trading assets and liabilities and includes all realised and unrealized fair value changes, interest and dividends.

e. Net income from other financial instrument at fair value through profit or loss

Gains and losses arising from changes in the fair value of other financial instruments held at fair value through profit or loss are included in the statement of profit or loss in the period in which they arise.

4.11 Interest expenses

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

4.12 Employees benefits

a. Short-term employee benefits

Expenses in respect of short-term benefits are recognised on the basis of amount paid or payable during which services are rendered by the employees. Liabilities for salary and allowances that are expected to be settled wholly within 12 months after the end of the financial year in which the employees render the related services are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

b. Post-employment benefits

The finance company operates post-retirement benefit schemes for its employees including both defined benefit and defined contribution plans. A defined benefit scheme is a plan that defines an amount of gratuity benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and salary. A defined contribution plan is a plan into which the finance company pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

i. Defined contribution plan

These are plans in which the finance company pays pre-defined amounts to publicly administered funds as per local regulations and does not have any legal or informal obligation to pay additional sums. These comprise of contributions to the social security fund with the government on account of provident fund. The Company's payments to the defined contribution plans are recognised as employee benefit expenses when they are due.

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ii. Defined benefit plan

The finance company's defined benefit plans comprise of gratuity. The liability or asset recognised in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by actuaries using the projected unit credit method.

Service costs and net interest expense or income is reflected in the statement of profit or loss. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in actuarial gain /(loss) reserve in the statement of changes in equity and in the statement of financial position..

c. Other long-term employee benefit obligations

The liabilities for earned leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in statement of profit and loss. This benefit is unfunded.

4.13 Leases

Minimum lease payments made under finance lease are apportioned between the finance expense and reduction of outstanding liabilities. The finance expense is allocated to each period during the lease term so as to produce the constant periodic rate of interest on the remaining balance of liabilities.

The leases entered into by the finance company are primarily operating leases. When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognized as an expense in the period of termination.

Actual lease payments as per the contract with lessor for the reporting period under operating lease are recognized as an expense in statement of profit or loss since the payment to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

4.14 Foreign currency translation

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss, except when recognized in other comprehensive income.

Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on equities and similar non-monetary items held at fair value through profit and loss are recognized in statement of profit or loss as part of the fair value gain or loss.

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4.15 Financial guarantee and loan commitment

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflow of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognized in financial statements but are disclosed unless they are remote. Contingent assets are not recognized in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognized in the period in which the change occurs. Detail of financial guarantee and commitments provided by the Finance company on the reporting date is given as Note 4.28.

4.16 Share capital and reserve

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

Expenses incurred of issue of share capital are deducted from equity. Dividends and other returns to equity holders are recognized in the period when they are declared by the members at the annual general meeting and are treated as a deduction from equity.

4.16.1 Statutory General Reserve

There is a statutory requirement of Bank and Financial Institution Act, 2073 which required to set aside 20% of the net profit after tax to general reserve to build up capital until the balance of the reserve is twice of the paid-up share capital. This is the restricted reserve and cannot be utilized for distribution of profit. During the period, the finance company has appropriated Rs.12,878,858/- to this reserve being 20% of net profit for the year.

4.16.2 Corporate Social Responsibility Reserve

Corporate social responsibility reserve has been created as per the circular issued by Nepal Rastra Bank, which required to apportion 1% of the net profit for the year to this reserve. During the period, CSR reserve of Rs. 643,943/- has been appropriated as per the circular. The expense incurred by the Finance Company for corporate social responsibility as per the policy is charged to statement of profit or loss with corresponding additions to retained earnings.

4.16.3 Regulatory reserve

Regulatory reserve has been created as per the directive issued by Nepal Rastra Bank and is not available for distribution of dividend (cash as well as bonus shares). The amount that is allocated from profit or retained earnings for the purpose of implementation of NFRS and include interest receivable, short provision for possible losses on investment, short loan loss provision on Non-Banking Assets, deferred tax assets recognized and actuarial loss recognized.

Regulatory adjustment :	Amount
a. Interest receivable (-)/previous accrued interest received (+)	(6,452,525)
b. Short loan loss provision in accounts (-)/reversal (+)	-

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c. Short provision for possible losses on investment (-)/reversal (+)	-
d. Short loan loss provision on Non-Banking Assets (-)/reversal (+)	1,216,227
e. Deferred tax assets recognised (-)/ reversal (+)	-
f. Goodwill recognised (-)/ impairment of Goodwill (+)	-
g. Bargain purchase gain recognised (-)/reversal (+)	-
h. Actuarial loss recognised (-)/reversal (+)	-
i. Other (+/-) (Fairvalue Reserve Negative Balance)	-
TOTAL	(5236,298)

4.16.4 Fair value reserve

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

4.16.5 Actuarial gain / (loss)

Actuarial gain or loss that represents change in actuarial assumptions used to determine the value employee obligations under defined benefit obligations. Actuarial valuation is done on annual basis.

4.16.6 Other reserve

There is no movement in Other Reserve as compared to previous year.

4.16.7 Retained earnings

Retained earnings is accumulated profit which has not been distributed to shareholders and has been ploughed back in the Finance Company's operations and is free for distribution of dividend to the shareholders.

4.17 Earnings per share including diluted

Basic earnings per share are calculated by dividing the net profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per shares is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares that arise in respect of convertible preference shares. The finance company does not have any convertible instruments and the diluted earning per share is same as the basic earnings per share.