CENTRAL FINANCE LTD.

Condensed Statement of Financial Position

As on quarter ended Chaitra End 2081

ASSETS		Group		Bank	
		This Quarter Ending	Immediate Previous Year Ending	This Quarter Ending	Immediate Previous Year Ending
Cash and cash equivalent	4.1	-	-	531,337,296	710,333,543
Due from Nepal Rastra Bank	4.2	-	-	353,937,507	335,093,649
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	-	-	171,620,645	215,633,845
Loans and advances to customers	4.7	-	-	4,321,083,752	4,355,849,862
Investment securities	4.8	-	-	2,790,003,120	2,828,550,479
Current tax assets	4.9	-	-	64,080,123	59,111,802
Investment in subsidiaries	4.10	-	-	-	-
Investment in associates	4.11	-	-	-	-
Investment property	4.12	-	-	61,272,288	248,675
Property Plant and Equipment	4.13	-	-	181,384,343	187,909,887
Goodwill and Intangible assets	4.14	-	-	1,553,170	1,915,601
Deferred tax assets	4.15	-	-	-	-
Other assets	4.16	-	-	49,218,262	34,762,066
TOTAL ASSETS		**-**	**-**	**8,525,490,506**	**8,729,409,409**

LIABILITIES				
Due to Bank and Financial Institutions	-	-	140,412,259	194,115,795
Due to Nepal Rastra Bank	-	-	-	-
Derivative financial instruments	-	-	-	-
Deposits from customers	-	-	7,233,424,698	7,507,392,022
Borrowing	-	-	-	-
Current Tax Liabilities	-	-	-	-
Provisions	-	-	-	-
Deferred tax liabilities	-	-	44,347,092	15,504,987
Other liabilities	-	-	104,375,164	93,741,236
Debt securities issued	-	-	-	-
Subordinated Liabilities	-	-	-	-
TOTAL LIABILITIES	**-**	**-**	**7,522,559,213**	**7,810,754,040**
EQUITY				
Share Capital	-	-	948,875,459	948,875,459
Share premium	-	-	442,546	442,546
Retained Earnings	-	-	(363,135,121)	(333,932,289)
Reserves	-	-	416,748,408	303,269,653
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS	**-**	**-**	**1,002,931,293**	**918,655,369**
NON-CONTROLLING INTEREST				
TOTAL EQUITY	**-**	**-**	**1,002,931,293**	**918,655,369**
TOTAL LIABILITIES & EQUITY	**-**	**-**	**8,525,490,506**	**8,729,409,409**

CENTRAL FINANCE LTD.

Condensed Statement of Profit or Loss

For the quarter ended Chaitra End 2081

IN NPR

Particulars	NOTE	Current Year This Quarter	Current Year Upto This Quarter (YTD)	Corresponding This Quarter	Corresponding Upto This Quarter (YTD)
Interest income	4.29	136,955,104	514,652,936	216,553,113	674,586,208
Interest expense	4.30	113,356,753	384,497,054	156,972,825	494,080,581
Net interest income		**23,598,351**	**130,155,882**	**59,580,288**	**180,505,627**
Fee and commission income	4.31	5,210,534	16,391,908	4,259,554	12,730,672
Fee and commission expense	4.32	-	-	-	-
Net fee and commission income		**5,210,534**	**16,391,908**	**4,259,554**	**12,730,672**
Net interest, fee and commission income		**28,808,885**	**146,547,790**	**63,839,841**	**193,236,299**
Net trading income	4.33	-	19,478,577	-	-
Other operating income	4.34	362,346	17,605,318	(242,993)	3,297,562
Total operating income		**29,171,231**	**183,631,685**	**63,596,849**	**196,533,862**
Impairment charge/(reversal) for loans and other losses	4.35	(29,745,231)	37,558,459	40,312,444	141,757,105
Net operating income		**58,916,462**	**146,073,226**	**23,284,405**	**54,776,757**
Operating expense					
Personnel expenses	4.36	24,244,992	72,192,274	20,532,884	65,574,944
Other operating expenses	4.37	11,447,947	36,761,425	12,597,575	36,546,851
Depreciation & Amortization	4.38	4,143,053	13,053,011	5,079,435	15,226,481
Operating Profit		**19,080,470**	**24,066,516**	**(14,925,490)**	**(62,571,519)**
Non operating income	4.39	187,309	187,309	1,269,643	1,269,643
Non operating expense	4.40	-	-	182,992	182,992
Profit before income tax		**19,267,779**	**24,253,825**	**(13,838,839)**	**(61,484,867)**
Income tax expense	4.41	-	-	-	-
Current Tax expenses		5,780,333	7,276,147	-	-
Deferred Tax Expenses/(Income)		-	-	-	-
Profit for the period		**13,487,446**	**16,977,677**	**(13,838,839)**	**(61,484,867)**

CENTRAL FINANCE LTD.

Statement of Comprehensive Income

For the quarter ended Chaitra End 2081

IN NPR

Particulars	NOTE	Current Year This Quarter	Current Year Upto This Quarter (YTD)	Previous Year This Quarter	Previous Year Upto This Quarter (YTD)
Profit for the year		**13,487,446**	**16,977,677**	**(13,838,839)**	**(61,484,867)**
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		(4,977,319)	96,140,352	9,754,610	57,247,922
Gains/(Losses) on revaluation					
Actuarial gain/(loss) on defined benefit plans					
Income tax relating to above terms		1,493,195	(28,842,106)	(2,926,383)	(17,174,377)
Net other comprehensive income that will not be reclassified to profit or loss		**(3,484,124)**	**67,298,246**	**6,828,227**	**40,073,545**
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		**(3,484,124)**	**67,298,246**	**6,828,227**	**40,073,545**
Total comprehensive income for the period		**10,003,322**	**84,275,923**	**(7,010,612)**	**(21,411,323)**
Basic earnings per share			**2.39**		**(8.64)**
Diluted earnings per share			**2.39**		**(8.64)**

Total comprehensive income attributable to:		**10,003,322**	**84,275,923**	**(7,010,612)**	**(21,411,323)**
Equity holders of the bank		**10,003,322**	**84,275,923**	**(7,010,612)**	**(21,411,323)**
Non-controlling interest					
Total comprehensive income for the period		**10,003,322**	**84,275,923**	**(7,010,612)**	**(21,411,323)**

CENTRAL FINANCE LTD.

Ratios as per NRB Directive

Particulars	Current year		Previous year	
	This quarter	Upto this quarter (YTD)	This quarter	Upto this quarter (YTD)
Capital fund to RWA		12.58%		16.94%
Tier 1 Capital to RWA		**12.58%**		**16.94%**
CET 1 Capital to RWA		**12.58%**		**16.94%**
Non-performing loan (NPL) to total loan		12.01%		9.57%
Total loan loss provision to Total NPL		99.10%		73.45%
Cost of Funds		6.10%		8.80%
Credit to Deposit Ratio		67.64%		65.55%
Base Rate		8.40%		11.26%
Interst Rate Spread		4.47%		4.53%
Return on Equity		**2.26%**		**-0.07%**
Return on Asset		**0.27%**		**-0.01%**

CENTRAL FINANCE LTD.
Statement of changes in Equity
For the period Shrawan 2081 to Chaitra 2081

Particulars	Share Capital	General Reserve	Share Premium	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Other Reserve	Total
Balance as at Shrawan 1, 2081	**948,875,459**	**176,578,499**	**442,546**	**52,250,644**	**74,578,278**	**-**	**(333,932,289)**	**(137,768)**	**918,655,369**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	-	**16,977,677**	-	**16,977,677**
Other Comprehensive income, net of tax									
Gains/(losses) from investments in equity instruments measured at fair value	-	-	-	-	67,298,246	-	-	-	**67,298,246**
Gains/(losses) on revaluation	-	-	-	-	-	-	-	-	-
Actuarial gains/(losses) on defined benefit plans	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year									-
Transfer to reserve during the year	-	3,395,535	-	41,417,233	-	-	(46,507,220)	1,694,452	-
Transfer from reserve during the year	-	-	-	-	-	-	326,711	(326,711)	-
Transactions with owners, directly recognised in equity									-
Right shares issued	-	-	-	-	-	-	-	-	-
Share issue expenses	-	-	-	-	-	-	-	-	-
Bonus shares issued	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Total contributions by and distributions									-
Balance as at Chaitra end, 2081	**948,875,459**	**179,974,034**	**442,546**	**93,667,877**	**141,876,524**	**-**	**(363,135,121)**	**1,229,973**	**1,002,931,292**

CENTRAL FINANCE LTD.
Statement of changes in Equity
For the period Shrawan 2080 to Chaitra 2080

	Share Capital	General Reserve	Share Premium	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Other Reserve	Total
Balance as at Shrawan 1, 2080	**948,875,459**	**176,578,499**	**442,546**	**63,416,662**	**19,118,903**	**-**	**(2,886,923)**	**(4,477,131)**	**1,201,068,015**
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	-	**(341,363,426)**	-	**(341,363,426)**
Other Comprehensive income, net of tax									
Gains/(losses) from investments in equity instruments measured at fair value	-	-	-	-	55,459,375	-	-	-	**55,459,375**
Gains/(losses) on revaluation	-	-	-	-	-	-	-	-	-
Actuarial gains/(losses) on defined benefit plans	-	-	-	-	-	-	-	3,491,405	**3,491,405**
Total comprehensive income for the year									
Transfer to reserve during the year	-	-	-	(11,166,018)	-	-	9,292,560	1,873,458	-
Transfer from reserve during the year	-	-	-	-	-	-	1,025,500	(1,025,500)	-
Transactions with owners, directly recognised in equity									
Right shares issued	-	-	-	-	-	-	-	-	-
Share issue expenses	-	-	-	-	-	-	-	-	-
Bonus shares issued	-	-	-	-	-	-	-	-	-
Cash dividend paid	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Total contributions by and distributions									
Balance as at Chaitra end, 2080	**948,875,459**	**176,578,499**	**442,546**	**52,250,644**	**74,578,278**	**-**	**(333,932,289)**	**(137,768)**	**918,655,369**

CENTRAL FINANCE LTD.
STATEMENT OF CASH FLOWS
As on Chaitra End 2081

Particulars	Chaitra End 2081	Chaitra End 2080
CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	370,336,481	840,348,588
Fees and other income received	16,391,908	19,466,891
Dividend received	-	-
Receipts from other operating activities	187,309	1,634,256
Interest paid	(383,339,050)	(650,846,696)
Commission and fees paid	-	-
Cash payment to employees	(69,497,405)	(93,033,908)
Other expenses paid	(48,023,161)	(50,566,519)
Operating cash flows before changes in operating assets and liabilities	**(113,943,918)**	**67,002,612**
(Increase)/ Decrease in operating assets		
Due from Nepal Rastra Bank	(18,843,858)	(7,128,297)
Placement with bank and financial institutions		
Other trading assets		
Loan and advances to bank and financial institutions	44,898,693	(46,650,293)
Loan and advances to customers	71,743,579	94,563,391
Other assets	(14,456,196)	15,970,848
(Increase)/ Decrease in operating liabilities		
Due to bank and financial institutions	(53,703,536)	(3,632,839)
Due to Nepal Rastra Bank		
Deposits from Customers	(273,967,324)	751,536,702
Borrowings		
Other Liabilities	234,860,737	243,019
Net Cash flow from operating activities before tax paid	**(123,411,823)**	**871,905,143**
Income taxes paid	(12,244,468)	(25,593,923)
Net Cash flow from operating activities	**(135,656,291)**	**846,311,220**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of investment securities	(67,993,038)	(1,036,816,131)
Receipt from the sale of investment securities	-	-
Purchase of property and equipment	(500,000)	(2,891,636)
Receipt from the sale of property and equipment	(331,784)	8,317
Purchase of intangible assets	-	(226,000)
Receipt from the sale of intangible assets	(61,023,613)	3,680,249
Purchase of investment properties	-	-
Receipt from the sale of investment properties	-	-
Interest received	68,895,034	76,077,699
Dividend received	17,613,509	4,287,146
Net cash used in investing activities	**(43,339,892)**	**(955,880,356)**
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	(64)	-
Interest paid		
Other receipt/ payment		
Net cash from financing activities	**(64)**	**-**
Net increase/ (decrease) in cash and cash equivalents	**(178,996,247)**	**(109,569,136)**
Opening Cash and cash equivalents	**710,333,543**	**819,902,679**
Effect of exchange rate fluctuations on cash and cash equivalents held		
Closing Cash and cash equivalents	**531,337,296**	**710,333,543**

CENTRAL FINANCE LTD.
STATEMENT OF DISTRIBUTABLE PROFIT OR LOSS
For the quarter ended Chaitra End 2081
(As per NRB Regulation)

Particulars	Chaitra End 2081	Chaitra End 2080
Net profit or (loss) as per statement of Profit or loss	16,977,677	(61,484,867)
Appropriations:	-	-
a. General reserve	(3,395,535)	-
b. Foreign exchange fluctuation fund	-	-
c. Capital redemption reserve	-	-
d. Corporate social responsibility fund	(169,777)	-
e. Employees' training fund	(1,524,675)	(1,405,094)
f. Other	326,711	888,585
Profit or (loss) before regulatory adjustment	**12,214,401**	**(62,001,376)**
Regulatory adjustment :		
a. Interest receivable (-)/previous accrued interest received (+)	(2,972,357)	(89,465,140)
b. Short loan loss provision in accounts (-)/reversal (+)	-	-
c. Short provision for possible losses on investment (-)/reversal (+)	-	-
d. Short loan loss provision on Non Banking Assets (-)/resersal (+)	(38,444,876)	-
e. Deferred tax assets recognised (-)/ reversal (+)	-	-
f. Goodwill recognised (-)/ impairment of Goodwill (+)	-	-
g. Bargain purchase gain recognised (-)/resersal (+)	-	-
h. Actuarial loss recognised (-)/reversal (+)	-	-
i. Other (+/-)	-	-
Net Profit for the Quarter Ended Poush available for distribution	**(29,202,832)**	**(151,466,516)**
Opening Retained Earning	**(333,932,289)**	**(2,886,923)**
Adjustment(+/-)		
Distribution	-	-
Bonus Share issued	-	-
Cash Dividend Paid	-	-
Total Distributable profit or (loss) as on Quarter End date	**(363,135,121)**	**(154,353,439)**
Annualised Distributable Profit/Loss per share	-51.03%	-21.69%

1. Significant accounting policies

1.1 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.

1.2 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*

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 though 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 though 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 recognized 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.

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.

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.

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 though other comprehensive income*

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

iii. *Following alternative treatment has been implied by the financial institution with respect to compliance of NFRS 9-Expected Credit Loss Related Guidelines, 2024 issued by NRB:*

   a. *The financial institution has not restated the figures relating to corresponding quarter of the previous year.*
   b. *The financial institution recognized impairment of loans and advances at higher of loan loss provision required as per the directives issued by Nepal Rastra Bank and impairment amount determined as per Para 63 of NAS 39.*
   c. *The financial institution has not recognized interest income on loans and advances based on NFRS 9- Expected Credit Loss Related Guidelines 2024 issued by NRB due to impracticability of determination of transaction cost. All such costs have been directly charged off to Statement of profit or loss.*

1.3 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.

1.4 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. 10,000 are accounted under other expenses and recognized in statement of profit or loss in the year of purchase.

1.5 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.

1.6 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.

1.7 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.

1.8 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.

1.9 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

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.

1.10 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 recognized as per the Guidelines on Recognition of Interest Income, 2019 issued by Nepal Rastra Bank.

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.

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 realized 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.

1.11 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.

1.12 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.

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.

1.13 Leases

On 13 January 2016 the ASB issued NFRS 16 to replace NAS 17 Leases. An entity shall apply this standard for annual reporting periods beginning on or after July 16, 2021.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, NFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by NAS 17 and instead, introduces a single lessee accounting model.

At the commencement date, a lessee shall recognize a right-of-use asset and a lease liability.

A Lesse shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models described in para 34 and 35.

To apply a cost model, a lessee shall measure the right-of-use asset at cost:

(a) Less any accumulated depreciation and any accumulated impairment losses; and
(b) Adjusted for any remeasurement of the lease liability specified in paragraph 36(c)

A Lessee shall measure the lease liability by:

(a) Increasing the carrying amount to reflect interest on the lease liability;
(b) Reducing the carrying amount to reflect the lease payments made; and

Remeasuring the carrying amount to reflect any reassessment or lease modifications specified in para 39-46, or to reflect revised in-substance fixed lease payments.

1.14 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.

1.15 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.

1.16 Share capital and reserve

The Finance company applies NFRS 9 – 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.