Multipurpose Finance Company Limited

Rajbiraj, Saptari, Nepal

Independent Auditor's Report

Annual Financial Statements

FY 2075/76

Auditor:

CA. Sanjay Kumar Chaudhary, FCA

M/s Sanjay Chaudhary & Associates

Chartered Accountants

चौधरी एण्ड एसोसिएट्स
...ay Chaudhary & Associates
...ered Accountants

Jwagal, Kupondole, Lalitpur
Kathmandu, Nepal
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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF MULTIPURPOSE FINANCE COMPANY LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Multipurpose Finance Company Limited** ("the Financial Institution") which comprise the Statement of Financial Position as at Ashad 31, 2076 (July 16, 2019), the Statement of Profit or Loss (including Other Comprehensive Income), the Statement of Change in Equity and the Statement of Cash Flows for the year then ended on that date, and a summary of the significant accounting policies and other explanatory information (hereafter referred to as "the financial statements").

In our opinion, and to the best of our information and according to the explanations given to us, and subject to the effect of matters mentioned in Basis of Qualified Opinion Section, the aforesaid financial statements presents fairly, in all material respects, the financial position of the Financial Institution as at Ashad 31, 2076 (July 16, 2019) and its financial performance, changes in equity, cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in accordance with Nepal Financial Reporting Standards and comply with Companies Act, 2063 and Bank and Financial Institution Act, 2073.

Basis of Qualified Opinion

We conducted our audit of the financial statements in accordance with Nepal Standards on Auditing (NSAs). Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Financial Institution in accordance with the Handbook of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Nepal (ICAN) and we have fulfilled our other ethical responsibilities in accordance with the ICAN's Handbook of the Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

The financial position of the Financial Institution as at Ashad 31, 2076 (July 16, 2019) and its financial performance, changes in equity and cash flows for the year then ended will change if the effects of the following points are considered:

1. The financial institution is required to maintain personnel training reserve minimum 3% of total personnel cost under Point No. 6 of Nepal Rastra Bank Directive No. 6/075.
2. Actuarial valuation of employee long term benefits is required under Para 66 and 67 of Nepal Accounting Standard (NAS)-19 to recognize adequate employee long term benefits in the financial statements. The financial institution has recognized staff gratuity as per its policy which is a deviation from NAS-19.
3. Nepal Financial Reporting Standard (NFRS)-9 requires that a financial asset shall be measured at fair value. Similarly, NAS 40 requires fair value of investment property. The financial institution has not considered fair value of its investment property and impairment loss has not been recognized which is a deviation from NFRS-9 and NAS-40.

SANJAY CHAUDHARY & ASSOCIATES CHARTERED ACCOUNTANTS

Information Other than the Financial Statements and Auditor's Report Thereon

The Financial Institution's Management is responsible for the preparation of the other information. The other information comprises the information included in the Management Report, Report of the Board of Directors and Chairman's Statement but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements of our knowledge obtained during the course of our audit or otherwise appears to be materially misstated.

If based on the work we have performed we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Nepal Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud and error.

In preparing the financial statements, management is responsible for assessing the Financial Institution's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Financial Institution or to cease the operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Financial Institution's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional skepticism through the audit.

We also:-

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide the basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Financial Institution's internal control.

SANJAY CHAUDHARY & ASSOCIATES CHARTERED ACCOUNTANTS

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained whether a material on uncertainty exists related to events or conditions that may cast significant doubt on the Financial Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of auditor's report. However, future events or conditions may cause the Financial Institution to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Financial Institution to express an opinion in the financial statements. We are responsible for the direction, suspension and performance of the Financial Institution audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have compiled with the relevant ethical requirement regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Based on our examination, we would like to further report that:

- We have obtained all the information and explanations, which were considered necessary for the purpose for our audit.
- The Statement of Financial Position, Statement of Profit or Loss (including Other Comprehensive Income), Statement of Cash Flows and attached Schedules dealt with by this report are prepared as per procedure and format prescribed by Nepal Rastra Bank and agree with the books of account maintained by the Financial Institution.
- The proper books of accounts as required by the law have been maintained by the Financial Institution.
- During our examination of the books of account of the Financial Institution, we have not come across any cases where any office holder of the Financial Institution has acted contrary to the provisions of law or caused loss or damage to the Financial Institution.
- The Financial Institution has been functioning as per the Directives of Nepal Rastra Bank.
- We have not come across any fraudulence in the accounts, based on our sample examination of the books.

For, Sanjay Chaudhary & Associates
Chartered Accountants

CHAUDHARY & ASSOCIATES
CHARTERED ACCOUNTANTS
SANJAY

Sanjay Kumar Chaudhary, FCA
Principal

Dated: 2019-12-11
Lalitpur, Nepal

Multipurpose Finance Company Limited
Statement of Profit or Loss
For the year ended 31 Asar 2076 (July 16, 2019)

	Note	2076 Asar 31	2075 Asar 32
Interest income	4.29	38,917,348	37,926,968
Interest expense	4.30	26,545,992	19,065,142
Net interest income		**12,371,356**	**18,861,826**
Fee and commission income	4.31	2,516,290	1,701,647
Fee and commission expense	4.32	-	-
Net fee and commission income		**2,516,290**	**1,701,647**
Net interest, fee and commisson income		**14,887,646**	**20,563,473**
Net trading income	4.33	-	-
Other operating income	4.34	-	-
Total operating income		**14,887,646**	**20,563,473**
Impairment charge/ (reversal) for loans and other losses	4.35	(2,980,720)	944,316
Net operating income		**17,868,367**	**19,619,157**
Operating expense			
Personnel expenses	4.36	4,606,970	5,003,569
Other operating expenses	4.37	2,949,806	2,497,134
Depreciation & amortisation	4.38	280,299	288,718
Operating Profit		**10,031,292**	**11,829,735**
Non operating income	4.39	-	-
Non operating expense	4.40	-	-
Profit before income tax		**10,031,292**	**11,829,735**
Income tax expense	4.41		
Current Tax		2,895,773	2,780,116
Deferred Tax		(1,041,939)	(927,789)
Profit for the year		**8,177,458**	**9,977,407**
Profit attributable to:			
Equity holders of the Bank		8,177,458	9,977,407
Non-controlling interest		-	-
Profit for the year		**8,177,458**	**9,977,407**
Earnings per share			
Basic earnings per share		19.72	24.06
Diluted earnings per share		19.72	24.06

As per our report of even date

SANJAY CHAUDHARY & ASSOCIATES CHARTERED ACCOUNTANTS

Panchanand Jha
Dy General Manager

Ajit K. Mishra
Managing Director

Phul Mishra
Chairperson

CA. Sanjay K. Chaudhary
Principal
Sanjay Chaudhary & Associates

Arpana Kumari Mishra
Director

Jay Prakash Thakur
Director

Shivahari P. Bhattarai
Director

Multipurpose Finance Company Limited

Statement of Other Comprehensive Income

As on 31 Asar 2076 (July 16, 2019)

	Note	2076 Asar 31	2075 Asar 32
Profit for the year		8,177,458	9,977,407
Other comprehensive income, net of income tax			
a) Items that will not be reclassified to profit or loss			
Gains/(losses) from investment in equity instruments measured at fair value		-	-
Gains/(losses) on revaluation		-	23,872,950
Actuarial gains/(losses) on defined benefit plans			
Income tax relating to above items		-	-
Net other comprehensive income that will not be reclassified to profit or loss		-	23,872,950
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 items		-	-
Reclassify to profit or loss		-	-
Net other comprehensive income that are or may be reclassified to profit or loss		-	-
c) Share of other comprehensive income of associate accounted as per equity method		-	-
Other comprehensive income for the year, net of income tax		-	23,872,950
Total Comprehensive Income for the year		8,177,458	33,850,357
Total Comprehensive Income attributable to:			
Equity holders of the Bank		8,177,458	33,850,357
Non-controlling interest		-	-
Total Comprehensive Income for the year		8,177,458	33,850,357

As per our report of even date

CHARTERED ACCOUNTANTS SANJAY CHAUDHARY & ASSOCIATES

Panchanand Jha
Dy General Manager

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Managing Director

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Principal
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Director

Jay Prakash Thakur
Director

Shivahari P. Bhattarai
Director

Multipurpose Finance Company Limited
Statement of Cash Flows
For the year ended 31 Asar 2076 (July 16, 2019)

	2076 Asar 31	2075 Asar 32
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	38,917,348	37,926,968
Fees and other income received	2,516,290	1,701,647
Dividend received		
Receipts from other operating activities	-	-
Interest paid	(26,545,992)	(19,065,142)
Commission and fees paid	-	-
Cash payment to employees	(3,603,841)	(3,820,596)
Other expense paid	(2,758,597)	(2,449,332)
Operating cash flows before changes in operating assets and liabilities	8,525,209	14,293,545
(Increase)/Decrease in operating assets		
Due from Nepal Rastra Bank		
Placement with bank and financial institutions		
Other trading assets		
Loan and advances to bank and financial institutions		
Loan and advances to customers	(23,373,229)	(27,694,149)
Other assets	(752,084)	(17,719,648)
Increase/ (Decrease) in operating liabilites		
Due to bank and financial institutions		
Due to Nepal Rastra Bank		
Deposit from customers	23,516,982	34,746,602
Borrowings		
Other Liabilities	7,930,928	3,220,937
Net cash flow from operating activities before tax paid	15,847,806	6,847,286
Income taxes paid	(1,853,834)	(1,852,327)
Net cash flow from operating activities	13,993,972	4,994,959
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities		
Receipts from sale of investment securities		
Purchase of property and equipment	(11,000)	(128,000)
Receipt from sale of property and equipment		
Purchase of intangible assets		
Receipts from the sale of intangible assets		
Purchase of investment properties	(5,647,809)	-
Receipts from the sale of investment properties		
Interest received		
Dividend received	-	-
Net cash used in investing activities	(5,658,809)	(128,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt from issue of debt securities		
Repayment of debt securities		
Receipt from issue of subordinated liabilities		
Repayment of subordinated liabilities	-	-
Receipt from issue of shares		
Dividends paid		
Interest paid		
Other receipt/payment		-
Net cash from financing activities		-
Net increase (decrease) in cash and cash equivalents	8,335,164	4,866,959
Cash and cash equivalents at Sawan 01, 2075	40,803,634	35,936,674
Effect of exchange rate fluctuations on cash and cash equivalents held		
Cash and cash equivalents at Asar end 2076	49,138,798	40,803,634

As per our report of even date

SANJAY CHAUDHARY & ASSOCIATES
CHARTERED ACCOUNTANTS

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Director

Jay Prakash Thakur
Director

Shivahari P. Bhattarai
Director

Multipurpose Finance Company Limited
Statement of Change in Equity
As on 31 Asar 2076 (July 16, 2019)

	Attributable to equity holders of the Bank											
	Share Capital	**Share Premium**	**General Reserve**	**Exchange Equalisation Reserve**	**Regulatory Reserve**	**Fair Value Reserve**	**Revaluation Reserve**	**Retained Earning**	**Other Reserve**	**Total**	**Non-controlling interest**	**Total**
Balance at Sawan 01, 2074 (16-Jul-2017)	41,473,600	-	7,072,827	-	-	-	-	746,644	741,620	50,034,591		50,034,591
Adjustment/Restatement on NFRS Transition (net of tax)	-	-	-	-	-	-	-	9,742,323	-	9,742,323		9,742,323
i) Interest income on loans that is not realized in cash								2,490,734	-	2,490,734		2,490,734
ii) Proposed dividend added back to retained earning								6,221,040		6,221,040		6,221,040
iii) Depreciation transferred to retained earning						-		(24,621)		(24,621)		(24,621)
iv) Deferred tax assets on temporary difference of gratuity								390,629				-
v) Adjustment of investment properties								664,541	-	664,541		664,541
Adjusted/Restated balance as at Shrawan 01, 2074 (16-Jul-2017)	41,473,600	-	7,072,827	-	-	-	-	10,488,867	741,620	59,776,914		59,776,914
Comprehensive Income for the FY 2074-75 (2017-18) :										-		-
Profit for the year								9,977,407		9,977,407		9,977,407
Other Comprehensive Income, net of tax	-	-	-	-	-	-	23,872,950	-	-	23,872,950		23,872,950
Gains / (losses) from investments in equity instruments measured at fair value												
Gain / (loss) from revaluation						-	23,872,950			23,872,950		23,872,950
Actuarial gain / (loss) on defined benefit plan												
Gain / (loss) on cash flow hedge												
Exchange gains / (losses) (arising from translating financial assets of foreign operation)									-	-		-
Total Comprehensive Income for the year	-	-	-	-	-	-	23,872,950	9,977,407	-	33,850,357		33,850,357
Transfer to Reserves during the year			1,393,003	-	-	-		(1,492,777)	99,774	-		-
Transfer from Reserves during the year												
Transactions with Owners, directly recognized in Equity :										-		-
Share issued										-		-
Share based payments												
Dividend to equity holders										-		-
Bonus shares issued												
Cash Dividend Paid												
Other								-		-		-
Total Contributions by and Distributions	-	-	1,393,003	-	-	-	-	(1,492,777)	99,774	-		-
Balance at Asar 32, 2075 (Jul-16-2018)	41,473,600	-	8,465,830	-	-	-	23,872,950	18,973,497	841,394	93,627,271		93,627,271

Multipurpose Finance Company Limited
Statement of Change In Equity
As on 31 Asar 2076 (July 16, 2019)

	Attributable to equity holders of the Bank											
	Share Capital	Share Premium	General Reserve	Exchange Equalisation Reserve	Regulatory Reserve	Fair Value Reserve	Revaluation Reserve	Retained Earning	Other Reserve	Total	Non-controlling Interest	Total
Balance at Shrawan 01, 2075 (17-Jul-2018)	41,473,600	-	8,466,830	-	-	-	23,872,960	18,973,497	841,394	93,627,271		93,627,271
Comprehensive Income for the FY 2075-76 (2018-19) **:**	- -									-		-
Profit for the year								8,177,458		8,177,458		8,177,458
Other Comprehensive Income, net of tax	-	-	-	-	-	-	-	-	-	-		-
Gains/(losses) from investment in equity instruments measured at fair value						-		-		-		-
Gains/(losses) on revaluation												
Actuarial gain / (loss) on defined benefit plan												
Gain / (loss) on cash flow hedge												
Exchange gains / (losses) (arising from translating financial assets of foreign operation)									-	-		-
Total Comprehensive Income for the year	-	-	-	-	-	-	-	8,177,458	-	8,177,458		8,177,458
Transfer to Reserves during the year			1,635,492	-	9,612,968	-		(11,330,235)	81,775	(0)		(0)
Transfer from Reserves during the year												
Transactions with Owners, directly recognized in Equity :										-		-
Share issued										-		-
Share based payments												
Dividend to equity holders										-		-
Bonus shares issued												
Cash Dividend Paid												
Other										-		-
Total Contributions by and Distributions	-	-	1,635,492	-	9,612,968	-	-	(11,330,235)	81,775	(0)		(0)
Balance at Asar 31, 2076 (16-Jul-2019)	41,473,600	-	10,101,321	-	9,612,968	-	23,872,960	15,820,720	923,169	101,804,729		101,804,729

SANJAY CHAUDHARY ASSOCIATES CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited

Notes to the Financial Statements
For the year ended 31 Asar 2076 (July 16, 2019)

1. Reporting entity

1.1. Corporate information

Multipurpose Finance Company Limited (hereinafter referred to as "the Financial Institution") is a public limited company domiciled in Nepal. It was incorporated on BS 2053-10-10 (AD 1997-01-23) under then prevailing Companies Act, 2021 (1964) of Nepal. It is a class "C" licensed finance institution regulated under the Banks and Financial Institutions Act, 2073 (2017). It commenced operations as financial institution on 2054-11-17 (1998-03-01) and has its registered head office in Rajbiraj, Saptari, Nepal.

1.2. Principal activities of the Financial Institution

Principal activities of the Financial Institution comprise full-fledged financing services including financial intermediation, trade finance services, remittance and other ancillary banking services to a diverse clientele encompassing individuals and organizations.

2. Basis of preparation

2.1. Statement of compliance

The financial statements of the Financial Institution have been prepared in accordance with Nepal Financial Reporting Standards 2013 (NFRS) developed by the Accounting Standards Board, Nepal (ASBN) and pronounced for application by the Institute of Chartered Accountants of Nepal (ICAN) on September 13, 2013. These financial statements comply with the requirements of the Companies Act, 2006 and amendments thereto and also provide appropriate disclosures required under regulations of the Securities Exchange Board of Nepal (SEBON).

Details of the significant accounting policies followed by the Financial Institution in the preparation of financial statements for the reporting period are given in Note 3.

2.1.1. Reporting pronouncements

Nepal Rastra Bank (NRB), the Banks and Financial Institutions regulator of the country, has instructed banks and financial institutions to prepare their financial statements in accordance with NFRS effective from financial year 2017-18. NRB circular to this effect was issued under reference number Bai.bi.ni.bi./Niti/Paripatra/KaKhaGa/10/074/75 dated November 30, 2017. NRB has also implemented standardized format of financial statements.

The Accounting Standards Board of Nepal has developed NFRS 2013 by converging with International Financial Reporting Standards 2012 (IFRS) as issued by the International Accounting Standards Board (IASB). The Institute of Chartered Accountants of Nepal has pronounced implementation of NFRS.

Accompanying financial statements for the year ended July 16, 2019 are the first set of financial statements the Financial Institution has prepared in accordance with NFRS. Comparative figures for financial year ended July 16, 2018 have been reclassified and re-measured in accordance with NFRS. Financial Institution's opening equity position on the transition date of July 15, 2017 has been re-measured based on NFRS. Statements showing reconciliation between comparative figures reported in accordance with NFRS and those reported in accordance with previous GAAP are presented in Note 5.10 'Disclosure effect of transition from previous GAAP to NFRSs'.

2.2. Reporting period and approval of financial statements

The accompanying financial statements cover annual reporting period between July 17, 2018 and July 16, 2019 (the reporting period) and the status is reported as at the year-end date of July 16, 2019 (the report date). These financial statements, inclusive of comparative figures for the year ended July 16, 2017 and opening equity reconciliation at NFRS transition date of July 15, 2017, have been approved and authorized for issue by the board of directors as per its decision dated 2076/08/25 and have recommended for its approval at the shareholders annual general meeting.

2.2.1. Responsibility for financial statements

The board of directors of the Financial Institution is responsible for the preparation of financial statements of the Financial Institution which reflects a true and fair view of the financial position and performance of the Financial Institution. The board is of the view that the financial statements in its entirety have been prepared in conformity with the prevailing financial reporting standards and the Companies Act of Nepal.

The board of directors acknowledges their responsibility for financial statements as set out in the 'Statement of Director's Responsibility' and in the certification on the statement of financial position.

These financial statements include the following components:

- a Statement of Financial Position [SoFP] providing the information on the financial position of the Financial Institution as at the end of the reported period;
- a Statement of Profit or Loss [SoPL] and a Statement of Other Comprehensive Income [SoCI] providing the information on the financial performance of the Financial Institution for the reported period;
- a Statement of Changes in Equity [SoCE] reporting all changes in the shareholders' funds during the reported period of the Financial Institution;
- a Statement of Cash Flows [SoCF] providing the information to the users, on the ability of the Financial Institution to generate cash and cash equivalents and utilization of those cash flows; and
- Notes to the financial statements comprising significant accounting policies, other disclosures and other explanatory information relevant to the study of financial statements.

2.3. Functional and presentation currency

Financial statements are presented in Nepalese Rupees (NPR), the functional currency of Financial Institution. Assets and liabilities are presented in the order of liquidity in the statement of financial position. Incomes and expenses are classified 'by nature' in the presentation of statement of profit or loss. Cash flows from operations are derived using the direct method in the presentation of statement of cash flows.

2.4. Use of estimates, assumptions and judgments

Preparation of financial statements in conformity with NFRS required the Financial Institution's management to make critical judgments, estimates and assumptions such that could potentially have a material impact on the reported financial figures. These affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

On an ongoing basis the management reviews these estimates and underlying assumptions to ensure that they continue to be relevant and reasonable. Revisions to accounting estimates are recognized prospectively.

The most significant areas of assumptions and estimation applied in the application of accounting policies that have the most significant effect on the amounts recognized in the financial statements are listed hereinafter and their description follows:

- Fair value of financial instruments
- Classification of financial assets and financial liabilities
- Impairment losses on financial assets
- Impairment losses on non-financial assets
- Useful economic life of property and equipment
- Taxation and deferred tax
- Defined benefit obligations
- Provisions for liabilities, commitments and contingencies

2.4.1. Fair value of financial instruments

Fair value of financial assets and financial liabilities, for which there is no observable market prices, are determined using a variety of valuation techniques that include the use of statistical models. The Financial Institution measures fair value using a fair value hierarchy that reflects the significance of input used in making measurements. The use of fair value hierarchy is described in Note 5.1.7.

2.4.2. Classification of financial assets and liabilities

Significant accounting policies of the Financial Institution provide scope for financial assets and financial liabilities to be recognized under different accounting classifications. These are either measured at fair value or at amortized cost and can be presented under any of the following accounting classifications based on specific circumstances.

- Financial assets or financial liabilities subsequently measured at Amortized Cost; or
- Financial assets or financial liabilities designated as at Fair Value Through Profit or Loss (FVTPL); or
- Financial assets or financial liabilities subsequently measured at Fair Value Through Profit or Loss (FVTPL); or
- Financial assets subsequently measured at Fair Value through Other Comprehensive Income (FVTOCI).

Presentation and / or measurement of the amounts recognized in financial statements could be different for a particular financial asset or financial liability under any two different accounting classifications. The Financial Institution's management exercise judgment in the application of appropriate accounting policy to achieve correct accounting classifications for its financial assets and financial liabilities. Accounting policy relating to financial assets and financial liabilities is presented in Note 3.4.3 and the related explanatory information is presented in Note 5.3.

2.4.3. Impairment losses on financial assets

Impairment loss on financial assets – loans and advances is determined at the higher of:

- Loan loss provision amount derived as prescribed in directive no. 02 of Nepal Rastra Bank; and
- Impairment loss amount determined as per Incurred Loss Model specified in para 63 of NAS 39.

Loan loss provision derived as prescribed under Directive No. 2/075 of Nepal Rastra Bank is considered for making provision against loan and advances during the year.

There arises a need for the Financial Institution's management to apply judgment and estimation in assessing and determining the amount of impairment loss on financial assets measured at amortized cost. Some of the areas that require management judgment and estimation are listed herein below:

- selection of appropriate impairment assessment tool;
- defining individually significant assets;

CHAUDHARY & ASSOCIATES
CHARTERED ACCOUNTANTS
SANJAY

- designing impairment assessment questionnaire;
- estimating future recoverable cash flows on financial asset; and
- adjusting results of historical data analysis to incorporate the economic conditions and portfolio factors that existed at the reporting date.

Exercise of judgment is an integral part of the impairment assessment process and the Financial Institution exercises its experienced judgment to adjust observable data for a Financial Institution of financial assets to reflect current circumstances. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

The Financial Institution's policy in accounting for impairment of financial assets is explained in Note 3.4.8.

2.4.4. Impairment losses on non-financial assets

At each reporting date, or more frequently if events or changes in circumstances necessitates, the Financial Institution assesses whether there are any indicators of impairment for a non-financial asset. This requires the estimation of the 'Value in Use' of such individual assets. Estimating the 'Value in Use' requires the management to make an estimate of the expected future cash flows from the asset and also to select a suitable discount rate to calculate the present value of the relevant cash flows. This valuation requires the management to make estimates about expected future cash flows and discount rates. Additional disclosure on this is stated in Note 3.22.

2.4.5. Useful economic life of property and equipment

The Financial Institution reviews the residual values, useful lives and methods of depreciation of property and equipment at regular intervals. Judgment of the management is exercised in the estimation of these values, rates, methods.

2.4.6. Taxation and deferred tax

The Financial Institution is subject to income tax under Income Tax Act 2002A.D. and amendments thereto, and due to the potential differences that may exist between the Financial Institutions and the Income Tax Authorities with regard to the interpretation of complex tax provisions, management judgment is required to determine the total provision for current tax and deferred tax amounts.

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that future taxable profit will be available against which such losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Additional disclosure on tax is stated in Note 3.10.

2.4.7. Defined benefit obligations

The Financial Institution recognizes following two types of employee liabilities as defined benefit obligations:

a) Gratuity Liability

b) Accumulated Leave Liability

The cost of the defined benefit obligations is determined using actuarial valuation from an independent actuary. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, attrition rate, future salary increases, mortality rates and future pension increases, etc.

In determining the appropriate discount rate, management considers the interest rates of Nepal government bonds with maturities corresponding to the expected duration of the defined benefit obligation as may be available. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future salary increase rates. The Financial Institution reviews actuarial assumptions at each reporting date. Additional disclosure on this is stated in Note 3.15

2.4.8. Provisions for liabilities, commitments and contingencies

The Financial Institution receives legal claims in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the statement of financial position but are disclosed unless they are remote. Additional disclosure on this is stated in Note 5.6.

Information about significant areas of estimation and critical judgments in applying accounting policies, other than those stated above, and which have significant effects on the amounts recognized in the financial statements are described in respective notes.

2.5. Changes in accounting policies

Annual financial statements for the period ended July 16, 2018 are the first set of NFRS compliant annual financial statements published by the Financial Institution. As required under NFRS 1 – "First-time Adoption of NFRS" the Financial Institution has presented an explanation on how the transition from previous GAAP to NFRSs has affected its reported financial position, financial performance and cash flows in Note 5.11 'Disclosure effect of transition from previous GAAP to NFRSs'. The explanation includes:

- reconciliations of equity reported in accordance with previous GAAP and that reported in accordance with NFRS at:
    - the date of transition, i.e. July 15, 2017; and
    - at the end of the latest period presented in the Financial Institution's most recent annual financial statements in accordance with previous GAAP, i.e. July 16, 2018 (the comparative period);
- a reconciliation of the Financial Institution's total comprehensive income reported in accordance with NFRS to that reported in accordance with GAAP for the comparative period ended July 16, 2018; and
- reconciliations of the Financial Institution's assets and liabilities reported in accordance with previous GAAP and that reported in accordance with NFRS at:
    - the date of transition, i.e. July 16, 2017; and
    - at the end of the comparative period, i.e. July 16, 2018.

2.6. New standards issued but not yet effective

The ASBN has not issued a new NFRS since the current version of NFRS were issued in September 2013. However, the IASB has issued a number of new IFRS standards and interpretations, including amendments to the existing IFRS, since the IFRS 2012 based on which NFRS 2013 have been developed.

2.7. New standards and interpretations not adopted

The updates on IFRS subsequent to 2012 become applicable when the ASBN incorporates them within the NFRS. The Financial Institution has not adopted those standards.

2.8. Discounting

The Financial Institution calculates amortized cost of a financial asset or a financial liability using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of a financial asset or a financial liability to the net carrying amount of the financial asset or liability. If expected life cannot be determined reliably, then the contractual life is used.

In case where the Financial Institution assesses that the transaction amount of a financial asset or a financial liability does not represent its fair value, the related future cash flows are discounted at prevailing interest rate to determine the initial fair value.

2.9. Going concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Financial Institution's ability to continue as a going concern, such as restrictions or plans to curtail operations. Therefore, the financial statements of the Financial Institution continue to be prepared on a going concern basis.

2.10. Offsetting

In the Statement of Financial Position, financial assets and financial liabilities are netted off only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not netted off in the Statement of Profit or Loss unless required or permitted by an Accounting Standard or Interpretation and as specifically disclosed in the accounting policy of the Financial Institution.

2.11. Materiality and aggregation

In the financial statements materiality and aggregation is dealt with in compliance with Nepal Accounting Standard – NAS 1 "Presentation of Financial Statements" and within the scope of formats implemented by Nepal Rastra Bank. Accordingly, each material class of similar items is presented separately and items that are not similar in nature or function are also presented separately unless these are immaterial.

2.12. Rounding

The amounts in the financial statements are rounded off to the nearest Rupees, except where otherwise indicated as permitted by NAS 1 – "Presentation of Financial Statements".

2.13. Comparative information

Accounting policies are consistently applied across all periods reported. The presentation and classification of financial figures relating to previous period are regrouped or reclassified where relevant to facilitate consistent presentation and better comparability.

2.14. Events after the reporting date

Events after the reporting date are those events, favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue.

All material and important events that occurred after the reporting date have been considered and appropriate disclosures have been made in line with NAS 10 – "Events After the Reporting Period". Explanatory information on events after the reporting date is presented in Note 5.10.

3. Significant Accounting Policies

The Financial Institution has applied the accounting policies set out below consistently to all periods presented in the accompanying financial statements unless specifically stated otherwise.

Index of significant accounting policies is produced below for easy reference.

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3.1. Basis of Measurement

Financial Statements of the Financial Institution have been prepared on historical cost convention, except for the following:

- Investment Property (land and building acquired as non-banking assets) are measured at fair value under NAS 40 'Investment Property'.
- Liabilities for employee defined benefit obligations and liabilities for long service leave are measured at fair value under NAS 19 'Employee Benefits'.

3.2. Basis of consolidation

The Financial Institution's financial statements comprise stand-alone financial statements only it has no subsidiary companies that require consolidation.

a. Business combination : None
b. Non-controlling interest (NCI) : None
c. Subsidiaries : None
d. Loss of control : None
e. Special Purpose Entity (SPE) : None
f. Transaction elimination on consolidation : None

3.3. Cash and cash equivalent

Cash and cash equivalent comprise of 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 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 licensed institution in the management of its short term commitments. Restricted deposits are not included in cash and cash equivalents. These are measured at amortized cost and presented as a line item on the face of Statement of Financial Position (SoFP).

3.4. Financial assets and financial liabilities

Financial assets refer to assets that arise from contractual agreements on future cash flows or from owning equity instruments of another entity. Since financial assets derive their value from a contractual claim, these are non-physical in form and are usually regarded as being more liquid than other tangible assets. Common examples of financial assets are cash, cash equivalents, bank balances, placements, investments in debt and equity instruments, derivative assets and loans and advances.

Financial liabilities are obligations that arise from contractual agreements and that require settlement by way of delivering cash or another financial asset. Settlement could also require exchanging other financial assets or financial liabilities under potentially unfavorable conditions. Settlement may also be made by issuing own equity instruments. Common examples of financial liabilities are due to banks, derivative liabilities, deposit accounts, money market borrowings and debt capital instruments.

The contractual agreements, generally referred to as financial instruments, are characterized by the existence of counterparties and the contract terms give rise to a financial asset to one counterparty and a corresponding financial liability or equity instrument to the other counterparty.

The Financial Institution has applied NFRS 9 – "Financial Instruments" in the classification and measurement of its financial instruments. Para 5.2.2 of NFRS 9 prescribes the application of impairment requirements in paragraphs 58-65 and AG84-AG93 of NAS 39 to financial assets measured at amortized cost. Accordingly, the Financial Institution has applied Para 63 of IAS 39 and measured impairment loss on financial assets measured at amortized cost following the incurred loss model.

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3.4.1. Date of recognition of financial instruments

All financial assets and financial liabilities are initially recognized in the Statement of Financial Position when the entity becomes a party to the contractual provisions of the instrument.

3.4.2. Initial recognition and measurement of financial instruments

All financial assets and financial liabilities are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

3.4.3. Classification and subsequent measurement of financial assets

Financial assets are classified based on how the asset is measured subsequent to its initial recognition as per NFRS 9 – "Financial Instrument". Accordingly, at the time of initial recognition, financial assets are classified as:

- financial assets subsequently measured at amortized cost, and
- financial assets subsequently measured at fair value.

Classification and subsequent measurement of financial assets are arrived at on the basis of both the following criteria:

- the entity's business model for managing the financial assets, and
- the contractual cash flow characteristics of the financial asset.

Details on different classes of financial assets recognized on the financial statements are presented in Note 5.3.

3.4.4. Classification and subsequent measurement of financial liabilities

Financial liabilities are classified based on how the liability is measured subsequent to its initial recognition as per NFRS 9 – "Financial Instrument". Accordingly, at the time of initial recognition, financial liabilities are classified as:

- subsequently measured at FVTPL, or
- subsequently measured at amortized cost.

Details on different classes of financial liabilities recognized on the financial statements are presented in Note 5.3.

3.4.5. Reclassification of financial assets and liabilities

Reclassification of financial assets and liabilities are at the election of management and determined on an instrument by instrument basis. Reclassification of financial assets is done if and only if the business model objective for the financial asset changes so its previous model assessment would no longer apply.

NFRS 9 does not permit reclassification in the following cases:

- for equity investments measured at FVTOCI; and
- where the fair value option has been exercised in any circumstance for a financial asset or a financial liability.

3.4.6. De-recognition of financial assets and financial liabilities

3.4.6.1. De-recognition of financial assets

The Financial Institution derecognizes a financial asset, or where applicable a part of financial asset or part of a Financial Institution of similar financial assets, when:

- the contractual rights to the cash flows from the financial asset expire; or

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- the Financial Institution transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred; or
- the Financial Institution has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and:
    - either the Financial Institution has transferred substantially all the risks and rewards of the asset; or
    - the Financial Institution has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the statement of profit or loss. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Financial Institution is recognized as a separate asset or liability.

Where there is the Financial Institution's continuing involvement that takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received by the Financial Institution and which it could be required to repay.

3.4.6.2. De-recognition of financial liabilities

The Financial Institution derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as de-recognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognized in the statement of profit or loss as a disposal gain or loss.

3.4.7. Fair value of financial assets and financial liabilities

'Fair Value' is the price that would be received on sell of an asset or paid for transfer of a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Financial Institution.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

A fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair Value of non-financial assets such as land and building are derived based on reports of independent professional property valuators.

Explanatory information on fair value measurement of assets and liabilities, along with the fair value hierarchy adopted by the Financial Institution in determining the fair value of financial assets, is provided in Note 5.1.7.

3.4.8. Impairment of financial assets

The Financial Institution, at the end of each reporting period, assesses whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Financial Institution of financial assets that can be reliably estimated.

It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Objective evidence of impairment includes observable data such as following:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- where observable data indicate that there is a measurable decrease in the estimated future cash flows from a Bank of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Financial Institution, including adverse changes in repayment patterns or economic conditions that correlate with defaults.

Statistical methods are used to determine impairment losses on a collective basis for homogenous portfolio of loan assets. The Financial Institution applies "net flow rate" methodology to calculate historical loss experience on a collective portfolio basis. Under this, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and ultimately turn into uncollectible. The loss rates are regularly reviewed against actual loss experience.

3.4.9. Loan to employees at market interest rate

The Financial Institutions generally provides loans to its employees at market interest rate. This asset is bifurcated and recognized as two different elements viz. a prepaid employee benefit and a loan asset. Initially fair value of a loan to an employee is estimated by discounting the future loan repayments using a market rate of interest. The initial difference between the transaction price of the loan and its fair value is recognized as employee benefit. The remaining part of the loan receivable is accounted for as a financial asset subsequently measured at amortized cost.

The prepaid employee benefit element is accounted for as short-term employee benefit under NAS 19 – "Employee Benefits". The balance in prepaid employee benefit is amortized over the full term of the loan with corresponding expense recognition determined at the difference between:

- the interest income for the period applying effective interest rate on the fair value of the loan; and
- the interest payable by the employee.

The Financial Institution has a policy of providing loans to its employees at market interest rate.

3.5. Trading assets

Trading assets are those assets that are acquired principally for the purpose of selling in the near term, or held as part of a portfolio that is managed together for short term profit. It includes non-derivative financial assets such as government bonds, NRB bonds, domestic corporate bonds, treasury bills, equities, etc. held primarily for trading purpose. If a trading asset is a debt instrument, it is subject to the same accounting policy applied to financial assets measured at amortized cost. If a trading asset is an equity instrument, it is subject to the same accounting policy applied to financial assets measured at FVTPL.

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3.6. Derivative assets and derivative liabilities

None

3.7. Property and equipment

Property and equipment are tangible items that are held for and used in the provision of services, for rental to others, or for administrative purposes, and are expected to be used for more than one year period. The Financial Institution applies NAS 16 – "Property, Plant and Equipment" in the accounting of property and equipment.

Additional information on property and equipment with a reconciliation of carrying amounts, accumulated amortization at the beginning and at the end of the periods is presented in Note 4.13.

3.7.1. Basis of recognition

Property and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Financial Institution and the cost of the asset can be reliably measured.

3.7.2. Basis of measurement

An item of property and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and eligible subsequent costs. Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Financial Institution. Ongoing repairs and maintenance are expensed as incurred.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalized as part of Computer Equipment.

3.7.3. Cost model

The Financial Institution applies the cost model to all property and equipment and records these at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

3.7.4. Revaluation model

The Financial Institution doesn't apply revaluation model any class of property and equipment.

3.7.5. De-recognition

The carrying amount of an item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the profit or loss in the year the asset is derecognized.

When replacement costs are recognized in the carrying amount of an item of property and equipment, the remaining carrying amount of the replaced part is derecognized.

3.7.6. Capital work-in-progress

These are expenses of a capital nature directly incurred in the construction of buildings and system development, awaiting capitalization. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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3.7.7. **Depreciation**

The Financial Institution provides depreciation from the date the assets are available for use up to the date of disposal. The assets are depreciated on a straight line basis over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Financial Institution other than disclosed separately.

Class of Fixed Assets	Estimated Useful Life
Freehold Building	Up to 50 years
Motor Vehicles	Up to 10 years
Plant and Machinery	Up to 10 years
Furniture & Fixture	Up to 10 years
Office Equipment	Up to 10 years

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is de-recognized. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

3.7.8. **Changes in estimates**

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

3.8. Goodwill and Intangible assets

3.8.1. **Goodwill**

Goodwill that arises on the acquisition of Subsidiaries is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the bank's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

At the reporting date, the Bank does not have intangible asset in the form of goodwill, arising on business combination.

3.8.2. **Intangible assets**

Intangible assets are identifiable non-monetary asset without physical substance, which are held for and used in the provision of services, for rental to others or for administrative purposes. The Bank applies NAS 38 – "Intangible Assets" in accounting for its intangible assets.

The Bank recognizes an intangible asset when:

- the cost of the asset can be measured reliably;
- there is control over the asset as a result of past events (for example, purchase or self-creation); and
- future economic benefits (inflows of cash or other assets) are expected from the asset.

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Intangibles can be acquired by separate purchase; as part of a business combination; by a government grant; by exchange of assets; or by self-creation (internal generation). An intangible asset appearing in the Bank's books is computer software which is already written off from the books.

3.8.3. Computer software

Software acquired by the Financial Institution is measured at cost less accumulated amortization and any accumulated impairment losses.

Additional information on intangible assets with a reconciliation of carrying amounts, accumulated amortization at the beginning and at the end of the periods is presented in Note 4.5.

3.8.4. Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the Cash Generating Unit level as appropriate, when circumstances indicate that the carrying value is impaired. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the 'indefinite life assessment' continues to remain valid. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

At the reporting date the Financial Institution does not have intangible assets with indefinite useful lives.

3.8.5. De-recognition of intangible assets

Intangible assets are de-recognized on disposal or when future economic benefits are no more expected from their use. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceed and the carrying amount of the asset. Such a gain or loss is recognized in the profit or loss.

3.8.6. Amortization and impairment of intangible assets

The useful lives of intangible assets are assessed as either finite or infinite. Except for goodwill other intangible assets with finite lives are amortized on a straight line basis in the statement of profit or loss from the date when the asset is available for use, over the best estimate of the useful economic life based on a pattern in which the asset's economic benefits are consumed by the Financial Institution. Amortization methods, useful lives, residual values are reviewed at each financial year end and adjusted if appropriate. The Financial Institution assumes that there is no residual value for its intangible assets.

Class of Intangible Assets	Estimated Useful Life
IT Software	Up to 5 years

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Expenditure on an intangible item that was initially recognized as an expense by the Financial Institution in previous annual financial statements or interim financial statements are not recognized as part of the cost of an intangible asset at a later date. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Goodwill and intangible assets with infinite useful lives such as license are not amortized, but are assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

3.9. Investment property

Investment properties are land or building or both other than those classified as property and equipment under NAS 16 – "Property, Plant and Equipment"; and assets classified as non-current assets held for sale under NFRS 5 – "Non-Current Assets Held for Sale & Discontinued Operations". The Financial Institution has recognized as investment property all land or land and building acquired as non-banking assets through foreclosure by the Financial Institution.

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Non-banking assets (only land and building) are initially recognized at cost. Subsequent to initial recognition the Financial Institution has chosen to apply the cost model allowed by NAS 40 – "Investment Property" and since it is not intended for owner-occupied use, a depreciation charge is not raised.

3.10. Income Tax

Tax expense is the aggregate amount included in the determination of profit or loss for the period in respect of current and deferred taxes. The Financial Institution applies NAS 12 – "Income Taxes" for the accounting of Income Tax. Income tax expense is recognized in the Statement of Profit or Loss, except to the extent it relates to items recognized directly in equity or directly in other comprehensive income. Tax expense relating to items recognized directly in other comprehensive income is recognized in the Statement of Other Comprehensive Income.

3.10.1. Current Tax

Current tax comprises the amount of income taxes payable (or recoverable) in respect of the taxable profit (or tax loss) for the reporting period, and any amount adjusted to the tax payable (or receivable) in respect of previous years. It is measured using tax rates enacted, or substantively enacted, at the reporting date.

The Financial Institution has determined tax provision for the reported period based on its accounting profit for that period, and incorporating the effects of adjustments for taxation purpose as required under the Income Tax Act 2002 A.D. (2058 B.S.) and amendments thereto, using a corporate tax rate of 30.00%.

The Financial Institution recognizes a current tax liability to the extent that the current tax expense for current and prior periods remain unpaid. Conversely, a current tax asset is recognized if the tax paid in respect of current and prior periods exceed the amount payable for those periods. Explanatory information on current tax calculation is stated in Note 4.41.

3.10.2. Deferred Tax

Deferred tax is recognized at the reporting date in respect of temporary differences between:

- the carrying amounts of assets and liabilities for financial reporting purposes; and
- the amounts used for taxation purposes (i.e. tax base).

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for all deductible temporary differences, carried forward unused tax credits and carried forward unused tax losses (if any), to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they will be reversed, using tax rates enacted, or substantively enacted, at the reporting date.

Deferred tax income or expense relating to items recognized directly in equity is recognized in Other Comprehensive Income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Explanatory information on deferred tax calculation is stated in Note 4.15.

3.11. Deposits, debt securities issued and subordinated liabilities

3.11.1. Deposits from customers and BFIs

The Financial Institution presents deposit accounts held by customers and those held by BFIs in the Financial Institution under respective line items in the face of the consolidated statement of financial position. These are classified as financial liabilities measured at amortized cost.

3.11.2. Debt securities issued

The Financial Institution presents debt securities, debenture issued by the Financial Institution under this line item. These are classified as financial liabilities measured at amortized cost. The Financial Institution does not have any debt securities issued at the reporting date.

3.11.3. Subordinated liabilities

These comprise of liabilities subordinated, at the event of winding up, to the claims of depositors, debt securities issued and other creditors. Items eligible for presentation under this line item include redeemable preference share, subordinated notes issued, borrowings etc. These are subject to the same accounting policies applied to financial liabilities measured at amortized cost. The Financial Institution does not have any subordinated liabilities at the reporting date.

3.12. Provisions

The Financial Institution applies NAS 37 – "Provisions, Contingent Liabilities & Contingent Assets" in the accounting of provisions.

3.12.1. Provisions for onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Financial Institution from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. The Financial Institution does not have any onerous contracts at the reporting date.

3.12.2. Other provisions

A provision is recognized if, as a result of a past event, the Financial Institution has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount of Provisions are determined by discounting the expected future cash outflows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as interest expense in profit or loss.

Before a provision is established, the Financial Institution recognizes any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the profit or loss net of any reimbursement.

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3.13. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Financial Institution and the revenue can be measured reliably. The Financial Institution applies NAS 18 - "Revenue" in the accounting of revenue, unless otherwise stated.

3.13.1. Interest income

Interest income are recognized in profit or loss using the effective interest rate (EIR) method for all financial assets measured at amortized cost. Interest income is earned on bank balances, investments in money market and capital market instruments, loans and advances, etc.

EIR method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. EIR is the rate that exactly discounts estimated future cash receipts or cash payments through the expected life of the financial asset to the net carrying amount of the financial asset.

When calculating EIR the Financial Institution estimates future cash flows considering all contractual terms of the financial asset, but not future credit losses. The Financial Institution has excluded from EIR calculation the upfront management fees received at the origination of long tenor loans and advances to customers.

Details of interest income:

	2076 Asar 31	2075 Asar 32
Cash received during the year	42,276,946	35,146,532
Closing Accrued Income	2,979,030	6,338,628
Opening Accrued Income	(6,338,628)	(3,558,192)
Income recognized during the year	38,917,348	37,926,968

Explanatory information on interest income is stated in Note 4.29.

3.13.2. Fees and commission income

The Financial Institution earns fee and commission income on providing a diverse range of services to its customers. Such income earned on services including account maintenance, remittance transactions, agency commissions, e-commerce transactions, letter of credits, bank guarantees, loan management, etc. are recognized as the related services are performed. Fee and commission earned for the provision of services over a period of time are accrued over that period. Explanatory information on net fees and commission income is stated in Note 4.31.

3.13.3. Dividend income

Dividend income is recognized when the right to receive income is established, which is the ex-dividend date for quoted equity instruments and unit investments. In line with the requirements of the Income Tax Act 2002, dividends received from domestic companies are recognized as final withholding income, while those received in respect of unit investments in mutual funds and equity interest in foreign companies are recognized in gross amounts and respective withholding taxes are recognized as tax receivables.

3.13.4. Net trading income

Trading income comprises of gains or losses relating to financial assets and liabilities held in the Financial Institution's trading books. The Financial Institution presents all accrued interest, dividend, unrealized fair value changes and disposal gains or losses in respect of trading assets and liabilities under this head. Explanatory information on net trading income is stated in Note 4.33.

3.13.5. Net income from other financial instrument at fair value through Profit or Loss

None

3.14. Interest expense

Interest expense is recognized in profit or loss using the effective interest rate (EIR) method for all financial liabilities measured at amortized cost. Interest expense is borne on inter-bank borrowings, deposit from customers, debenture issued, refinance borrowing, etc. Explanatory information on interest expense is stated in Note 4.30.

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3.15. Employee Benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. The Financial Institution's remuneration package includes both short term and long term benefits and comprise of items such as salary, allowances, paid leave, accumulated leave, gratuity, provident fund and annual statutory bonus.

The Financial Institution applies NAS 19 – "Employee Benefits" in accounting of all employee benefits and recognizes the followings in its financial statements:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the Financial Institution consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Explanatory information on personnel expense is stated in Note 4.36.

3.15.1. Short term employee benefits

These are employee benefits which fall due wholly within twelve months after the end of the period in which the employees render the related service. This includes salary, allowances, medical insurance, statutory bonus to employees, etc. These are measured on an undiscounted basis and are charged to profit or loss in the period the services are received. Prepaid benefits on loans advanced to employees at below-market interest rate are amortized over the full period of the loan. Financial Institution has not advanced any loan to employees at below market interest rate.

3.15.2. Defined contribution plan (DCP)

DCPs are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The Financial Institution has one DCP in the form of 'Provident Fund'.

Contributions by the Financial Institution to a DCP in proportion to the services rendered by its employees are recognized as incurred in profit or loss in the same period. If there stands any payable to the DCP at the reporting date, a corresponding liability is also recognized in the SoFP.

3.15.3. Defined benefit plans (DBP)

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Financial Institution has one DBP in the form of 'Gratuity'.

3.15.3.1. Description of DBP – Gratuity

An actuarial valuation is not carried out considering the small organization structure and hence actuarial gains or losses are not recognized. Instead the gratuity liability is fully funded to the corresponding DBP to the extent of gratuity entitlement earned by the employees in the same period. Employer's contribution to DBP is recognized as gratuity expense in profit or loss.

3.15.4. Other long term employee benefits

The Financial Institution has recognized accumulated leave liability, in respect of accrued leave which is expected to be utilized by employees in periods beyond one year from the reporting date, as other long term employee benefits.

Abhishya

3.15.5. Terminal benefits

Termination benefits are expensed at the earlier of when the Financial Institution can no longer withdraw the offer of those benefits and when the Financial Institution recognizes costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted. The Financial Institution does not have any terminal benefit plan for the reporting period.

3.16. Leases

None

3.17. Foreign Currency translation

None

3.18. Financial guarantee and loan commitment

None

3.19. Share capital and reserves

Ordinary shares in the Financial Institution are recognized at the amount paid per ordinary share. Financial Institution's shares are listed at Nepal Stock Exchange Ltd. The holders of ordinary shares are entitled to one vote per share at general meetings of the Financial Institution and are entitled to receive the annual dividend payments. The Financial Institution does not have any other form of share capital (preference shares, convertible instruments, share based payments, etc.) apart from the ordinary shares.

There are a number of statutory and non-statutory reserve headings maintained by the Financial Institution in order to comply with regulatory framework and other operational requirements. The various reserve headings are explained hereinafter:

3.19.1. General reserve

This is a statutory reserve and is a compliance requirement of NRB directive no. 4/75 and stipulations of AFIA. The Financial Institution is required to appropriate a minimum 20% of current year's net profit into this heading each year until it becomes double of paid up capital and then after a minimum 10% of profit each year. This reserve is not available for distribution to shareholders in any form and requires specific approval of the central bank for any transfers from this heading. The Financial Institution has consistently appropriated the required amount from each year's profit into this heading. There is no such statutory requirement for the subsidiary.

3.19.2. Exchange equalization reserve

There is no such statutory requirement for the Financial Institution.

3.19.3. Fair value reserve

This is a non-statutory reserve and is a requirement in the application of accounting policy for financial assets. NFRS 9 requires that cumulative net change in the fair value of financial assets measured at FVTOCI is recognized under fair value reserve heading until the fair valued asset is de-recognized. Any realized fair value changes upon disposal of the re-valued asset is reclassified from this reserve heading to retained earnings.

3.19.4. Asset revaluation reserve

This is a non-statutory reserve and is a requirement in the application of accounting policy for non-financial assets such as property, equipment, investment property and intangible assets that are measured following a revaluation model. Revaluation reserves often serve as a cushion against unexpected losses but may not be fully available to absorb unexpected losses due to the subsequent deterioration in market values and tax consequences of revaluation. The Financial Institution does not have any amount to present under asset revaluation reserve.

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3.19.5. Special reserve

This is a statutory reserve and is a compliance requirement of NRB Circular 12/072/73. The Financial Institution is required to appropriate an amount equivalent to 100% of capitalized portion of interest income on borrowing accounts where credit facility was rescheduled or restructured, following the after effects of the great earthquake that struck the nation in April 2015.Fund in this account can be reclassified to retained earnings upon full and final repayment of the credit facility.

3.19.6. Corporate social responsibility fund

This is a statutory reserve and is a compliance requirement of NRB Circular 11/073/74. The Financial Institution is required to appropriate an amount equivalent to 1% of net profit into this fund annually. The fund is created towards funding the Financial Institution's corporate social responsibility expenditure during the subsequent year. Balance in this fund is directly reclassified to retained earnings in the subsequent year to the extent of payments made under corporate social responsibility activities. The financial Institution has not done any activities in respect of corporate social responsibility during the year. Hence amount of reserve is accumulated at the end of this year.

3.19.7. Investment adjustment reserve

This is a statutory reserve heading and is a compliance requirement of NRB directive no.4/075 and 8/075. The Financial Institution is required to maintain balance in this reserve heading which is calculated at fixed percentages of the cost of equity investments that are not held for trading. Changes in this reserve requirement are reclassified to retained earnings.

3.19.8. Actuarial gain / loss reserve

This is a non-statutory reserve and is a requirement in the application of accounting policy for employee benefits. NAS 19 requires that actuarial gain or loss resultant of the change in actuarial assumptions used to value defined benefit obligations be presented under this reserve heading. Any change in this reserve heading is recognized through other comprehensive income and is not an appropriation of net profit.

3.19.9. Personnel Training Reserve

The financial institution is required to incur minimum 3% of total personnel cost for personnel training under Point No. 6 of NRB Directive No. 6/075. It has neither incurred any personnel training cost nor created any personnel training reserve during the year.

3.20. Earnings per share including diluted

The Financial Institution calculates basic and diluted Earnings Per Share (EPS) data for its ordinary shares as required under Nepal Accounting Standards - NAS 33 on "Earnings Per Share". Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Financial Institution by the weighted average number of ordinary shares outstanding during the reported period. Diluted EPS is calculated by adjusting the profit or loss that is attributable to the ordinary shareholders of the Financial Institution and the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares, such as share options granted to employees and hybrid capital instruments.

The Financial Institution does not hold any dilutive potential ordinary shares, and as such the Basic EPS is also the Diluted EPS of the Financial Institution.

3.21. Segment reporting

The Financial Institution discloses information on operating segments to enable users of financial statements to evaluate the nature and financial effects of the Financial Institution's business activities and that of the economic environment in which the Financial Institution operates. Detail information on the Financial Institution's operating segment is presented in Note 5.4.

3.22. Impairment of Non-Financial Assets

The Financial Institution reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there exists any indication of impairment. Where any indication of impairment exists, the Financial Institution makes an estimation of the asset's recoverable amount.

CHARTERED ACCOUNTANTS

The 'recoverable amount' of an asset is the greater of its 'Value in Use' and its 'Fair Value' less costs to sell. In determining the 'Value in use', future cash flow estimates are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining 'Fair Value' less cost to sell, an appropriate valuation model is used.

An impairment loss is recognized in the profit or loss if the carrying amount of an asset exceeds the estimated recoverable amount from that asset. The impairment loss is recognized through expense charge in profit or loss with a corresponding write down in the carrying value of the asset. Conversely, subsequent reversal of impairment charge is also recognized when a subsequent assessment of the asset's recoverable amount results in a reduction in previously recognized impairment loss for that asset.

3.23. Statement of cash flows

The Financial Institution has reported its cash flow statement applying the 'Direct Method' in accordance with NAS 07 – "Statement of Cash Flows". Application of the direct method in presenting cash flow statement discloses major classes of gross cash receipts and gross cash payments, thereby provides information which may be useful in estimating future cash flows of an entity.

'Cash and Cash Equivalents', as referred to in the statement of cash flows are the same as presented on the face of the consolidated statement of financial position. 'Cash Flows' are inflows and outflows of cash and cash equivalents.

The statement of cash flows reports cash flows during the period classified by operating, investing and financing activities as defined hereunder:

- Operating Activities: are the principal revenue generating activities of the reporting entity and other activities that are not classified as investing or financing activities.
- Investing Activities: are the acquisition and disposal of long-term assets and other long term investments.
- Financing Activities: are activities that result in changes in the size and composition of the contributed equity and borrowed capital of the Financial Institution.

Chartered Accountants

4.1

Cash and Cash Equivalent

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Cash in Hand	22,142,275	12,551,814	8,636,951
Balances with BFIs	26,996,523	28,251,821	27,299,722
Money at call and short notice			
Other			
Total	49,138,798	40,803,634	35,936,674

4.2

Due from Nepal Rastra Bank

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Statutory balances with NRB			
Securities purchased under resale agreement			
Other deposit and receivable from NRB			
Total	-	-	-

4.3

Placements with Banks and Financial Instutions

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Placement with domestic B/FIs			
Placement with foreign B/FIs			
Less: Allowances for impairment			
Total	-	-	-

4.4

Derivative financial instruments

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Held for trading			
Interest rate swap			
Currency swap			
Forward exchange contract			
Others			
Held for risk management			
Interest rate swap			
Currency swap			
Forward exchange contract			
Others			
Total	-	-	-

4.5

Other trading assets

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Treasury bills			
Government bonds			
NRB bonds			
Domestic corporate bonds			
Equities			
Other			
Total	-	-	-
Pledged			
Not pledged			

4.6

Loans and advances to BFIs

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Loans to microfinance institutions			
Other			
Less: Allowances for impairment			
Total	-	-	-

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SANJAY CHAUDHARY & ASSOCIATES CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited
Notes to Financial Statements
For the year ended 31 Asar 2076 (July 16, 2019)

4.6.1 Allowances for impairment

Balance at Sawan 1	-	-	
Impairment losss for the year:			
Charge for the year	-	-	-
Recoveries/reversal	-	-	-
Amount written off	-	-	-
Balance at Asar end	-	-	-

4.7

Loans and advances to customers

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Loans and Advances measured at Amortized Cost	226,747,436	203,374,207	175,680,058
Less: Impairment Allowances	(6,387,555)	(9,368,275)	(8,423,959)
Collective impairment	(5,501,845)	(3,359,864)	(2,194,168)
Individual Impairment	(885,710)	(6,008,411)	(6,229,791)
Net Amount	220,359,881	194,005,932	167,256,099
Loans and Advances measured at FVTPL	-	-	
Total	220,359,881	194,005,932	167,256,099

4.7.1: Analysis of Loans and Advances - By Product

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Product			
Term loans			
Overdraft			
Trust receipt/Import loans			
Demand and other working capital Loans	-	-	-
Personal residential loans	38,733,785	34,435,747	24,111,533
Real estate loans			
Margin lending loans			
Hire purchase loans	112,749	2,646,875	2,669,987
Deprived sector loans	14,155,612	9,374,440	7,989,423
Bills purchased			
Staffs loans	4,294,208	3,914,008	3,090,508
Other	166,472,052	146,663,909	134,260,415
Sub-Total	223,768,406	197,035,579	172,121,866
Interest receivable	2,979,030	6,338,628	3,558,192
Grand Total	226,747,436	203,374,207	175,680,058

4.7.2: Analysis of loans and advances - By Currency

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Nepalese Rupee	226,747,436	203,374,207	175,680,058
Indian Rupee	-	-	-
United State Dollar			
Great Britain Pound			
Euro,			
Japanese Yen			
Chinese Yuan			
Other			
Total	226,747,436	203,374,207	175,680,058

4.7.3: Analysis of Loans and Advances - By Collateral

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Secured			
Movable/Immovable Assets	217,344,390	196,485,082	162,764,494
Gold and silver			
Guarantee of domestic B/Fis			
Government guarantee			
Guarantee of international rated bank			
Collateral of export document			
Collateral of fixed deposit receipt	9,403,046	6,889,125	12,915,563
Collateral of Government securities			
Counter guarantee			
Personal guarantee			
Other collateral	-	-	-
Subtotal	226,747,436	203,374,207	175,680,058
Unsecured	-	-	-
Grand Total	226,747,436	203,374,207	175,680,058

SANJAY CHAUDHARY & ASSOCIATES
CHARTERED ACCOUNTANTS

4.7.4 Allowances for Impairment

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Specific allowances for impairment			
Balance at Sawan 1	-	-	
Impairment loss for the year:	-	-	
Charge for the year	-	-	
Recoveries/reversal during the year	-	-	-
Write-offs			
Exchange rate variance on foreign currency impairment			
Other movement			
Balance at Asar end	-	-	-
Collective allowances for impairment			
Balance at Sawan 1	9,368,275	8,423,959	-
Impairment loss for the year	(2,980,720)	944,316	-
Charge/(reversal) for the year	(2,980,720)	944,316	-
Exchange rate variance on foreign currency impairment			
Other movement			
Balance at Asar end	6,387,555	9,368,275	8,423,959
Total Allowances for Impairment	6,387,555	9,368,275	8,423,959

Investment Securities 4.8

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Investment securities measured at amortized cost			
Investment in equity measured at FVTOCI			
Nepal clearing House Ltd	100,000	100,000	100,000
CIB	94,500	94,500	94,500
Total	194,500	194,500	194,500

4.8.1: Investment Securities measured at Amortized Cost

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Debt Securities			
Government bonds			
Government treasury bills			
Nepal Rastra Bank bonds			
Nepal Rastra Bank deposits instruments			
Other	194,500	194,500	194,500
Less: Specific Allowances for impairment			
Total	194,500	194,500	194,500

4.8.2: Investment in Equity measured at fair value through other comprehensive income

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Equity Instruments			
Quoted Equity Securities	-		
Unquoted Equity Securities			
Total	-	-	-

4.8.3: Information relating to investment in equities

	2076 Asar 31		2075 Asar 32		2074 Shrawan 01	
	cost	Fair value	cost	Fair value	cost	Fair value
Investment in quoted equity						
.... Ltd.						
.... Shares of Rs....... each						
.... Ltd.						
.... Shares of Rs....... each						
Investment in unquoted equity						
Ltd						
Shares of Rs ...... each						
Ltd						
Shares of Rs. ...... each						
Total		-		-		-

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Current tax assets 4.9

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Current tax assets			
Current year income tax assets	2,100,000	1,202,073	1,337,289
Tax assets of prior periods	-	-	-
Current tax liabilities			
Current year income tax liabilities	2,708,292	2,712,190	1,520,223
Tax liabilities of prior periods	-	-	-
Total	(608,292)	(1,510,116)	(182,934)

Investment in Subsidiaries 4.10

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Investment in quoted subsidiaries	-	-	-
Investment in unquoted subsidiaries			-
Total Investment	-		-
Less: Impairment allowances	-	-	-
Net carrying amount	-		

4.10.1: Investment in quoted subsidiaries

	2076 Asar 31		2075 Asar 32		2074 Shrawan 01	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
.... Ltd.						
.... Shares of Rs......... each						
.... Ltd						
.... Shares of Rs......... each						
Total						

SANJAY CHAUDHARY & ASSOCIATES CHARTERED ACCOUNTANTS

4.10.2: Investment in unquoted subsidiaries

	2076 Asar 31		2075 Asar 32		2074 Shrawan 01	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
.... Ltd.						
.... Shares of Rs........ each						
.... Ltd						
.... Shares of Rs........ each						
Total						

4.10.3: Information relating to subsidiaries of the Bank

	Percentage of ownership held by the Bank		
	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
.... Ltd.			
.... Ltd.			
.... Ltd.			
.... Ltd.			

	2076 Asar 31		
	....Ltd	....Ltd	....Ltd
Equity interest held by NCI (%)			
Profit/(loss) allocated during the year			
Accumulated balances of NCI as on Asar end 2076			
Dividend paid to NCI			

	2075 Asar 32	2074 Shrawan 01
	...... Ltd	........Ltd
Equity interest held by NCI (%)		
Profit/(loss) allocated during the year		
Accumulated balances of NCI as on Asar end 2075		
Dividend paid to NCI		

Investment in Associates 4.11

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Investment in quoted associates	-	-	-
Investment in unquoted associates	-	-	-
Total Investment	-	-	-
Less: Impairment Allowances	-	-	-
Net Carrying Amount	-	-	-

4.11.1: Investment in quoted associates

			2075 Asar 32		2074 Asar 31	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
.... Ltd.						
Shares of Rs ..... each						
.... Ltd.						
Shares of Rs. ..... each						
Total						

4.11.2: Investment in unquoted associates

	2076 Asar 31		2075 Asar 32		2074 Asar 31	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
.... Ltd.						
Shares of Rs ..... each						
.... Ltd						
Shares of Rs. ..... each						
Total						

4.11.3: Information relating to associates of the Bank

	Percentage of Ownership held by Bank		
	2076 Asar 31	2075 Asar 32	2074 Asar 31
.... Ltd.			
.... Ltd.			
.... Ltd.			
.... Ltd.			

4.11.4: Equity value of associates

	2076 Asar 31	2075 Asar 32	2074 Asar 31
.... Ltd.			
.... Ltd.			
Total			

Investment properties 4.12

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Investment properties measured at fair value			
Balance as on Shrwawan 01,	-	-	-
Addition/disposal during the year	-	-	-
Net changes in fair value during the year	-	-	-
Adjustment/transfer	-	-	-
Net amount	-	-	-
Investment properties measured at cost			
Balance as on Shrwawan 01,	664,541	664,541	664,541
Addition/disposal during the year	5,647,808	-	-
Adjustment/transfer	-	-	-
Accumulated depreciation			
Accumulated impairment loss	-	-	-
Net amount	6,312,349	664,541	664,541
Total	6,312,349	664,541	664,541

Other Assets 4.16

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Assets held for sale			
Bills receivable			
Accounts Receivable	2,107,216	768,150	278,623
Accrued Income	-	-	-
Prepayments and Deposits	-	191,209	239,011
Income tax deposit			
Deferred employee expenditure			
Other	29,873,538	31,205,825	13,927,903
Total	31,980,754	32,165,184	14,445,537

Due to Banks and Financial Institutions 4.17

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Money Market Deposits			
Interbank borrowing			
Other deposits from BFIs			
Settlement and clearing accounts			
Other deposits from BFIs			
Total	-	-	-

Due to Nepal Rastra Bank 4.18

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Refinance from NRB	-	-	-
Standing Liquidity Facility	-	-	-
Lender of last report facility from NRB			
Securities sold under repurchase agreement			
Other payable to NRB			
Total	-	-	-

SANJAY CHAUDHARY & ASSOCIATES
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Property and Equipment

4.13

Particulars	Land	Building	Leasehold Properties	Computer & Accessories	Vehicles	Furniture & Fixtures	Machinery	Equipment & others	Total
Cost									
As on Shrawan 01, 2074	600,000	6,169,479	-	-	219,330	-	996,039	1,108,332	9,093,179.15
Addition during the year			-	-	-	-	-	-	-
Acquisition							105,500	22,500	128,000.00
Revaluation	23,872,950								23,872,950
Capitalization									-
Disposal during the year	-	-	-		-	-		-	-
Balance as on Asar end 2075	24,472,950	6,169,479	-	-	219,330	-	1,101,539	1,130,832	33,094,129
Addition during the Year		-	-	-	-	-	-	-	-
Acquisition								11,000	11,000.00
Capitalization									-
Disposal during the year			-	-	-	-		-	-
Adjustment/ Revaluation									
Balance as on Asar end 2076	24,472,950	6,169,479	-	-	219,330	-	1,101,539	1,141,832	33,105,129
Depreciation and Impairment									
As on Shrawan 01,2074	-	1,037,420	-	-	205,972	-	473,503	396,374	2,113,268.95
Transfer to Reserve	-	-	-	-	1,730	-	-	17,210	18,939.45
Depreciation charge for the year		118,657	-	-	1,220	-	75,515	93,326	288,718.47
Impairment for the year									-
Disposals		-	-		-	-			-
Adjustment									
As on Asar end 2075	-	1,156,078	-	-	208,922	-	549,018	506,909	2,420,927
Impairment for the year									
Depreciation charge for the year		118,657	-	-	-	-	78,576	83,066	280,299
Disposals		-	-	-	-	-	-		-
Adjustment									
As on Asar end 2076	-	1,274,735	-	-	208,922	-	627,594	589,975	2,701,226
Capital Work in Progress Net book value		-							-
As on Asar end 2074	600,000	5,132,058	-	-	11,628	-	522,536	694,749	6,960,971
As on Asar end 2075	24,472,950	5,013,401	-	-	10,408	-	552,521	623,923	30,673,202
As on Asar end 2076	24,472,950	4,894,744	-	-	10,408	-	473,945	551,857	30,403,903

SANJAY CHAUDHARY & ASSOCIATES
CHARTERED ACCOUNTANTS

urpose Finance Company Limited
to Financial Statements
e year ended 31 Asar 2076 (July 16, 2019)

ill and Intangible Assets

4.14

ulars	Goodwill	Software		Other	Total Asar end
		Purchased	Developed		
Shrawan 01,2074		-			-
during the year		-			-
sition					-
alization					-
during the year		-			-
ent/ Revaluation					
as on Asar end 2075		-	-	-	-
during the Year		-			-
sition					-
talization					-
during the year		-			-
ent/ Revaluation					
as on Asar end 2076		-	-	-	-
sation and Impairment					
Shrawan 01,2074		-			-
sation charge for the year		-			-
ment for the year					-
sals		-			-
ment					
Asar end 2075		-	-	-	-
tion charge for the year		-			
ment for the year		-			
sals		-			-
ment					
on Asar end 2076		-	-	-	-
tal Work in Progress		-			-
Book Value					
Asar end 2074		-			-
Asar end 2075		-			-
Asar end 2076		-	-	-	-

CHAUDHARY ASSOCIATES CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited

Notes to Financial Statements

For the year ended 31 Asar 2076 (July 16, 2019)

4.15

Deferred Tax

	Previous FY 2074-75		
	Deferred Tax Assets	Deferred Tax Liabilities	Net Deferred Tax Assets /(Liabilities)
Deferred tax on temporary differences on following items			
Loans and Advances to B/Fis			
Loans and Advances to Customers	-	(937,193)	(937,193)
Investment properties			
Investment securities			
Property & equipment	363,776	-	363,776
Employees defined benefit plan	467,994	-	467,994
Lease liabilities			
Provisions			
Other Temporary Differences	-	-	-
Deferred tax on temporary differences	831,770	(937,193)	(105,423)
Deferred tax on carry forward of unused tax losses			-
Deferred tax due to changes in tax rate			-
Net Deferred tax asset/ (liabilities) as on year end of 2075			(105,423)
Deferred tax (asset)/ liabilities as on Shrawan 01,2074			1,033,212
Origination/(Reversal) during the year			(927,789)
Deferred tax expense/ (income) recognized in profit or loss			(927,789)
Deferred tax expense/ (income) recognized in other comprehensive income			-
Deferred tax expense/ (income) recognized directly in equity			

CHAUDHARY & ASSOCIATES
CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited

Notes to Financial Statements

For the year ended 31 Asar 2076 (July 16, 2019)

Deferred Tax

4.15

Particulars	Deferred Tax Assets	Deferred Tax Liabilities	Current FY 2075-76 Net Deferred Tax Assets /(Liabilities)
Deferred tax on temporary differences on following items			
Loans and Advances to B/Fis			
Loans and Advances to Customers			
Investment properties	-	-	
Investment securities			
Property and Equipment			
Employees' Defined Benefit Plan	425,562		425,562
Lease liabilities	510,954		510,954
Provisions			
Other Temporary Differences	-		
Deferred tax on temporary differences	936,516	-	936,516
Deferred tax on carry forward of unused tax losses			-
Deferred tax due to changes in tax rate			-
Net Deferred tax asset/ (liabilities) as on year end of 2076			936,516
Deferred tax (asset)/ liabilities as on Shrawan 01, 2075			(105,423)
Origination/(Reversal) during the year			(1,041,939)
Deferred tax expense/ (income) recognized in profit or loss			(1,041,939)
Deferred tax expense/ (income) recognized in other comprehensive income			-
Deferred tax expense/ (income) recognized directly in equity			

SANJAY CHAUDHARY & ASSOCIATES CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited
Notes to Financial Statements
For the year ended 31 Asar 2076 (July 16, 2019)

Derivative Financial Instruments 4.19

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Held for Trading			
Interest Rate Swap		-	-
Currency swap			
Forward exchange contract			
Other			
Held for Trading			
Interest Rate Swap			
Currency swap			
Forward exchange contract			
Other			
Total	-	-	-

Deposits from customers 4.20

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Institutional customers			
Term deposits	4,841,500	5,141,500	3,792,000
Call deposits			
Current deposits			
Other			
Individual customers			
Term Deposits	131,274,129	105,186,457	93,603,222
Saving Deposits	77,082,830	79,353,520	57,539,653
Current deposits			
Other			
Total	213,198,459	189,681,477	154,934,875

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SANJAY CHAUDHARY & ASSOCIATES
CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited
Notes to Financial Statements
For the year ended 31 Asar 2076 (July 16, 2019)

4.20.1: Currency wise analysis of deposit from customers

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Nepalese rupee	213,198,459	189,681,477	154,934,875
Indian rupee			
United State dollar			
Great Britian pound			
Euro			
Japanese yen			
Chinese yen			
Other			
Total	213,198,459	189,681,477	154,934,875

Borrowing 4.21

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Domestic Borrowing			
Nepal Government	-	-	-
Other Institutions		-	-
Other	-	-	-
Sub Total	-	-	-
Foreign Borrowing			
Foreign Bank and Financial Institutions			
Multilateral Development Banks			
Other Institutions			
Sub Total			
Total	-	-	-

Provisions 4.22

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Provisions for redundancy			
Provisions for restructuring			
Pending legal issues and tax litigation	-	0	-
Onerous Contracts	-	-	-
Other			
	-	-	-

4.22.1: Movement in Provision

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Balance at Shrawan 01 (start of year)	-	-	-
Provisions made during the year	-	-	-
Provisions used during the year	-	-	-
Provisions reversed during the year	-	-	-
Unwind of Discount	-	-	-
Balance at Asar end (end of year)	-	-	-

Other liabilities 4.23

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Liabilities for emloyees defined benefit obligations	3,346,196	2,507,023	2,284,376
Liabilities for long service leave	1,651,487	1,651,487	1,252,364
Short-term employee benefits			
Bills payable			
Creditors and accruals	869,952	565,003	411,564
Interest payable on deposits	15,192,360	6,814,662	2,959,249
Interest payable on borrowing			
Liabilities on deferred grant income			
Unpaid Dividend			
Liabilities under Finance Lease			
Employee bonus payable	2,186,103	1,182,973	1,668,190
Other Liabilities	469,125	861,529	954,644
Total	23,715,222	13,582,706	9,530,386

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Notes to Financial Statements
For the year ended 31 Asar 2076 (July 16, 2019)

4.23.1: Defined Benefit Obligations

The amounts recognised in the statements of financials positions are as follows :

	2076 Asar 31	2075 Asar 32
Present value of unfunded obligations		
Present value of funded obligations		
Total present value of obligations		
Fair value of plan assets		
Present value of net obligations		
Recognised liability for defined benefit obligations	-	-

4.23.2: Plan Assets

Plan assets comprise of the following:

	2076 Asar 31	2075 Asar 32
Equity securities		
Government bonds		
Bank deposit		
Other		
Total	-	-
Actual return on plan assets	-	-

4.23.3: Movement in the present value of defined benefit obligations

	2076 Asar 31	2075 Asar 32
Defined benefit obligations at Sawan 1		
Actuarial losses		
Benefits paid by the plan		
Current service costs and interest		
Defined benefit obligations at Asar end	-	-

CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited
Notes to Financial Statements
For the year ended 31 Asar 2076 (July 16, 2019)

4.23.4: Movement in the fair value of plan assets

	2076 Asar 31	2075 Asar 32
Fair value of plan assets at Sawan 1		
Contributions paid into the plan		
Benefits paid during the year		
Actuarial (losses) gains		
Expected return on plan assets		
Fair value of plan assets at Asar end	-	-

4.23.5: Amount recognised in profit or loss

	2076 Asar 31	2075 Asar 32
Current service costs		
Interest on obligation		
Expected return on plan assets		
Total	-	-

4.23.6: Amount recognised in other comprehensive income

	2076 Asar 31	2075 Asar 32
Acturial (gain)/loss		
Total	-	-

4.23.7: Actuarial assumptions

	2076 Asar 31	2075 Asar 32
Discount rate		
Expected return on plan asset		
Future salary increase		
Withdrawal rate		

SANJAY CHAUDHARY & ASSOCIATES CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited
Notes to Financial Statements
For the year ended 31 Asar 2076 (July 16, 2019)

4.24

Debt securities issued

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Debt securities issued designated as at fair value through profit or loss			
Debt securities issued at amortised cost	-	-	-
Total			

4.25

Subordinated Liabilities

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Redeemable preference shares			
Irredemable cumulative preference shares (liabilities component)		-	-
Other	-	-	-
Total			

4.26

Share capital

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Ordinary shares	41,473,600	41,473,600	41,473,600
Convertible preference shares (equity component only)			
Irredeemable preference shares (equity component only)			
Perpetual debt (equity component only)			
Total	41,473,600	41,473,600	41,473,600

4.26.1: Ordinary Shares

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Authorized Capital	100,000,000	100,000,000	100,000,000
1,000,000 Ordinary Shares @ NPR 100 each			
Issued Capital	41,473,600	41,473,600	41,473,600
414,736 Ordinary Shares @ NPR 100 each			
Subscribed and paid up capital	41,473,600	41,473,600	41,473,600
414,736 Ordinary Shares @ NPR 100 each			
Total	41,473,600	41,473,600	41,473,600

4.26.2: Ordinary share ownership

	2076 Asar 31		2075 Asar 32	
	Percent	Amount	Percent	Amount
Domestic ownership	100	41,473,600	100	41,473,600
Nepal Government				
"A" class licensed institutions				
Other licensed institutions				
Other institutions				
Public	40	16,589,440	40	16,589,440
Other	60	24,884,160	60	24,884,160
Foreign ownership				
Total	100	41,473,600	100	41,473,600

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SANJAY CHAUDHARY & ASSOCIATES CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited

Notes to Financial Statements

For the year ended 31 Asar 2076 (July 16, 2019)

Details of more than 0.5% ordinary share ownership **4.26.3**

Name	Shares	Amount	%
Ajit Kumar Mishra	37336	3733600	9.00%
Arbind Kumar Batsya	60561	6056100	14.60%
Jagdamba Devi Jha	21298	2129800	5.14%
Phul Mishra	7772	777200	1.87%
Bina Mishra	34431	3443100	8.30%
Amar Kant Jha	49738	4973800	12.00%
Rajnish Kumar Singh	8295	829500	2.00%
Dip Narayan Shah	6636	663600	1.60%
Bishal Pandit	6636	663600	1.60%
Menaka Singh	6636	663600	1.60%
Nabaneet Mishra	6636	663600	1.60%
Total	**245,975**	**24,597,500**	**59.31%**

SANJAY CHAUDHARY & ASSOCIATES
CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited

Notes to Financial Statements

For the year ended 31 Asar 2076 (July 16, 2019)

Reserves 4.27

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Statutory general reserve	10,101,321	8,465,830	7,072,827
Exchange equalization reserve			
Corporate social responsibility reserve	255,527	173,752	73,978
Capital redemption reserve	-	-	-
Regulatory reserve	9,612,968	-	-
Investment adjustment reserve	600,000	600,000	600,000
Capital reserve			
Assets Revaluation reserve	23,872,950	23,872,950	-
Fair value reserve			
Divident equalization reserve			
Acturial gain	67,642	67,642	67,642
Special reserve			
Other reserve			
Total	44,510,408	33,180,173	7,814,447

Contingent liabilities and commitments 4.28

	2076 Asar 31	2075 Asar 32	2074 Shrawan 01
Contingent liabilities	-	-	-
Undrawn and undisbursed facilities			
Capital commitment			
Lease Commitment			
Litigation	-	-	-
Total	-	-	-

SANJAY CHAUDHARY & ASSOCIATES
CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited
Notes to Financial Statements
For the year ended 31 Asar 2076 (July 16, 2019)

Interest Income 4.29

	2076 Asar 31	2075 Asar 32
Cash and cash equivalent		
Due from Nepal Rastra Bank		
Placement with bank and financial insitutions		
Loans and advances to banks and financial institutions		
Loans and advances to customers	38,917,348	37,926,968
Other Interest Income	-	-
Total interest income	38,917,348	37,926,968

Interest Expenses 4.30

	2076 Asar 31	2075 Asar 32
Due to bank and financial institutions		
Due to Nepal Rastra Bank		
Deposits from customers	26,545,992	19,065,142
Borrowing	-	-
Debt securities issued		
Subordinated liabilities		
Other		
Total interest expense	26,545,992	19,065,142

Fees and Commission Income 4.31

	2076 Asar 31	2075 Asar 32
Loan administration fees	2516290.21	1701647.27
Service fees		
Consortium fees		
Commitment fees		
DD/TT/Swift fees		
Credit card/ATM issuance and renewal fees		
Prepayment and swap fees		
Investment banking fees		
Asset management fees		
Brokerage fees		
Remittance fees	-	-
Commission on letter of credit		
Commission on guarantee contracts issued		
Commission on share underwriting/issues		
Locker rental	-	-
Other fees and commision income	-	-
Total Fees and Commission Income	2,516,290	1,701,647

Fees and Commission Expense 4.32

	Bank	
Particulars	2076 Asar 31	2075 Asar 32
ATM management fees		
VISA/Master card fees		
Guarantee commission		
Brokerage		
DD/TT/Swift fees		
Remittance fees and commission		
Other fees and commission expense	0	0
Total Fees and Commission Expense	-	-

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CHAUDHARY ASSOCIATES CHARTERED ACCOUNTANTS

Net Trading income 4.33

	Bank	
	2076 Asar 31	2075 Asar 32
Changes in fair value of trading assets		
Gain/loss on disposal of trading assets		
Interest income on trading assets		
Dividend income on trading assets	-	-
Gain/loss foreign exchange transaction		
Other	0	0
Net trading income	-	-

Other Operating Income 4.34

	Bank	
	2076 Asar 31	2075 Asar 32
Foreign exchange revaluation gain		
Gain/Loss on sale of investment securities		
Fair value gain/loss on investment properties		
Dividend on equity instrument		
Gain/loss on sale of property and equipment		
Gain/loss on sale of investment property		
Operating lease income		
Gain/loss on sale of gold and silver		
Other	-	-
Total	-	-

Multipurpose Finance Company Limited
Notes to Financial Statements
For the year ended 31 Asar 2076 (July 16, 2019)

Impairment charge/(reversal) for loan and other losses 4.35

	Bank	
	2076 Asar 31	2075 Asar 32
Impairment charge/(reversal) on loan and advances to B/FIs		
Impairment charge/(reversal) on loan and advances to customers	(2,980,720)	944,316
Impairment charge/(reversal) on financial Investment		
Impairment charge/(reversal) on placement with bank and financial institutions		
Impairment charge/(reversal) on property and equipment		-
Impairment charge/(reversal) on goodwill and intangible assets		
Impairment charge/(reversal) on investment properties		
Total	(2,980,720)	944,316

Personnel Expenses 4.36

	Bank	
Particulars	2076 Asar 31	2075 Asar 32
Salary	2,953,724	2,682,341
Allowances	70,800	265,900
Gratuity Expense	143,200	257,882
Provident Fund	31,316	132,382
Uniform	-	-
Training and development expenses		
Leave encashment		
Medical		
Insurance		
Employees incentives		
Cash-settled share-based payments		
Pension expenses		
Finance expense under NFRSs		
Other expenses related to staff	404,801	482091.01
Subtotal	3,603,841	3,820,596
Employees Bonus	1,003,129	1,182,973
Grand total.	4,606,970	5,003,569

Other Operating Expense 4.37

	Bank	
	2076 Asar 31	2075 Asar 32
Directors' fee	-	-
Directors' expense	74,400	74,400
Auditors' remuneration	170,000	170,000
Other audit related expenses		
Professional and legal expense	153,000	13,000
Office administration expense	2,452,893	1,733,382
Operating lease expense		
Operating expense of investment properties		
Corporate social responsibility expense		
Onerous lease provisions		
Other Expenses	99513.6	506352.42
Total	2,949,806	2,497,134

Depreciation and Amortisation 4.38

	Bank	
	2076 Asar 31	2075 Asar 32
Depreciation on property and equipment	280,299	288,718
Depreciation on investment property	-	-
Amortization of intangible assets		
Total	280,299	288,718

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CHARTERED ACCOUNTANTS
SANJAY CHAUDHARY & ASSOCIATES

Multipurpose Finance Company Limited

Notes to Financial Statements

For the year ended 31 Asar 2076 (July 16, 2019)

Office Administration Expense **4.37.1**

	2076 Asar 31	2075 Asar 32
Electricity & Water	200,198	211,884
Repair & Maintenance	64,330	120,525
Insurance	149,707	-
Postage, Telex, Telephone & Fax	52,791	64,226
Travelling Allowances & Expenses	357,420	202,800
Entertainment	1,203,328	998,965
Bad Debts expenses	191,209	-
Printing & Stationery	95,358	56,800
Books & Periodicals	19,850	24,790
Advertisements and Business Promotions	118,700	53,392
Total	**2,452,893**	**1,733,382**

SANJAY CHAUDHARY & ASSOCIATES CHARTERED ACCOUNTANTS

Non Operating Income 4.39

	Bank	
	2076 Asar 31	2075 Asar 32
Recovery of loan written off		
Other income	-	-
Total	-	-

Non Operating Expenses 4.40

	Bank	
	2076 Asar 31	2075 Asar 32
Loan written off	0	0
Redundancy provision		
Expense of restructuring		
Other expense	0	0
Total	-	-

Income Tax Expenses 4.41

	Bank	
	2076 Asar 31	2075 Asar 32
Current tax expense		-
Current year	2,708,292	2,712,190
Adjustments for prior years	187,461	67,926
Deferred tax expense		-
Origination and reversal of temporary differences	(1,041,939)	(927,789)
Changes in tax rate		
Recognition of previously unrecognized tax losses		-
Total income tax expense	1,853,834	1,852,327

4.41.1: Reconciliation of tax expense and accounting profit

	Bank	
	2076 Asar 31	2075 Asar 32
Profit before tax stated in Statement of Profit or Loss	10,031,292	11,829,736
Adjustments for NFRS remeasurements excluded in current tax		
- incremental interest income on loans and advances (accrual accounting)	3,359,598	(2,780,436)
- reversal of loss provision on investment securities	-	265,852
Profit before tax prior to remeasurements required under NFRS	13,390,890	9,315,151
Add: Tax effect of expenses that are not deductible for tax purpose		
Donation	-	-
Gratuity Provision	143,200	257,882
Penalty	98,814	104
Loan loss provision	4,047,756	-
Capital nature expense charged on revenue	-	47,802
Depreciation charged as Company Act	280,299	
Assets Written Off	191,209	-
Repairs Disallowed as per IT Act (in excess of 7% of the block)	-	(61,853)
Less: Tax effect on exempt income		
Provision written back on Other Assets	-	-
Provision for non banking assets	(5,647,808)	
Excess Loan loss provision as per income tax act	(2,980,720)	(260,165)
Depreciation charged as per Income Tax	(495,001)	(258,288)
Gain on Sale of Fixed Assets	-	-
Taxable Income	9,027,639	9,040,633
Current Tax Expense @ 30% of taxable income	2,708,292	2,712,190
Previos year tax expenses	187,461	67,926
Deferred Tax Expense/ (Income)	(1,041,939)	(927,789)
Total income tax expense	1,853,834	1,852,327
Effective tax rate	30%	30%

SANJAY CHAUDHARY & ASSOCIATES
CHARTERED ACCOUNTANTS

Multipurpose Finance Company Limited
Statement of Distribtion of Profit or Loss
As on 31 Asar 2076 (July 16, 2019)
(As per NRB Regulations)

	2076 Asar 31	2075 Asar 32
Opening balance in retained earnings	18,973,497	10,488,867
Net profit or (loss) as per statement of profit or loss	**8,177,458**	**9,977,407**
Less: appropriations (-) / contributions (+):		
a. General reserve	(1,635,492)	(1,393,003)
b. Foregn exchange fluctuation fund		
c. Capital redemption reserve		
d. Corporate social responsibility fund	(81,775)	(99,774)
e. Employees' training fund\	-	-
f. Other	-	-
Profit or (loss) before regulatory adjustment	**25,433,688**	**18,973,497**
Regulatory adjustment :		
a. Interest receivable (-)/ previous accrued interest received (+)	(2,085,321)	-
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 (+)	(6,312,349)	-
e. Deferred tax assets recognised (-)/ reversal (+)	(936,516)	-
f. Goodwill recognised (-)/ impairment of Goodwill (+)	-	-
g. Bargain purchase gain recognised (-)/resersal (+)	-	-
h. Acturial loss recognised (-)/ reversal (+)	-	-
i. Decrease in depreciation expenses (-) / increase (+)	(278,782)	-
Distributable profit or (loss)	**15,820,720**	**18,973,497**

SANJAY CHAUDHARY & ASSOCIATES
CHARTERED ACCOUNTANTS

5. Disclosure and additional information

5.1. Risk management

Risk is an inherent feature of any business and it drives an entity towards income generation. Likewise, risk management objective of the Financial Institution is to strike balance between risk and return, and ensure optimum risk-adjusted return on capital. A reasonable level of return is essential for sustainability of the business. However, taking higher risk in search of higher earnings increases the risk of failure of business. Thus effective risk management is a must for sustainability of business. Towards this end the Financial Institution has implemented robust risk management architecture as well as policies and processes approved by the board of directors. These encompass independent identification, measurement and management of risks across various facets of banking operation.

The Financial Institution takes on the capital adequacy norms pursuant to the central bank's statutory provision under Basel requirements, like ICAAP, Risk Management Guidelines etc. The determinants to this end are the past experiences with the products, Financial Institution's own risk assessment culture and contingency management for unpredictable situations.

5.1.1. Credit Risk

Banking business in Nepal is exposed to Credit Risk to a much larger extent. It's business is also concentrated in its Credit Risk Exposure. Bulk of its earnings is generated from credit related business, be it in form of interest income or Commission income. Given the volatile economic environment that the Financial Institution operates in, the margin between performing loan and non-performing loan can often be very thin. Therefore it is always a major threat that any of the Financial Institution's credit customers may default.

Financial Institution has always placed Credit Risk Management in a high priority list. The Financial Institution has Credit Policy and Investment Policy in place which guides the do's and the don'ts in business generation. Any generation of risk assets and their impact on long term value generation is well deliberated in every credit proposals. Risks and returns are properly weighed and risk mitigating measures are explicitly spelled out.

The Financial Institution makes credit extension decision by assessing each business proposal thoroughly. It also ensures that the inherent credit risks that are associated with the business are addressed appropriately through coverage of better safety margin, additional collateral back up and lower exposure to keep the business at low leverage.

Within the Credit Risk Management, processes are well defined where checking, control and independence of the credit extension, risk assessment, review, monitoring and exposure accounting is fully complied with. All such actions and processes are properly recorded, reported and discussed. These reports on need basis and on a defined frequency are put to the oversight of Senior Management, Risk Management Committee and the Board.

5.1.2. Market Risk

Financial Institution ensures functioning of the jobs in line with the policies and procedures and suggests/recommends for necessary steps collectively to address the risk on interest rate movement etc.

Overall investment made and necessary analysis of the investments, including appropriate suggestions, are issued from Treasury which reviews the portfolio periodically. Treasury is independent and reports to Chief Risk Officer. Any credit impairment in the investment books are accounted for, for fair assessment of the portfolio. The Financial Institution assesses the open position on daily basis and calculates risk exposure for allocation of required capital in line with Basel provisions.

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A market is considered as active if transactions for assets or liabilities take place with sufficient frequency and volume to provide reliable pricing information on an arm's length basis. The Financial Institution measures fair value of an instrument at active market price without adjustment for factors such as transaction costs.

Level 2

Fair value measurements are derived based on observable inputs, which are either observed directly such as in terms of prices or observed indirectly such as in terms of factors that are derived from prices. Such observable inputs include:

- quoted prices for similar instruments in active markets;
- quoted prices for identical or similar instruments in inactive markets;
- financial instruments are valued using models where all significant inputs are observable.

If a market for a financial instrument is not active, then the Financial Institution establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Financial Institution, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Financial Institution calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value subsequently obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Level 3

Fair value measurements are derived using valuation techniques in which current market transactions or observable market data are not available. Under this, instruments are fair valued using valuation models which have been tested against prices or inputs to actual market transactions and make use of the Financial Institution's best estimate of the most appropriate model assumptions. Unobservable inputs have a significant effect on the instrument's value.

Valuation models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (day 1 profit or loss) is deferred and recognized only when the inputs become observable or on de- recognition of the instrument.

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Valuation techniques include, among others, applying Net Present Value and Discounted Cash Flow Models over similar instruments for which observable market prices exists and comparing the results.

Assumptions and inputs used in valuation models include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of counterparties involved where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Financial Institution assumes a third-party market participant would take them into account in a pricing transaction.

5.2 Capital management

Capital is crucial component in any business and even more so in case of Financial Institutions. Hence, capital is regulated so as to withstand the impact of adverse developments in its internal operations and its external operating environment. Similarly, the Financial Institution needs to maintain sufficient capital for business growth.

The Financial Institution has been able to generate and retain substantial earnings in order to ensure adequate capital formation, as required for its business growth.

As per the directive of Nepal Rastra Bank, minimum paid up capital requirements for finance companies is Rs. 400 Millions where as companies current paid up capital is Rs. 41.4 Millions only. Even though the Company has issued right shares from 2076-03-23 to 2076-05-09 it could not maintain the required capital and its remaining unsubscribed 1860721 shares of promoter group and 626557 shares of general people are in auction process.

5.2.2 Quantitative disclosures

5.2.2.1 Capital structure and capital adequacy

	Particulars	Amount in Rs,
	Tier 1 Capital (Core Capital) (CET1 +AT1)	
	Common Equity Tier 1 (CET 1)	
A	Paid up Equity Share Capital	41,473,600
B	Equity Share Premium	-
D	Statutory General Reserves	9,043,641
E	Retained Earnings	18,091,337
K	Other Free Reserve	667,642
L	Less: Goodwill	-
M	Less: Other Deductions	-
	Adjustments under Pillar II	
	Less: Shortfall in Provision (6.4 a 1)	-
	Less: Loans and Facilities extended to Related Parties and Restricted lending (6.4 a 2)	-
	Common Equity Tier 1 (CET 1)	69,276,220
A	Perpetual Non-Cumulative Preference Share Capital	-
B	Perpetual Debt Instruments	-

C	Stock Premium	-
	Additional Tier 1 (AT1)	-
	Tier 1 Capital (Core Capital) (CET1 +AT1)	69,276,220

	Particulars	Amount in Rs,
A	General loan loss provision	1,908,321
B	Investment Adjustment Reserve	-
C	Assets Revaluation Reserve	-
D	Other Reserves	-
	Supplementary Capital (Tier II)	71,184,542

- Detailed information about the Subordinated Term Debts with information on the outstanding amount, maturity, amount raised during the year and amount eligible to be reckoned as capital funds:

Qualifying Capital	Amount in Rs.
Core Capital (Tier 1 Capital)	69,276,220
Supplementary Capital (Tier II)	1,908,321
Total Capital Fund (Tier I and Tier II)	71,184,542

- Capital Adequacy Ratio

Capital Adequacy Ratios	%
Common Equity Tier 1 Ratio	22.57%
Core Capital Ratio - Tier I	22.57%
Total Capital Ratio - Tier I + Tier II	23.19%

5.2.2.2 Risk Exposure

- Risk weighted exposures for Credit Risk, Market Risk,and Operational Risk

RISK WEIGHTED EXPOSURES	Amount in Rs.
Risk Weighted Exposure for Credit Risk	283,222,851.67
Risk Weighted Exposure for Operational Risk	16,818,269.53
Risk Weighted Exposure for Market Risk	3,363,653.91
Add: 3% of the total RWE add by Supervisory Review	3,034,048
Add: 3% Capital Charge for Operational Risk	504,548
Total Risk Weighted Exposures (a+b+c)	306,943,371

- Risk weighted exposures under each 11 categories of Credit Risk

	Categories of Credit Risk	Risk Weighted Exposure
1	Claims on Government and Central Bank	
2	Claims on Other Financial Entities	
3	Claims on Banks	5,399,304.57
4	Claims on Domestic Corporates and Securities Firms	-
5	Claims on Regulatory Retail Portfolio	
6	Claims secured by residential properties	217,344,390.10
7	Claims secured by Commercial real estate	
8	Past due claims	

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9	High Risk claims	-
10	Other Assets	60,479,157.00
11	Off Balance Sheet Items	-
Total Credit Risk Weighted Exposure		283,222,851.67

- Total Risk Weighted Exposure calculation table

Risk Weighted Exposures	Amount in Rs. Financial Institution
Credit Risk Exposure	283,222,851.67
Operational Risk Exposure	16,818,269.53
Market Risk Exposure	3,363,653.91
Add: 3% of the total RWE add by Supervisory Review	3,034,048
Add: 3% Capital Charge for Operational Risk	504,548
Total Risk Weighted Exposures	306,943,371
Total Core Capital Fund	69,276,220
Total Capital Fund	71,184,542
Total Tier 1 Capital to Total Risk Weighted Exposures	22.57%
Total Capital Fund to Total Risk Weighted Exposure	23.19%

- Amount of Non-Performing Assets (both Gross and Net)

NPR In full figure

Non-Performing Loans	Gross Amount	Loss Provision	Net Amount
a Restructured and rescheduled	18,744,711.00	937,235.55	17,807,475.45
b Sub-Standard	7,398,116.00	1,849,529.00	5,548,587.00
c Doubtful	1,613,518.00	806,759.00	806,759.00
d Loss	885,709.63	885,709.63	-
Total	28,642,054.63	4,479,233.18	24,162,821.45

5.2.3 Compliance with external requirement

The Financial Institution is subject to compliance requirement under NRB Directive No.1/075 which stipulated a minimum Total Capital Adequacy Ratio (CAR) of 11.00%. The Financial Institution complied with this requirement at all times during the reporting period. Compliance position at the reporting date is presented hereunder:

Capital Parameter	Requirement	Financial Institution
Minimum Common Equity Capital Ratio	4.50%	16.68%
Capital Conservation Buffer	2.50%	5.96%
Minimum common equity plus capital conservation buffer	7.00%	22.64%
Minimum Tier 1 Capital (Excluding conservation buffer)	6.00%	22.57%
Minimum Total Capital Excluding conservation buffer)	8.50%	23.19%
Minimum Total Capital (including conservation buffer)	11.00%	29.15%
Leverage Ratio	4.00%	22.83%

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5.3 Classification of financial assets and financial liabilities

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortized cost. The summary of significant accounting policies describes how different classes of financial assets and financial liabilities are measured, and how income and expenses, including fair value gains and losses, are recognized.

The following tables provide a reconciliation of the carrying amounts of financial assets and financial liabilities as these are presented in the respective line items of consolidated statement of financial position and as per their classification in accordance with NFRS 9.

Financial Institution - at 16-Jul-2019

NPR full figure

	Measured at Fair Value		Measured at	
	FVTPL	FVTOCI	Amortized Cost	Total
Financial Assets :				
Cash and Cash Equivalents			49,138,798	49,138,798
Loans and Advances to Customers			220,359,881	220,359,881
Total Financial Assets			269,498,679	269,498,679
Financial Liabilities				
Deposits from Customers			213,198,459	213,198,459
Total Financial Liabilities			213,198,459	213,198,459

Financial Institution - at 16-Jul-2018

NPR full figure

	Measured at Fair Value		Measured at	
	FVTPL	FVTOCI	Amortized Cost	Total
Financial Assets :				
Cash and Cash Equivalents			40,803,634	40,803,634
Loans and Advances to Customers			194,005,932	194,005,932
Total Financial Assets			234,809,566	234,809,566
Financial Liabilities				
Deposits from Customers			189,681,477	189,681,477
Total Financial Liabilities			189,681,477	189,681,477

Financial Institution - at 15-Jul-2017

NPR full figure

	Measured at Fair Value		Measured at	
	FVTPL	FVTOCI	Amortized Cost	Total
Financial Assets :				
Cash and Cash Equivalents			35,936,674	35,936,674
Loans and Advances to Customers			167,256,099	167,256,099

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Total Financial Assets	203,192,773	203,192,773
Financial Liabilities		
Deposits from Customers	154,934,875	154,934,875
Total Financial Liabilities	154,934,875	154,934,875

5.4 Operating Segments

Financial Institution is providing service related to Financial Intermediation that is core business of deposit mobilisation and lending activities along with other auxiliary Financial Institutioning services only. Further Financial Institution is providing its services from one district only. Separate operating segments reporting is not relevant for the Financial Institution considering its scope of services and place of services.

5.5 Share options and share based payment

The Financial Institution did not have any share options or share-based payment transactions in the reporting period or the earliest period presented in this financial statements.

5.6 Contingent liabilities and commitment

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. The Financial Institution applies NAS 37 – "Provisions, Contingent Liabilities and Contingent Assets" in accounting of contingent liabilities and commitments.

To meet the financial needs of customers, the Financial Institution enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letter of credit and other undrawn commitments to lend. Guarantees, Letters of Credit and Acceptances under Letters of Credit commits the Financial Institution to make payments on behalf of customers in the event of a specific act, generally related to trade transactions and performance under contracts. They carry a similar credit risk to loans.

In the normal course of business, the Financial Institution makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not be recognized on reporting date, they do contain credit risk and are therefore a part of the overall risk profile of the Financial Institution. Accordingly they are disclosed unless remote.

Explanatory information on the Financial Institution's contingent liabilities and commitments are given inNote 4.28.

5.7 Related parties disclosures

In the ordinary course of its business operation the Financial Institution has conducted commercial transactions with parties who are defined as related parties in NAS 24 - 'Related Party Disclosures'. All those transaction were conducted on an arm's length basis except for loans to employees at below-market interest rate availed by Key Management Personnel (KMP) provided by the Financial Institution under schemes uniformly applicable to all employees.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

5.7.2 List of related parties

S. No.	Name of Related Party	Relationship
1.	Mrs. Phul Mishra	Chairman, Board of Directors
2.	Mrs. Arpana Kumari Mishra	Director
3.	Mr. Jay Prakash Thakur	Director
4	Mr. Shivahari Prasad Bhattarai	Director
5	Mr. Ajit Kumar Mishra	Managing Director
6	Mr. Panchananda Jha	Deputy General Manager

5.7.3 **Key Management Personnel (KMP)**

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly. The Board of Directors and Chief Executive Officer (CEO) of the Financial Institution are identified as KMP of the Financial Institution.

5.7.4 **Transactions with Board of Directors**

NPR

	2019	2018
Board meeting fees/allowances	74,400	74,400
Travel, accommodation and other board expenses		
Total	-	

All board of directors are non-executive directors. The directors are entitled to meeting fees on attending board and board committee meetings as well as monthly allowances to cover for expenses towards communication and periodicals.

5.7.5 **Transactions with Managing Director (Mr. Ajit Kumar Mishra)**

NPR

Particulars	2019	2018
Short Term Employee Benefits		
Gross Salary Payments	728,042.19	706,223.48
Other current benefits and payments		
Post employment benefits		-
Total		-

5.7.6 **Transactions with Deputy General Manager (Mr. Panchananda Jha)**

NPR

Particulars	2019	2018
Short Term Employee Benefits		
Gross Salary Payments	771,201.94	747,372.92
Other current benefits and payments		
Post-employment benefits		-
Total	-	-

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5.7.7 Transactions and agreements involving KMP and their Close Family Members (CFM)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Financial Institution. They may include KMP's spouse and children, children of the KMP's spouse and dependents of the KMP or of the KMP's spouse. CFM are related parties to the Financial *Institution and the Financial Institution.*

For the reported period there have been no payments or transactions with CFM of KMP except in the normal course of banking business, both for the Financial Institution and the Financial Institution.

5.8 Merger and acquisition

The Financial Institution has not entered into any merger and acquisition activities in the reporting period.

5.9 Additional disclosures of non-consolidated entities

The Financial Institution does not have any non-consolidated entities to report for the reporting period and in the comparative previous period.

5.10 Disclosure effect of transition from previous GAAP to NFRS

This space is for the following items that are prepared in excel file. Print out the excel sheets and include those in this space of the financial statements.

1. reconciliation statements prescribed in financial reporting format point 5.10 (NRB Unified directive no. 4/075 page 199 to page 203) including additional explanatory notes for each line items in all statements presented.

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5.10 Disclosure effect of transition from previous GAAP to NFRS

5.10.1. Reconciliation of equity

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Particulars	Explanatory Note	2074 Shrawan 01 (16-Jul-2017) (Date of Transition)	2075 Asar 32 (16-Jul-2018) (End of last period presented under previous GAAP)
Total equity under Previous GAAP		50,034,591	56,999,606
Adjustments under NFRSs:			
Revaluation of property & equipment	1	(18,938)	23,997,947
Deferred tax	2	384,947	738,820
Proposed Dividend	3	6,221,040	6,221,040
Income income not realized		2,490,734	5,271,170
Employee Bonus		-	(265,852)
Adjustment of investment properties		664,541	664,541
Other		-	
Total Adjustment to equity		9,742,324	36,627,666
Total Equity under NFRSs		59,776,915	93,627,272

Explanatory note:

1. Revaluation of property and equipment

Under previous GAAP, plant and machinary were depreciated using certain rate. Under NFRS, the bank assess the useful life of the plant and machinary and depreciating the same on SLM basis. The impact on equity has been explained below:

Particulars	(16-Jul-2017)	(16-Jul-2018)
Traferred to retained earnings (for plant and machinary used for useful life)	(18,938)	(18,938)
Excess depreciation charged under previous GAAP nor reversed	-	143,936
Revaluation of fixed assets		23,872,950
Net Increase In Equity	(18,938)	23,997,947

2. Deferred tax

Under NFRS , deferred tax are mainly created due to accrual interest income booking , reversal of loan loss provision, reversal of investment and acturial valution impact of defined benefit obligation. Below are the imapct on equities.

Particulars	(16-Jul-2017)	(16-Jul-2018)
Reversal of DTA as per GAAP	(5,682)	37,499
DTL created on grauity	390,629	467,994
Accrued income DTA decrease		233,327
Net increase in Equity	384,947	738,820

3. Proposed divided

As per the previous GAAP proposed dividend was treated a current liability. But as per NFRS, it is not treated as current liability until it is declared in AGM.

Particulars	(16-Jul-2017)	(16-Jul-2018)
Proposed dividend transferred to retained earnings.	6,221,040	6,221,040
Net decrease in Equity	6,221,040	6,221,040

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5.10.2. Reconciliation of profit or loss

NPR

Particulars	Explanatory Note	2075 Asar 32 (16-Jul-2018) (the latest period presented under previous GAAP)
Profit/(Loss) for the year per previous GAAP		6,965,015
Adjustments under NFRSs:		
-Interest Income		2,780,436
Depreciation & Amortisation		143,936
Employee Bonus		(265,852)
Other	1	353,872
deferred tax (expense) / income	a	353,872
Total Adjustment to profit or loss		3,012,392
Profit or loss under NFRSs		9,977,407
Other Comprehensive Income		23,872,950
Total Comprehensive income under NFRSs		33,850,357

Explanatory note :

NPR

1 Other	
a) Deferred tax expense	
Increase in deferred tax liability due to adjustment of plant and machinary	37,499
Increase in deferred tax liability due to gratuity	467,994
Deferred tax interest interest income	233,327
Opening DTL adjustments	(384,947)
Deferred tax income (expense) for the year (ii - i)	353,872

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5.10.3. Effect of NFRS adoption for the statement of financial position

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Particulars	Explanatory Note		As at Shrawan 01, 2074 (Date of Transition)			As at Asar 32, 2075 (End of last period presented under previous GAAP)		
			Previous GAAP	Effect of Transition to NFRS	Opening NFRS Statement of Financial Position	Previous GAAP	Cumulative Effect of Transition to NFRS	Amount as per NFRS
Assets :								
Cash and cash equivalent		1	35,936,674	0	35,936,674	40,803,634	(0)	40,803,634
Due from Nepal Rastra Bank		2	-	-	-	-	-	-
Placement with Bank and Financial Institutions		3	-	-	-	-	-	-
Loan and advances to B/FIs		4	-	-	-	-	-	-
Loans and advances to customers		5	163,697,907	3,558,192	167,256,099	187,667,304	6,338,628	194,005,932
Investment securities		6	194,500	-	194,500	194,500	-	194,500
Current tax assets	EN		1,337,289	(1,337,289)	-	1,202,073	(1,202,073)	-
Investment property	EN		-	664,541	664,541	-	664,541	664,541
Property and equipment		7	6,979,910	(18,939)	6,960,971	6,675,256	23,997,946	30,673,202
Goodwill and Intangible assets		8	-	-	-	-	-	-
Deferred tax assets		9	-	-	-	223,215	(223,215)	-
Other assets		10	14,445,537	(0)	14,445,537	32,165,184	(0)	32,165,184
Total Assets			222,591,817	2,866,505	225,458,322	268,931,167	29,575,826	298,506,993
Liabilities :								
Due to Bank and Financial Instituions		11	-	-	-	-	-	-
Due to Nepal Rastra Bank		12	-	-	-	-	-	-
Deposits from customers		13	154,934,875	0	154,934,875	189,681,477	0	189,681,477
Borrowing			-	-	-	-	-	-
Current Tax Liabilities	EN		1,520,223	(1,337,289)	182,934	2,712,190	(1,202,073)	1,510,116
Provisions			-	-	-	-	-	-
Deferred tax liabilities		14	350,702	682,510	1,033,212	-	105,423	105,423
Other liabilities		15	9,530,386	(0)	9,530,386	13,316,854	265,852	13,582,706
Proposed dividend	EN		6,221,040	(6,221,040)	-	6,221,040	(6,221,040)	-
Subordinated Liabilities			-	-	-	-	-	-
Total liabilities			172,557,226	(6,875,819)	165,681,407	211,931,561	(7,051,838)	204,879,722
Equity								
Share capital		16	41,473,600	-	41,473,600	41,473,600	-	41,473,600
Share premium			-	-	-	-	-	-
Retained earnings		17	746,544	9,742,323	10,488,867	6,248,906	12,724,591	18,973,497
Reserves		18	7,814,447	0	7,814,447	9,277,100	23,903,073	33,180,173
Total equity attributable to equity holders			50,034,591	9,742,324	59,776,914	56,999,606	36,627,664	93,627,270
Non-controlling interest								
Total equity			50,034,591	9,742,324	59,776,914	56,999,606	36,627,664	93,627,270
Total liabilities and equity			222,591,817	2,866,505	225,458,322	268,931,167	29,575,826	298,506,993

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5.10.3.1 Effect of NFRS adoption for the statement of financial position (Explanatory Notes)

Stated herein below is explanation of the deviations between the figures reported in statement of financial position prepared in accordance with NFRS and those reported in accordance with previous GAAP at end of FY 2074/75 (July 16, 2018).

S.No.	Line Items in SoFP per NFRS		Explanation of changes resultant of transition to NFRS	Figures in Rs.
EN	Current Tax Assets	a)	Adjusted to current tax liabilitues	(1,337,289)
7	Property and equipment	a)	Low depreciation charged transferred to Retained Earnings	(18,939)
11	Deferred Tax Liabilities	a)	DTA reversal on depreciation	(5,682)
		b)	DTL created on grauity	390,629
17	Proposed Dividend	a)	Proposed dividend transferred to Retained Earnings.	6,221,040

5.11.3.1 Effect of NFRS adoption for the statement of financial position (Explanatory Notes)

Stated herein below is explanation of the deviations between the figures reported in opening statement of financial position prepared in accordance with NFRS at the transition date of 01.04.2074 (July 16, 2017) and those reported in accordance with previous GAAP for the same date.

S.No.	Line Items in SoFP per NFRS		Explanation of changes resultant of transition to NFRS	GAAP Figures
EN	Current Tax Assets	a)	Adjusted to current tax liabilitues	(1,202,073)
7	Deferred tax liabilities	a)	Excess depreciation charged is reversed	23,997,946
9	Deferred Tax Assets	a)	increase in deferred tax liability due to adjustment of plant and machinary	37,499
		b)	increase in deferred tax liability due to gratuity	467,994
17	Proposed Dividend	a)	Proposed dividend transferred to Retained Earnings.	6,221,040

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5.19.4. Effect of NFRSs adoption for statement of profit or loss and other comprehensive income

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Particulars	Explanatory Note	For the year ended Asar 32, 2075 (the latest period presented under previous GAAP) Previous GAAP	Effect of Transition to NFRSs	Amount as per NFRSs
Interest income	1	35,146,532	2,780,436	37,926,968
Interest expense	2	19,065,142	-	19,065,142
Net interest income		16,081,390	2,780,436	18,861,826
Fee and commission income	3	1,701,647	-	1,701,647
Fee and commission expense	4	-	-	-
Net fee and commission income		**1,701,647**	-	**1,701,647**
Net interest, fee and commission income		**17,783,037**	**2,780,436**	**20,563,473**
Net trading income	5	-	-	-
Other operating income	6	-	-	-
Total operating income		17,783,037	2,780,436	20,563,473
Impairment charge/(reversal) for loans and other losses	7	944,316	-	944,316
Net operating income		16,838,721	2,780,436	19,619,157
Operating expense				
Personnel expenses	8	4,737,717	265,852	5,003,569
Other operating expenses	9	2,497,134	-	2,497,134
Depreciation & Amortisation	10	432,655	(143,936)	288,718
Operating Profit		9,171,215	2,658,520	11,829,735
Non operating income	11.00	-	-	-
Non operating expense	12	-	-	-
Profit before income tax		9,171,215	2,658,520	11,829,735
Income tax expense				
Current Tax	13	2,780,116	-	2,780,116
Deferred Tax	14	(573,917)	(353,872)	(927,789)
Profit for the year		6,965,015	3,012,392	9,977,407
Other comprehensive income	15	-	23,872,950	23,872,950
Total Comprehensive Income		6,965,015	26,885,342	33,850,357

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5.10.4. Effect of NFRSs adoption for statement of profit or loss and other comprehensive income

Stated herein below is explanation of the deviations between the figures reported in financial statements prepared in accordance with NFRS and those reported in accordance with previous GAAP for the year ended Asar 32, 2075 (July 16, 2018).

8. Personnel expenses

NPR

Particulars	Figures in previous GAAP	Re-measurement changes Debit	Re-measurement changes Credit	Figures in NFRS
Balance as per previous GAAP	3,820,596			3,820,596
Regrouping effect of staff bonus expense	1,182,973			1,182,973
Balance as per NFRS		-	-	**5,003,569**

The changes in personnel expenses is due to regrouping and reclassifying of cetains items required under NFRS financial statements.

9. Depreciation and Amortization

NPR

Particulars	Figures in previous GAAP	Re-measurement changes Debit	Re-measurement changes Credit	Figures in NFRS
Balance as per previous GAAP	**432,655**			**432,655**
Remeasurement effects :				-
Depreciation exta charged			143936	(143,936)
Balance as per NFRS		-	**143,936**	**288,718**

The changes in depreciation and amortization is due to excess depreciation charged in previous GAAP.

14. Deferred tax(Income) expense

NPR

Particulars	Figures in previous GAAP	Re-measurement changes Debit	Re-measurement changes Credit	Figures in NFRS
Balance as per previous GAAP	**(573,917)**			**(573,917)**
Remeasurement effects:				
Increase in deferred tax liability due to adjustment of plant and machinary		-	37,499	(37,499)
Increase in deferred tax liability due to gratuity		-	467,994	(467,994)
Deferred tax interest interest income		-	233,327	(233,327)
Opening DTL adjustments		384,947	-	384,947
Balance as per NFRS		**384,947**	**738,820**	**(927,789)**

CHAUDHARY & ASSOCIATES CHARTERED ACCOUNTANTS

5.10.5. Effect of NFRSs adoption for statement of cash flows

NPR

Particulars	Explanatory Note	For the year ended Asar 32, 2075 (the latest period presented under previous GAAP) Previous GAAP	Effect of Transition to NFRS	NFRS
Net cash flows from operating activities	1	4,994,961	(1)	4,994,960
Net cash flows from investing activities	1	(128,000)	(0)	(128,000)
Net cash flows from financing activities	1	-	-	-
Net increase/(decrease) in cash and cash equivalent		**4,866,961**	**(1)**	**4,866,960**
Cash and cash equivalent at the beginning of the period	2	35,936,674	0	35,936,674
Cash and cash equivalent at the end of the period		40,803,634	(1)	40,803,634

SANJAY CHAUDHARY & ASSOCIATES CHARTERED ACCOUNTANTS