ABC Saving and Credit Co-operative Limited (ABC)

Notes to the Financial Statements

For the year ended 31st Ashadh 2082

1. Reporting Entity

ABC Savings and Credit Cooperative Society Limited is registered under the Co-operatives Act, 2074. It received Registration no. 239/060/61 (Date: 2060/08/19) from the Cooperatives department under the Ministry of Land Management, Cooperative and Poverty Alleviation and has been registered with the Inland Revenue Department with Permanent Account Number (PAN) 987654321. Since the last two decades ABC has been committed to the development, promotion & strengthening of its members to contribute to the uplifting of financial, social and cultural aspiration of individual members from the communities. The main office of cooperative is located in Kathamandu Metropolitian City Ward, no 17 Devisthan and two service centres are in Devchowk and Tarachok service in ward no Kathamandu 15 and 11 respectively. The main objective of the Cooperative is financial transactions such as savings collection, loan investment with its members, as well as providing many other non-financial services such as education, training, information, social work and many other non-financial services. The Cooperative Society is active for the economic, social and cultural advancement of its members.

2. Basis of Preparation

2.1 Statement of Compliance

The separate financial statements of the cooperative have been prepared in accordance with the Nepal Financial Reporting Standard for Small and Medium-sized Entities (NFRS for SMEs) developed by Accounting Standard Board (ASB) and pronounced by the Institute of Chartered Accountants of Nepal. The Consolidated financial statements have not been prepared since the cooperative does not have any investments in entities classified as associate, subsidiary or a joint arrangement.

Previous year's figures have been regrouped/reclassified wherever necessary to conform to the current fiscal year's classification / disclosures.

2.2 Reporting Period and Approval of Financial Statements

The cooperative follows Nepalese financial year based on Nepali calendar starting from 1st Shrawan and ending on last day of Ashadh.

The Board of Directors acknowledges the responsibility for the preparation and fair presentation of financial statements.

These financial statements were authorized for issue by the Board of Directors on 1st Bhadra 2082 and recommended for the approval by shareholders in the 28th Annual General Meeting.

2.3 Functional and Presentation Currency

The financial statements are presented in Nepalese Rupees (NPR) which is the functional and presentation currency of the Cooperative. The financial figures have been rounded off to the nearest rupee unless where otherwise indicated.

2.4 Use of Estimates, Assumptions and Judgments

The preparation of financial statements requires management to make estimates, assumptions and judgments in the application of accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Continuous evaluation is done on the estimation and judgments based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Revisions to accounting estimates are recognized prospectively in current and future periods.

2.5 Changes in Accounting Policies

Accounting policies have been applied consistently to all the fiscal years except where deviations have been explicitly mandated by the applicable accounting standards presented in the financial statements. There are no changes in accounting policies in the current fiscal year.

2.6 Discounting

The non-current assets and liabilities are discounted whenever the discounting is material and if required by the NFRS for SMEs.

3. Significant Accounting Policies

3.1 Basis of Measurement

The Financial Statements of Cooperative have been prepared on the historical cost basis, except for the following material headings :

Headings	Basis of Measurement
Property, plant and equipment-Land	Fair value
Investment Properties	Fair value
Loans and advances to staff	Fair value being the contractual cash flows discounted at market rate of interest.

3.2 Financial Assets and Financial Liabilities

Recognition and Measurement

The Cooperative recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument. All financial assets and liabilities other than those which are publicly traded, are measured at amortized cost. Transaction costs in relation to financial assets and financial liabilities which are carried at fair value through profit or loss, are charged to the Statement of Profit or Loss as and when incurred.

Classification under two categories as required by NFRS for SMEs section 11, namely:

a. **Measured at amortized cost:**
Financial assets, other than investment in publicly traded equity shares, and financial liabilities are measured at amortized cost less impairment losses. Impairment loss is the difference between the carrying amount and the present value of estimated cash flows discounted at the original effective interest rate (EIR). The amortization of EIR and loss arising from impairment, if any is recognized in the statement of profit or loss.

b. **Measured at fair value:**
Financials assets and financial liabilities that are publicly traded and whose fair values can be reliably measured without undue cost and effort, is measured at fair values with changes in fair value recognized in profit or loss. If fair value cannot be measured reliably then such financial assets and liability are measured at cost less impairment.

De-recognition

The Cooperative derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the contractual rights to receive the cash flows from the asset.
A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Determination of Fair Value

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

The Cooperative Society has used the following hierarchy to estimate the fair value of an asset:

a) The best evidence of fair value is a quoted price for an identical asset (or similar asset) in an active market. This is usually the current bid price.
b) When quoted prices are unavailable, the price in a binding sale agreement or a recent transaction for a
when quoted prices are unavailable, the price in a binding sale agreement or a recent transaction for an

identical asset (or similar asset) in an arm's length transaction between knowledgeable, willing parties provides evidence of fair value.

c) If the market for the asset is not active and any binding sale agreements or recent transactions of an identical asset (or similar asset) on their own are not a good estimate of fair value, an entity estimates the fair value by using another valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Impairment (requirements as per section 11)

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

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

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

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

3.3 Property, Plant and Equipment

Recognition and measurement:

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

Depreciation:

The Cooperative depreciates property, plant and equipment following written down value method applying the depreciation rates as per management estimate. The rates used for depreciation of assets for the current and comparative period of significant items of property, plant and equipment are as follows:

S. No.	Assets	Depreciation Rate
1	Buildings	5%
2	Office Equipment, Furniture and Computers	10%
3	Vehicles	20%
4	Other Assets	10%
5	Safe Vaults	2.5%

Cooperative society adopts revaluation models for its land. Fair values are generally determined based on the report of a professional valuator every two years. The cooperative adopts cost model for other classes of property, plant and equipment. The items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of newly acquired assets is charged when they are available for intended use and assets having acquisition cost less than NPR. 1,000 are written down as an expense for the period in the statement of profit and loss.

3.4 Goodwill/Intangible Assets

Goodwill is any excess of the cost of acquisition over the fair values of the identifiable net assets acquired in a business combination. Goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that

the carrying value may be impaired.
Intangible assets are recognized separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably. These intangible assets are recognized at historical cost less impairment / amortization over their estimated useful life.
The Cooperative currently has software as an intangible asset and is amortized at 25% on diminishing balance method.

3.5 Investment Property

Investment properties include land or land and buildings held for capital appreciation or for earning rentals. Generally, it includes land, land and building acquired by the Cooperative as non-banking assets but not sold by the reporting date.

Investment properties are initially recognized at cost and subsequently measured using fair value models. The fair values are determined annually, and differences are recognized in profit or loss.

3.6 Income Tax

Tax expenses comprises of current tax and deferred tax.

Current Tax

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

Deferred Tax

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

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

3.7 Deposits, debt securities issued and subordinated liabilities

Deposits:

Deposits by members are initially recognized at fair value, net of transaction costs for those financial liabilities not at fair value through profit and loss. Since, the transaction cost is immaterial and are recognized in the Statement of the Profit or Loss as and when incurred. The transaction price is considered as the fair value for measuring the deposits, debt securities and subordinated liabilities.

3.8 Provisions, Other Liabilities Contingent Liabilities

A provision is recognized, if as a result of a past event, the Cooperative has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate and are reversed if there is no probability of outflow of resources.
The contingent liabilities are the liabilities for which it is uncertain as to whether it will become an obligation as it depends on the occurrence of an uncertain future event. These amounts are off-balance sheet items and are disclosed when there is a possible obligation that may but probably will not require an outflow of resources.
A provision for onerous contracts is recognized when the expected benefits to be derived by the

Cooperative from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The Cooperative does not have such contingent liabilities and onerous contracts as at 32nd Ashadh 2082.

3.9 Revenue Recognition

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

Interest Income

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

The interest income recognized in the statement of profit or loss includes the following:

- Interest income on financial assets measured at amortized cost calculated on an effective interest rate method, except for impaired loans and advances. These financial assets include loan to members and staff and balance with banks and financial institution, etc.

- Interest income accrued but not received from performing loans and advances till date has been recognized in the current year interest income.

Fee and Commission Income.

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

Dividend Income.

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

Grant Income

Grant that does not impose specified future performance conditions is recognized in income when the grant proceeds are receivable. Grant that imposes specified future performance conditions on the recipient is recognized in income only when the performance conditions are met; and grants received before the performance conditions are satisfied are recognized as liabilities.

3.10 Interest Expenses

Interest expense on all financial liabilities measured at amortized cost including deposits is recognized in statement of profit or loss using effective interest rate method.
Interest expense on all financial liabilities measured at fair value through profit or loss is recognized as and when incurred.

3.11 Employee Benefits

Short term employee benefits

The Cooperative's short term employee benefits mainly include wages, salaries, allowances and bonuses provided under prevailing laws and other employee related expenses. Short term employee benefits are measured on an undiscounted basis and are charged to statement of profit or loss as and when the related service is provided.

Short-term paid leaves

The Cooperative provides 12 days of casual and ritual leave, 7 days of force leave to employees every year. These leaves are non-accumulating and non-vesting. In addition, the Cooperative provides 60 days of maternal leave, 15 days of paternal leave and mourning leave as per its bylaws.

Post-Employment employee benefits

Defined Contribution Plans

Post-Employment benefit plan under which the cooperative pays a fixed contribution to a separate entity and retains no legal or constructive obligation to pay future amounts are categorized under defined contribution plans. The contributions to defined contribution plans are recognized in profit or loss as and when the services are rendered by employees.

Social Security Fund Contribution

Social security fund is the defined contribution plan opted by the cooperative society. In compliance with The Labor Act, 2074, the cooperative contributes 20% of the basic salary and grade amount of all the employees to the Fund and 11% is deducted from employees' pay; totaling 31%. The social security fund is a government-operated fund. The Cooperative Society has no further obligations under these plans beyond its obligation for periodic contributions.

Defined Benefit Plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the entity's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the entity. If actuarial or investment experience is worse than expected, the entity's obligation may be increased, and vice versa if actuarial or investment experience is better than expected defined benefit plan.

NFRS for SMEs requires Cooperative to use the projected unit credit method to measure its defined benefit obligation and the related expenses. If defined benefits are based on future salaries, the projected unit credit method requires an entity to measure its defined benefit obligations on a basis that reflects estimated future salary increases. Additionally, the projected unit credit method requires the cooperative to make various actuarial assumptions in measuring the defined benefit obligation, including discount rates, the expected rates of return on plan assets, expected rates of salary increases, employee turnover, mortality, and (for defined benefit medical plans) medical cost trend rates.

As permitted under NFRS for SMEs, the Cooperative adopts a simplified approach in measuring its defined benefit obligation with respect to current employees by ignoring estimated future salary increases, future service period, possible employee mortality etc.

The Cooperative has adopted the simplified approach and all expenses related to defined benefits plans in employee benefit are expensed in the statement of profit or loss.

Other Long-Term Employee Benefits

Other long-term employee benefits are employee benefits other than those classified as either short-term, post-retirement or termination benefits. The Cooperative's net obligation in respect of such benefits is calculated separately for each plan by estimating the amount of future benefits that have accrued to the employees in return for their service in current and prior periods. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on corporate bonds, that have maturity dates approximating the terms of the Cooperative's obligation and that are denominated in the currency in which the benefit is expected to be paid. The obligation is recognized using the projected unit credit method.

As permitted under NFRS for SMEs, the Cooperative adopts a simplified approach in measuring its obligations with respect to current employees by ignoring estimated future salary increases, future service period, possible employee mortality etc.

The Cooperative has adopted the simplified approach and all expenses related to such obligations in employee benefit are expensed in the statement of profit or loss.

3.12 Leases

The Cooperative Society has applied Section 20 Leases, recognizing operating lease payment as an expenses when incurred. The details of accounting policies under Section 20 are presented below.

The Cooperative Society has taken its service center offices under lease. The lease contracts relate to building premises taken on lease by the Cooperative Society for its head office and service center offices. The Cooperative had total 2 premises on lease during FY 2081-82 with average lease period of 6 years and the payment to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

The Cooperative Society has applied Section 20 Leases during the year by recognizing lease payment under operating lease (excluding cost for service such as insurance and maintenance) as an expenses over the lease term on a straight - line basis unless either:

(a)another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis: or

(b) the payment to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

3.13 Share Capital and Reserves

Share Capital

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue available number of own equity instruments. These instruments that meet the criteria specified by subsection 22.4 (a) of Section 22 Financial Instrument are also classified as equity.
Dividends on ordinary shares classified as equity are recognized in equity in the period in which they are declared.
The share issue expenses which can be avoided for the issue were charged in the year of issue directly through equity and disclosed in the statement of changes in equity. Tax impact is also disclosed.

Fair Value Reserve

This reserve reflects unrealized gains on investment properties. Fair value changes in the investment property is recognized in profit and loss and accumulated under this reserve. When the investment properties are realized, cumulative gains in this reserve are transferred to general reserve as required by the Cooperatives Act.

Statutory Reserves

The reserve includes reserves required to be maintained by the law.

General Reserve Fund

As per the provisions of the Co-operatives Act, 2074 and the Co-operative Rules, 2075; 25% of net profit of a financial year is transferred to the general reserve fund. Profits on sale of property, plant and equipment, investment properties and income on grants related to assets are also transferred to this fund.

Patronage Fund

As per the provisions of the Co-operatives Act, 2074 and the Co-operative Rules, 2075; 25% of net profits for the year remaining after allocation to the general reserve fund has been transferred to the patronage fund.

Co-operative Promotion Fund

According to the provisions of the Co-operatives Act, 2074 and the Co-operative Rules, 2075; 0.5% of net profits for the year remaining after allocation to the general reserve fund has been transferred to the co-operative promotion fund. The Fund is managed by the Department of Co-operatives under the Ministry of Land Management, Co-operatives and Poverty Alleviation.

Other Funds

As per the provisions of the Co-operatives Act, 2074 and the Co-operative Rules, 2075; the balance of profits for the year remaining after allocation to the general reserve fund, patronage fund and the Co-operatives promotion fund has been allocated as follows pursuant to the decision by the Board of Directors in accordance with the laws, regulations and the bylaws of the organization:

Particulars	Allocation (%)
Share Dividend Fund	70%
Loss Equaliation Fund	5%
Member Education Fund	5%
Co-operatives Development Fund	5%
Community Development Fund	5%
Stabilization Fund	5%
Other Risks Management Fund	5%
TOTAL	**100%**

5.Disclosure and Additional Information

5.1 Risk Management

Risk is inherent in the business activities of the cooperative. It is managed by taking into account the risk management framework, regular identification, measurement and monitoring, risk limits and other controls. This process of risk management is important in maintaining the cooperative's profitability, and each individual within the cooperative is responsible for the associated risks through their own responsibilities. Identification of risks has been carried out and adequate control system has been adopted in order to mitigate such current and possible future risks in the cooperative. The robust risk management capabilities are imperative in order to achieve an effective risk management framework and contain the risks associated with the business, a fully functional Account Supervision Committee is responsible for identifying reporting, controlling and managing credit risk, operational risk, market risk & liquidity risk. The Account Supervision Committee oversees global, macro, micro and departmental level risk that arise out of daily business operation as well as on periodic basis and are put to the oversight of senior management. Account Supervision Committee and the Board discuss the reports thereon and issue instructions as appropriate.

Account Supervision Committee:

The Account Supervision Committee is an independent committee appointed by the annual general meeting. It has the responsibility for oversight of implementation of risk management framework and overall internal audit of the cooperative. The committee assists the board of directors in fulfilling its oversight responsibilities with regard to risk appetite that the cooperative is able and willing to assume in its exposures and business activities, risk management, compliance framework, and governance structure that supports it. It periodically reviews financial data to ensure its integrity, accuracy, and reasonableness. It also reviews whether the internal control and risk management system is adequate or not to ensure well-ordered and prudent conduct of business. The committee is to review the overall risk management structure and monitor the effectiveness of the risk management system. The Account Supervision Committee comprises of following Members:

S.N.	Name	Designation
1	Mr.	Co-ordinator
2	Mrs.	Member
3	Mr.	Member

Risk Governance

The cooperative implements the policies and procedures to mitigate the risk at enterprise level arising to the cooperative and has inculcated risk management culture among the employees by establishing ownership mentality, capacity building programs, well defined job responsibilities and inhabiting good ethical culture. The Board of Directors is responsible for the establishment of, and compliance with, policies relating to Operation risk and Credit risk.

The Cooperative’s risk governance structure is such that the responsibility for maintaining risk within the

Cooperative's risk blanket is dropped down from the Board to the appropriate functional, client business, senior management and committees. The Board has set policies and procedures of risk identification, risk evaluation, risk mitigation, and control/ monitoring in line with best practices, and has effectively implemented the same. The effectiveness of the cooperative's internal control system is reviewed regularly by the Board, its committees, senior management, and accounts supervisory committee.

Liquidity Risk

Liquidity risk is the risk related to ability to meet short-term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process. Liquidity risk arises because of the possibility that the cooperative might be unable to meet its payment obligations when they fall due, as a result of mismatches in the timing of the cash flows under both normal and stressful circumstances. Such scenarios could occur when funding needed for liquid asset positions is not available to the cooperative on acceptable terms. Due to lack of liquidity, cooperative may be unable to lend as per the demand of the members, to repay the savings and other legal obligations on time. Therefore, the cooperative has managed the liquidity as per its requirement in time to prevent such a situation.

Interest Rate Risk

Interest rate risk is the potential that a change in overall interest rates will reduce the value of a bond or other fixed-rate investment. To mitigate interest rate risk, the cooperative regularly monitors the market conditions and negotiates for the best rates on its debt obligations and term deposits.

Credit Risk

Credit risk is the probability that any borrower will not be able to repay the loan as per the conditions accepted by the borrower. Credit is the main wealth or sources of income of any financial institution. The future of the financial institution is at stake when the borrower is unable to repay the loan that the borrower had agreed to at the time of taking the loan. Therefore, it is necessary to study the indicators to get information about the condition of the loan at risk. In order to prevent the loss of the loan invested and to minimize the risks related to it, standard loan disbursement procedure is followed to reduce the risk accordingly. Since every employee involved in the process of approving the loan is assigned a certain responsibility, the concerned employee has to invest the loan after conducting proper risk-assessment. The following procedures/practices have been followed:

- Analyze the requirement and repayment capacity for the demanded loan,
- Invest in loans based on disciplinary records of the borrower,
- Monitor utility of the borrowed fund in the following months of borrowing and ensuring the fund is utilized for income generating activities/businesses,
- Motivate members to increase savings,
- Taking details of the borrower's business and income and expenditure at the time of loan application, for business loans,
- Taking necessary documents of secured property, if collateral loan,
- Classify the loans and arrange the loss provision as per the requirements,
- Disbursement of loans within the limits as per its bylaws,
- Continuously monitor and inspect the loan.

Operational Risk

The risk that arises during the day-to-day operations of an entity is called operating risk. for this, decentralized working method has been adopted, more focus has been given on area expansion, priority has been given to cost reduction. The cooperative has arranged the necessary staff to carry out various responsibilities for daily operations. All the employees have to carry out their responsibilities in the working process within the policy rules specified by the cooperative. But sometimes due to the negligence of the employees and personal interests, the organization is at risk when it goes beyond the policy rules. This type of risk is likely to reduce the cooperative's income, increase cooperative's credibility risk (reputational risk). Since the operational risk is due to internal factors, this risk is mitigated by a strong internal control system.

Market Risk

The market risk is the possibility for loss of earnings or economic value to the cooperative caused due to adverse changes in the market level of interest rates or prices of securities (equity), foreign exchange rates and volatilities of those prices.

After understanding the market conditions and demands, the Board and the management bring programs to suit the potentials and conditions of the market, and reduce the risk by providing appropriate responsibilities to the employees from the top to the bottom based on their capabilities. For this, the internal control system has been strengthened.
The following has been considered in market analysis:

- Information about competitors' services (programs) and interest rates
- Attitude of the members towards the cooperative
- Perception of other institutions towards this cooperative
- Cost of service
- Fluctuations from changes in policy rules
- Strategies adopted by other cooperatives to attract their members
- Members dropout/retention rate

Institutional or Strategic Risk
Strategic risk is often a major factor in determining an entity's worth, particularly observable if the entity experiences a sharp decline in a short period of time. Due to this and its influence on compliance risk, it is a leading factor in modern risk management. In order to manage this risk, the following things have been considered:

- Strategies has been decided or modified according to the overall economic and social environment of the country,
- Keeping abreast of the services provided by their competitors and their status,
- Providing service facilities as much as possible without giving in to the expectations and desires of our members
- Adopting appropriate strategies in resource mobilization,

Internal Control Risk
The Board and Management are committed to managing risks and in controlling its business and financial activities in a manner which enables it to maximize profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations and enhance resilience to external events. To achieve this, the Board and management has adopted policies and procedures of risk identification, risk evaluation, risk mitigation and control/monitoring.
The effectiveness of the cooperative's internal control system is reviewed regularly by the Board and its Committees, management and the Accounts Supervision Committee. The Accounts Supervision Committee has reviewed the effectiveness of the cooperative's system of internal control during the year and has provided feedback to the Board as appropriate. Account Supervisory Committee has performed the Internal Audit to maintain independency on the internal control system. Internal Audit reports are forwarded quarterly to the Board of Directors. The findings of all audits are reported to the Chief Executive Officer for initiating immediate corrective measures.

Compliance Risk
The Cooperative is committed to follow best practices and market standards in the areas of accountability, transparency and business ethics. It aims for zero tolerance of misconduct. In the day-to-day operations the three lines of defense model defines the roles and responsibilities for compliance and integrity in the Cooperative. The first line of defense lies with the respective cooperative departments and units, which are responsible for ensuring that compliance risks are identified, understood and reported to the management and to monitoring and compliance officer. The second line of defense lies with monitoring and compliance officer, who assesses and monitors the compliance and integrity risks and coordinates its control activities with the management. The monitoring and compliance officer reports to the CEO. The compliance function assists the cooperative in identifying, assessing, monitoring and reporting on compliance risks in matters relating to the institution, its operations and personal conduct of staff members.

5.2 Fair value of financial assets and Liabilities

Fair value is a market-based measurement, not an entity specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

The Cooperative has used the following hierarchy to estimate the fair value of an asset:

a) The best evidence of fair value is a quoted price for an identical asset (or similar asset) in an active market. This is usually the current bid price.

b) When quoted prices are unavailable, the price in a binding sale agreement or a recent transaction for a when quoted prices are unavailable, the price in a binding sale agreement or a recent transaction for an identical asset (or similar asset) in an arm's length transaction between knowledgeable, willing parties provides evidence of fair value. However this price may not be a good estimate of fair value if there has been a significant change in economic circumstances or a significant period of time between the date of the binding sale agreement, or the transaction, and the measurement date. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (for example, because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), then that price is adjusted.

c) If the market for the asset is not active and any binding sale agreements or recent transactions of an identical asset (or similar asset) on their own are not a good estimate of fair value, an entity estimates the fair value by using another valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations

ABC Saving and Credit Co-operative Limited (ABC)

Notes to the Financial Statements

For the year ended 31st Ashadh 2082

5.3 Related Party Disclosures

List of Directors and Key Managerial Personnel

The members of the Board of Directors, Accounts Committee and key managerial personnel have been identified as the related parties of the Cooperative.

The following parties have been identified as the related party transaction as per Section 33:

S.N.	Name	Relationship	Date of appointment	Date of retirement
1		Chairperson		
2		Vice Chairperson		
3		General Secretary		
4		Treasurer		
5		Board Member		
6		Board Member		
7		Board Member		
8		Board Member		
9		Board Member		
10		Board Member		
11		Board Member		
12		ASC Coordinator		
13		ASC Member		
14		ASC Member		
15		Chief Executive Officer		

Transactions with and Payments to Directors' and Key Managerial Personnel

Board of Directors Allowances and Facilities

Particulars	Current Year	Previous Year
Meeting Allowance	156,320	147,700
Communication and Fuel Facilities	46,600	66,400
Accidental insurance premium (Insured amount:	10,272	12,100
Life Insurance Premium (10 years Life Insurance)	48,000	
TOTAL	**2,61,192**	**226,200**
Loans, advances and other receivables/payables	-	-
Receivables written off	-	-

Chief Executive Officer's Emoluments and Facilities

Particulars	Current Year	Previous Year
Basic Salary	417,800	493,500
Grade	73,810	-
Allowances	60,000	60,000
Provident Fund and Social Security Fund Contribution	45,050	16,050
Festival expenses	18,150	15,000
Medical expenses	18,150	15,000
Accumulated leave payments		-
Uniform Allowance	10,000	10,000
Life Insurance Premium	25,000	25,000
Vehicle Facility	Yes	Yes
Accommodation Facility	No	No
TOTAL	**8,67,960**	**6,34,550**
Loans, advances and other receivables/payables	-	-
Receivables written off	-	-

In addition to above, the Cooperative also provide other facilities like travelling allowance as per the Cooperative's financial policy.

5.4 Merger and Acquisition
The cooperative has not entered into any agreement for merger or acquisition.

5.5 Additional disclosure of non-consolidated entities
The cooperative doesn’t have any subsidiaries & associates. So, additional disclosure is not required.

5.6 Events after reporting date
No events requiring the adjustment as per section 32 "Events occurring after Reporting Period" are observed after the reporting period.