INTERIM FINANCIAL STATEMENTS

PERIOD: ASHAD END 2083 (16th JULY 2026)

Forward Microfinance Laghubitta Bittiya Sanstha Limited

Statement of Financial Position

As on 32nd Ashad 2083 (16th July 2026)

Particulars	Ashad 2083	Ashad 2082 (Audited)
ASSETS		
Cash and Cash equivalent	1,773,465,384	1,028,699,139
Statutory Balances and Due from Nepal Rastra Bank	113,000,000	103,000,000
Placement with Bank & Financial Institutions	-	-
Derivative Financial Instruments	-	-
Other Trading Assets	-	-
Loans and Advance to MFIs and Cooperatives	-	-
Loans and Advances to customers	21,135,939,199	19,911,815,429
Investment Securities	933,837	1,195,691
Current Tax Assets	-	-
Investment Property	-	-
Property and Equipment	202,949,642	205,309,312
Goodwill and Intangible assets	1,950,256	3,192,277
Deferred Tax Assets	700,997,738	669,222,511
Other Assets	144,523,813	127,078,410
Total Assets	**24,073,759,869**	**22,049,512,768**

Particulars	Ashad 2083	Ashad 2082 (Audited)
Liabilities		
Due to Bank and Financial Institutions	9,001,199,040	8,868,829,699
Due to Nepal Rastra Bank	-	-
Derivative Financial Instrument	-	-
Deposits from Customers	11,355,914,743	10,072,942,070
Borrowing	-	2,083,333
Current Tax Liabilities	4,878,183	150,519,072
Provisions	-	-
Deferred Tax Liabilities	-	-
Other Liabilities	380,171,401	248,241,987
Debt Securities Issued	-	-
Subordinated Liabilities	-	-
Total Liabilities	**20,742,163,367**	**19,342,616,162**
Equity		
Share Capital	1,195,953,710	1,195,953,710
Share Premium		
Retained Earnings	(18,672,930)	(497,455,469)
Reserves	2,154,315,721	2,008,398,365
Total Equity	**3,331,596,502**	**2,706,896,606**
Total Liabilities and Equity	**24,073,759,869**	**22,049,512,768**

Forward Microfinance Laghubitta Bittiya Sanstha Limited

Statement of Profit or Loss

For the period ended 32nd Ashad 2083 (16th July 2026)

	Ashad 2083		Ashad 2082 (Audited)	
Particulars	**This Quarter**	**Up to This Quarter (YTD)**	**This Quarter**	**Up to This Quarter (YTD)**
Interest Income	802,769,139	2,958,558,771	913,295,195	2,971,757,099
Interest Expense	369,517,970	1,440,833,104	392,653,695	1,569,414,144
Net Interest Income	**433,251,169**	**1,517,725,667**	**520,641,499**	**1,402,342,955**
Fees and Commission Income	57,027,872	199,504,943	38,280,822	168,986,172
Fees and Commission Expense	5,622	2,824,926	383,080	4,425,369
Net Fee and Commission Income	**57,022,251**	**196,680,017**	**37,897,742**	**164,560,803**
Net Interest, Fee and Commission income	**490,273,420**	**1,714,405,684**	**558,539,242**	**1,566,903,758**
Net Trading Income	-	-	-	-
Other Operating Income	11,825,689	39,097,208	14,278,238	30,506,526
Total Operating Income	**502,099,109**	**1,753,502,893**	**572,817,480**	**1,597,410,284**
Impairment charge/(reversal) for loans and other losses	(389,020,926)	134,151,340	1,136,301,938	1,511,305,660
Net Operating Income	**891,120,035**	**1,619,351,553**	**(563,484,458)**	**86,104,624**
Operating Expense	**-**		**-**	
Personnel Expenses	200,441,112	587,962,820	82,162,911	463,902,848
Other Operating Expenses	(5,547,478)	90,678,274	(5,942,912)	60,395,859
Depreciation and Amortization	40,071,635	52,148,776	34,706,772	50,363,614
Operating Profit	**656,154,765**	**888,561,684**	**(674,411,229)**	**(488,557,696)**
Non-Operating Income	49,430	264,944	279,500	562,184
Non-Operating Expense	-	-	106,966	273,074
Profit Before Income Tax	**656,204,195**	**888,826,628**	**(674,238,695)**	**(488,268,587)**
Income Tax Expense	195,457,317	265,244,047	(273,513,508)	(123,723,930)
Current Tax	*227,200,025*	*296,986,755*	*167,086,499*	*316,876,077*
Deferred Tax (income)/expense	*(31,742,708)*	*(31,742,708)*	*(440,600,007)*	*(440,600,007)*
Profit for the year	**460,746,878**	**623,582,581**	**(400,725,187)**	**(364,544,656)**
Profit attributable to:	-		-	
Equity holders of the Microfinance Institution	460,746,878	623,582,581	(400,725,187)	(364,544,656)
Profit for the period	**460,746,878**	**623,582,581**	**(400,725,187)**	**(364,544,656)**
Earnings Per Share (EPS)				
Basic Earnings per share		52.14		(30.48)
Basic Earnings per share (Annualized)		52.14		(30.48)
Diluted Earnings per share (Annualized)		52.14		(30.48)

Condensed Statement of Comprehensive Income				
Particulars	**This Quarter**	**Up to this Quarter (YTD)**	**This Quarter**	**Up to this Quarter (YTD)**
Profit/(loss) for the period	460,746,878	623,582,581	(400,725,187)	(364,544,656)
Other Comprehensive Income	(75,879)	(75,879)	(37,999)	(37,999)
Total Comprehensive Income	**460,670,999**	**623,506,702**	**(400,763,186)**	**(364,582,655)**

Forward Microfinance Laghubitta Bittiya Sanstha Limited

Statement of Distributable profit or loss

For the period ended 32nd Ashad 2083 (16th July 2026)

(As per NRB Regulation)

Particulars	**Ashad 2083**	**Ashad 2082 (Audited)**
Net Profit/(loss) as per Statement of Profit or Loss	**623,582,581**	**(364,544,656)**
Appropriations:		
a. General Reserve	(124,716,516)	-
b. Foreign Exchange Fluctuation fund	-	-
c. Capital redemption reserve	-	-
d. Corporate social responsibility fund	(6,235,826)	-
e. Employee training fund	-	-
f. Client Protection Fund	(12,471,652)	-
g. Other	-	-
Profit/(loss) before regulatory adjustment	**480,158,587**	**(364,544,656)**
Regulatory Adjustments:		
a. Interest Receivable (-)/previous accrued interest received(+)	19,768,803	(55,194,690)
b. Write back from restructured loans and advances transferred from reserve	-	254,009,975
c. Short provision for possible losses on investment(-)/reversal(+)	(183,298)	(98,759)
d. Deferred Tax Assets recognized (-)/reversal(+)	(31,742,708)	(440,600,007)
e. Actuarial Loss recognized (-)/reversal(+)	107,419	60,760
Net Profit for the period available for distribution	**468,108,804**	**(606,367,377)**
Opening Retained Earning as on Shrawan 1	(497,455,469)	230,165,755
Adjustment (+/-)		
Opening adjustment -NFRS and prior period	10,673,735	26,525,075
Distribution:		
Bonus shares issued	-	(140,389,977)
Cash Dividend Paid	-	(7,388,946)
Total Distributable Profit/(Loss) as on Period end date	**(18,672,930)**	**(497,455,469)**
Distributable Profit/(Loss) per share (Annualized)	**-1.56%**	**-41.59%**

Forward Microfinance Laghubitta Bittiya Sanstha Limited				
Ratios as per NRB Directives				
	Ashad 2083		Ashad 2082 (Audited)	
Particulars	This Quarter	Up to this Quarter (YTD)	This Quarter	Up to this Quarter (YTD)
Capital fund to RWA		9.17%		6.12%
Non-performing loan (NPL) to total loan		16.17%		19.86%
Total loan loss provision to Total NPL		87.14%		72.41%
Cost of Funds (for the month only)		6.96%		8.57%
Credit to Deposit and borrowing Ratio		115.92%		117.19%
Base Rate (for the month only)		10.34%		11.84%
Interest Rate Spread		7.56%		6.40%

Capital Market and other Financial Indicators	
Ratios	**Figure**
Liquidity ratio	8.55%
Return on Total assets (Annualized)	2.59%
Return on equity (Annualized)	20.65%
Net Assets Value per share	278.57
Total Assets Value per share	2012.93
PE Ratio	18.78
Closing Share Price	979.00
Minimum Share Price	933.00
Maximum Share Price	1364.00
Trade Count	5534
Trade days	64
Number of traded shares	430379

Interest rate on Loans and advances (applicable for loans from 2083 Shrawan 1)			
Type	**Base rate**	**Premium**	**Interest rate**
Collateral	10.69	2.75	13.44
Non-Collateral	10.69	3.00	13.69

Interest rate on Deposits: 7.50% p.a. to 13.30% p.a.

FORWARD MICROFINANCE LAGHUBITTA BITTIYA SANSTHA LIMITED

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

1 REPORTING ENTITY

1.1 Corporate Information

Forward Microfinance Laghubitta Bittiya Sanstha Limited (herein after referred to as "Forward MFI") is a public limited company incorporated under the Companies Act, 2063 and licensed by Nepal Rastra Bank to conduct banking transaction as a "D" Class Financial Institution under the Bank and Financial Institution Act, 2073. Forward MFI has its registered head Office at Duhabi-5, Sunsari, Nepal. Forward MFI received the license to commence microfinance operations on Chaitra 06, 2069 BS (March 18, 2013 AD).

The Authorized Capital of Forward MFI is Rupees 1,750,000,000/- and the issued and paid-up capital is Rupees 1,195,953,710/-. Seventy percent of the paid-up Capital is held by the promoters and the remaining thirty percent is held by the general public. The shares of Forward MFI are listed at Nepal Stock Exchange Limited (NEPSE) with trading Code "FOWAD".

1.2 Principal activities of Forward MFI

The objective of Forward MFI is to increase financial access to the poor households particularly the women of the poor families living in rural and remote areas of Nepal.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) Accounting Standards developed by the Accounting Standards Board (ASB) of Nepal, pronounced by The Institute of Chartered Accountants of Nepal (ICAN) and as per the directives no. 4 of Unified Directives, 2082 along with latest circulars issued by Nepal Rastra Bank (NRB).

The financial statements have been prepared on a going-concern basis, as management is satisfied that Forward MFI has adequate resources to continue as a going concern for the foreseeable future.

These financial statements consist Statement of Financial Position, Statement of Profit or Loss and Statement of Other Comprehensive Income, Statement of Changes in Equity and Statements of Cash Flows along with the necessary and related notes as per prescribed by NRB Directive no. 4.

Forward MFI presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in the respective notes.

2.2 Reporting period and approval of financial statements

Forward MFI follows the Nepalese financial year based on Nepali calender starting from 1st Shrawan 2082 to 32nd Ashad 2083 (17th July 2025 to 16th July 2026).

2.3 Functional and presentation currency

The financial statements are presented in Nepalese Rupees (NPR) (rounded to the nearest Rupee unless otherwise stated), which is Forward MFI's functional currency, the currency of the primary economic environment in which microfinance operates.

2.4 Use of Estimates, assumptions and judgments

In preparing these financial statements, the management has made judgements, estimates and assumptions that affect the application of microfinance's accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may vary from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes:

- Expected credit loss model for impairment as per NFRS 9; Selection and approval of models used to calculate probability of default and loss given default.
- Classification of financial assets; conducting business model and cash flow characteristics test.

Information about assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

- measurement of the fair value of unlisted financial assets with significant unobservable inputs.
- measurement of defined benefit obligations: key actuarial assumptions
- recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized

2.5 Changes in Accounting Policies

Forward MFI has consistently applied the accounting policies to all periods presented in these financial statements except for new or revised statements and interpretations implemented during the fiscal year. The nature and effect of new standards and interpretations are disclosed in note that follows.

2.6 New standards issued but not yet effective

A number of new standards and amendments to the existing standards and interpretations have been issued by International Accounting Standard Board (IASB). Those become applicable in Nepal when ASB Nepal incorporates them within NFRS. Forward MFI intends to adopt these standards, if applicable, when they become effective.

2.7 New Standards and interpretation not adopted

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

2.8 Discounting

Non- current assets and liabilities are discounted where discounting is material.

3 Significant Accounting Policies

The principal accounting policies applied by Forward MFI in the preparation of these financial statements are presented below. These policies have been consistently applied to all the years presented unless stated otherwise.

3.1 Basis of Measurement

The financial statements are prepared on the historical-cost basis except for the following material items in the statement of financial position:

Table 1; Basis of Measurement

S.N.	Items	Basis of measurement
1	Liability for employees defined benefit obligations	Projected unit credit method using Actuarial Valuation.
2	Liability for long service leave	Actuarial valuation.
3	Lease liability	Present value of the lease payments over the lease term.
4	Investment securities at fair value through Other comprehensive income	Net assets value method.

Distinction of Current and Non-Current

Assets

All the assets except the property, plant and equipment and deferred tax assets are classified as current assets unless specific additional disclosure is made in the notes.

Liabilities

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

Materiality and Aggregation

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

3.2 Basis of consolidation

Forward MFI does not have any subsidiaries or special purpose entities over which it exercises control. Hence, only individual financial statement is prepared.

3.3 Cash and cash equivalent

Cash and cash equivalents include cash at vault and balances with banks and financial institutions, unrestricted balances with NRB, highly liquid financial assets with original maturity of 3 months from the date of its acquisition and are readily convertible to cash, which are subject to an insignificant risk of changes in fair value. Cash and Cash equivalent are measured at amortized cost in the statement of financial position. Details of Cash and Cash Equivalents are presented under note no. 4.1 to the financial statements.

3.4 Financial assets and financial liabilities

Recognition

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

Classification and Measurement

i. Financial Assets

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

1. *Financial assets measured at amortized cost*

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

   a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and

   b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

   These are subsequently measured at amortized cost using the effective interest rate ('EIR') method less impairment, if any.

2. *Financial asset measured at fair value*

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

   a) Financial assets at fair value through profit or loss

   Financial assets are classified as fair value through profit or loss (FVTPL) if they are held for trading or are designated at fair value through profit or loss upon initial recognition. Transaction costs are directly attributable to the acquisition are recognized in profit or loss as incurred. Such assets are subsequently measured at fair value and changes in fair value are recognized in Statement of Profit or Loss.

   b) Financial assets at fair value through other comprehensive income

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

ii. Financial Liabilities

Forward MFI classifies the financial liabilities as follows:

a) Financial liabilities at fair value through profit or loss

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

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

De-recognition

i. De-recognition of financial assets

Forward MFI derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which Forward MFI neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in such transferred financial assets that qualify for de-recognition that is created or retained by Forward MFI is recognized as a separate asset or liability. On de-recognition of a financial asset, the difference between the carrying amount of the asset, and the sum of

a. The consideration received and
b. Any cumulative gain or loss that had been recognized in other comprehensive income is recognized in Statement of Profit or Loss.

Forward MFI enters into transactions whereby it transfers assets recognized on its Statement of Financial Position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example repurchase transactions.

ii. De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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 Statement of Profit or Loss.

Determination of fair value

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

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

Forward MFI follows three levels of the fair-value-hierarchy are described below:

Level 1: Quoted (unadjusted) prices for identical assets or liabilities in active markets;

Level 2: Significant inputs to the fair value measurement are directly or indirectly observable or valuations of quoted for similar instrument in active markets or quoted prices for identical or similar instrument in inactive markets; and

Level 3: Significant inputs to the fair value measurement are unobservable.

Impairment

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

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

Expected Credit Loss (ECL) under NFRS 9 / IFRS 9

i. Introduction

The institution has implemented the Expected Credit Loss (ECL) model in accordance with Nepal Financial Reporting Standard (NFRS) 9 – Financial Instruments, which is harmonized with IFRS 9.

Under this standard, impairment on financial assets such as loans and advances is recognized based on a forward-looking approach rather than waiting for an actual loss event to occur. The ECL model estimates possible credit losses by considering:

- Historical credit loss experience,
- Current financial and borrower conditions, and
- Reasonable and supportable forward-looking information (macroeconomic outlook).

This model ensures that credit risk is recognized early and more accurately in the financial statements.

ii. Objective and Regulatory Framework

The main purpose of implementing the ECL model is to improve the assessment and reporting of credit risk.

The Nepal Rastra Bank (NRB) issued guidelines on 1st Jestha 2081, requiring all banks and financial institutions to adopt the ECL model as per NFRS 9.

An amendment issued on 11th Shrawan 2082 further clarified that institutions should calculate borrower-specific Loss Given Default (LGD) rates based on collateral valuation instead of using uniform rates.

Methodology of ECL Calculation

The ECL model uses three key parameters:

- **Probability of Default (PD)** – the likelihood that a borrower will default,
- **Loss Given Default (LGD)** – the percentage of exposure expected to be lost after considering recoveries, and
- **Exposure at Default (EAD)** – the amount outstanding at the time of default.

The total Expected Credit Loss is calculated as:

ECL = PD × LGD × EAD

The ECL has been computed for all loan portfolios of Forward Microfinance as of **Ashad 2083** using quantitative data.

iii. Staging of Financial Assets

Under IFRS 9, financial assets are divided into three stages depending on credit risk and past performance:

Stage	Description	Impairment Basis
Stage 1	Loans with no significant increase in credit risk since initial recognition (Loans with overdue days <=30 days except Restructured loans)	12-month ECL
Stage 2	Loans that have shown a significant increase in credit risk (SICR) (Loans with overdue days >30 days up to and including 90 days with restructured loans 0 to 90 days)	Lifetime ECL
Stage 3	Credit-impaired or defaulted loans (All Loans with overdue days more than 90 days)	Lifetime ECL (100% PD)

iv. Probability of default (PD)

The Probability of Default (PD) was calculated using historical data from the past five years (Quarter ending Poush 2077 to Quarter ending Ashad 2083), along with adjustments for current and future economic conditions.

A Cox Proportional Hazard Model was used to estimate PDs, which were then adjusted using macroeconomic variables such as GDP growth, inflation, and unemployment rate.

Data was sourced from the Nepal Rastra Bank (NRB) and the World Bank.

v. Loss Given default (LGD)

The Loss Given Default (LGD) measures the portion of loan exposure expected to be lost after default, considering possible recoveries from collateral or guarantees.

For collateral loan, the net realizable value (NRV) of collateral was used, applying prudent haircuts of 25% as per NRB's amended guidelines.

A minimum LGD of 45% was applied to unsecured (non-collateralized) loans.

vi. Exposure at Default (EAD)

EAD represents the outstanding balance at the time of default, including utilized loans and accrued interest.

The Nepal Rastra Bank requires provisions to be made in financials at higher of amount of provisions derived as per NFRS 9 Expected credit loss and as per NRB directives. Since, the provisions as per NRB Directives is on higher side than ECL, the same has been considered in the quarterly financial statements for the Ashad 2083.

vii. Effective interest rate method

Interest income on financial assets measured at amortised cost is recognised in accordance with the provisions of NFRS 9 and the NFRS 9 Expected Credit Loss Related Guidelines, 2024 (First amendment) issued by Nepal Rastra Bank (NRB), read together with the Guidance Note on Interest Income Recognition, July 2025.

During the reporting period, the Institution has applied the transitional arrangement prescribed by NRB as follows:

- For Stage 1 and Stage 2 financial assets, interest income is recognised on an accrual basis using the contractual coupon rate applied to principal outstanding.
- For Stage 3 (credit-impaired) financial assets, interest income is recognised on cash basis (incremental approach), whereby accrued interest is adjusted against interest suspense and only interest actually received during the period is recognised as income.

The Institution maintains quarterly stage-wise records of interest income in compliance with NRB requirements. For interest income recognition, staging is determined based on previous quarter end staging for the reporting quarter.

The effective interest rate (EIR) method on amortised cost basis, as required under NFRS 9 will be fully implemented from FY 2083/84 in accordance with the regulatory transition plan, unless early adoption is completed.

Impairment of investment in equity instrument classified as fair value though other comprehensive income

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

3.5 Property and Equipment

a) Recognition and Measurement

Property and equipment are recognized if it is probable that future economic benefits associated with the assets will flow to Forward MFI and the cost of the asset can be reliably measured. The cost includes expenditures that are directly attributable to the acquisition of the assets.

All property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss if any.

Any gain or losses on de-recognition of an item of property and equipment is recognized in profit or loss. Forward MFI adopts cost model for entire class of property and equipment. It has not measured any Property Plant and Equipment under revaluation model. Details have been presented in note no. 4.11 to the financial statements.

b) Depreciation

Property and equipment are depreciated from the date they are available for use on property on straight line basis over estimated useful lives as estimated by the management. Depreciation is recognized in profit or loss. Charging of depreciation is ceased from the earlier of the date from which the asset is classified as held for sale or is derecognized.

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

Class of assets and their useful lives

Class of Assets	Useful life
Building	20 years
Vehicles	6 years
Computer and accessories	10 years
Furniture and Fixtures	10 years
Equipment and others	10 years
Leasehold properties	5 years

3.6 Intangible assets

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

The intangible asset with finite useful lives is amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss.

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

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

Class of Assets	**Useful Life**
Computer and server software	5 years

3.7 Investment Property

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

This also includes land, land and building acquired as non-banking assets by Forward MFI but not sold.

Forward MFI does not have any investment properties as on Ashad end 2083.

3.8 Deposits, debt securities issued and subordinated liabilities

Microfinance deposits consist of money placed into Forward MFI by its members. These deposits are made to saving deposit accounts of member.

Forward MFI doesn't have any debt securities and subordinated liabilities as on Ashad end 2083.

3.9 Provisions and Contingencies

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

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

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

A disclosure for contingent liabilities is made where there is:

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

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

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

3.10 Revenue Recognition

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

Interest income

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

- As per the carve-outs provided to Banks and financial institutions by Institute of Chartered Accountants of Nepal 354th Council meeting dated 2082/05/02, Interest revenue shall be calculated by using the effective interest method (see Appendix A and paragraphs B5.4.1–B5.4.7). but for bank or other financial institutions established /licensed by appropriate government bodies, interest revenue can be recognized as per the Guidance Note issued by respective regulators. This carve-outs is available till FY 2082/83.

Hence, Interest income presented in statement of profit or loss has been recognized as per the Guidance note on EIR issued by Nepal rastra bank notice number BFIN/Notice/1/082/83 dated 2082/04/11:

- Interest income on financial assets measured at amortized cost calculated on an accrual basis for each quarter beginning from FY 208283 based on staging of each loan of immediate previous quarter end. Hence, annual interest income is equal to interest income of Quarter 1, Quarter 2, Quarter 3 and Quarter 4.

Fee and commission income

Fee and commission income includes the service fee on loan, remittance fee income, commission income from insurance. Service fees that are integral to the effective interest rate on a financial asset are included in measurement of effective interest rate. However, Microfinance has applied carve-outs on effective interest rate and hence has recognized service fee in profit or loss in full on accrual basis, net of any service fee refund.

Dividend income

Dividend is recognized when the right to receive dividend is established.

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

3.11 Interest expense

Interest expense on all financial liabilities including deposits is recognized in statement of profit or loss on an accrual basis.

3.12 Employees Benefits

a) Short Term Employee Benefits

Forward MFI's short term employee benefits mainly include wages, salaries, allowances, as provided in the law and other employee related expenses. Short term employee benefits are measured on an undiscounted basis and are charged to statement of profit and loss as and when the related service is provided.

b) Post-Employment Benefit Plan

Post-employment benefit plan includes followings:

i. Defined Contribution Plan

Post-Employment benefits plan under which Forward MFI pays a fixed contribution to a separate entity and has 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.

a) Employees Provident Fund

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

ii. Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Forward MFI's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned 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 high quality corporate bonds, that have maturity dates approximating the terms of Forward MFI's obligation and that are denominated in the currency in which the benefits are expected to be paid. The calculation of obligation is performed annually by a qualified actuary using projected unit credit method.

Forward MFI recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all other expenses related to defined benefits plans in employee benefit are expensed in profit or loss, as valued by the actuary.

The following are the defined benefit plans provided by Forward MFI to its employees:

a) Gratuity

Actuarial valuation has been made for determining the liability for gratuity and its cost as per the requirements of NAS 19 Employee benefits and reflected in the presented financial statements.

c) Other Long term Employee Benefits

b) Leave Encashment

The employees of Forward MFI are entitled to carry forward a part of their unavailed/ unutilized leave subject to a maximum limit. The employees can encash unavailed / unutilized leave partially in terms of Employee Service Byelaws of Forward MFI. Actuarial valuation has been made for determining the leave liability as per the requirements of NAS 19 Employee benefits and reflected in the presented financial statements

3.13 Leases

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As per NFRS 16, At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability, unless the lease is for short term or of low value in which case lease expense is recognized over the term of lease on straight line basis.

At the commencement date, a lessee shall measure the right-of-use asset at cost.

The cost of the right-of-use asset shall comprise:

- the amount of the initial measurement of the lease liability
- any initial direct costs incurred by the lessee

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

After the commencement date, a lessee shall measure the right-of-use asset applying a cost model at cost less accumulated depreciation less accumulated impairment losses.

After the commencement date, a lessee shall measure the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made

The Right-of-use assets are presented in Note 4.11 to the financial statements under Property and Equipment.

3.14 Share capital and reserves

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. Incremental costs directly attributable to the issue of new shares are shown in equity as deduction net of taxes from the proceeds.

The reserve includes regulatory and free reserves.

Statutory General Reserves

20% of the net profit as stated in Bank and financial Institution Act, 2073 is set aside to the general reserve.

Movement in statutory general reserve during this fiscal year is presented in Statement of Changes in equity.

Exchange Equalization Reserve

This is statutory reserve created in compliance with BAFIA. 25% of the revaluation gain on the foreign currency, other than Indian currency, computed as per regulatory books is set aside to Exchange Equalization Reserve.

Capital reserve

This is a non-statutory reserve and represents the amount of all the capital nature reserves such as the amounts arising from share forfeiture, capital grants and capital reserve arising out of business combinations. Funds in this reserve are not available for distribution of cash dividend but can be capitalized by issuing bonus shares upon obtaining prior approval from the central bank.

Corporate Social Responsibility Fund

1% of net profit is set aside in the fund as per the NRB Directives for the purpose of corporate social responsibility.

Investment Adjustment Fund

It is a reserve created on investment in equity instrument if the equity doesn't get listed in Security Market within 2 years as per the directives issued by NRB.

Regulatory Reserve

The amount that is allocated from profit or retained earnings of Forward MFI to this reserve as per the directives of NRB for the purpose of implementation of NFRS and which shall not be regarded as free for distribution of dividend shall be presented under this reserve.

Movement in Regulatory reserves during this fiscal year is presented in Statement of Changes in equity. The amount allocated to regulatory reserve for the year has been presented in Statement of distributable profit or loss.

Actuarial Gain/Loss Reserve

The amount of actuarial gains/losses both positive or negative to this reserve as per the directives of NRB for the purpose of implementation of NFRS and which shall not be regarded as free reserve for distribution of dividend are recorded in this reserve. The reserve includes actuarial gain/(loss) net of tax on defined benefit plan.

Client protection fund

Client protection fund is created at 2% of net profit for the year.

3.15 Earnings per share

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

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

3.16 Segment reporting

An operating segment is a component of Forward MFI that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relating to transactions with any of Forward MFI's other components, whose operating results are reviewed by the management to make decision about resource allocation to each segment and assess its performance. Forward MFI has identified and reported seven operating segments as per province wise.

4 Explanatory Notes

The explanatory notes and significant disclosure relating to the financial statements are as follows:

4.1 Due from Nepal Rastra Bank

Statutory balances held with Nepal Rastra Bank for compulsory cash reserve, securities purchased from Nepal Rastra Bank under resale agreement and other deposits with and receivables from Nepal Rastra Bank has been presented under this account head.

4.2 Placement with Bank and Financial Institutions

Placements with domestic as well as foreign bank and financial institutions with original maturities of more than three months from the acquisition date are presented under this account head.

4.3 Derivative Financial Instruments

Derivative instruments include transactions like interest rate swap, currency swap, forward foreign exchange contract etc. held for trading as well as risk management purposes. Derivative financial instruments are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date.

However, Forward MFI does not have such instruments as on Ashad end 2083.

4.4 Loans and advances to customers

Outstanding amount of all loans and advances extended to the customers other than BFIs as well as bills purchased and discounted less the amount of impairment allowances shall be presented. Loan to employees provided according to the Employees Bylaws of Forward MFI has also been presented under this head.

4.5 Other Trading Assets

Financial assets are classified as trading assets if they have been acquired principally for the purpose of selling in the near term, or form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short- term profit taking. They are recognized on trade date, when Forward MFI enters into contractual arrangements with counterparties, and are normally derecognized when sold. They are initially measured at fair value, with transaction costs taken to profit or loss.

Subsequent changes in their fair values are recognized in profit or loss in 'Net trading income'. However, Forward MFI does not have such assets to be recognized as trading assets as on Ashad end 2083.

4.6 Investment securities

Investments made by Forward MFI in financial instruments has been presented under this account head in three categories i.e., investment securities designated at fair value through profit or loss, investment securities measured at amortized cost and investment in equity measured at fair value through other comprehensive income. Where income from the investment is received in the form of bonus shares, the valuation of investment shall be made by increasing the number of shares only without changing in the cost of investment.

4.7 Income Tax

4.7.1 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.

4.7.2 Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the balance sheet 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.

4.8 Due to Bank and financial institution

The balances in accounts maintained with the institution by other local and foreign banks and financial institution has been presented under this head. Interbank borrowing, interbank deposit, balances on settlement and clearing accounts as well as other amount due to bank and financial institution has also been presented under this account head.

4.9 Due to Nepal Rastra Bank

This account head shall also contain the amount of payable to Nepal Rastra Bank. Amount payable to NRB shall include amount of refinance facilities, standing liquidity facility, lender of last resort, sale and repurchase agreements, deposit from NRB etc.

4.10 Deposits from Customers

All deposit accounts other than deposit from BFIs (local and foreign) and NRB has been presented under this account head.

4.11 Fees and Commission Expense

Payment on account of fee and commission for services obtained by Forward MFI has been presented under this account head. This account head shall include card related fees, guarantee commission, brokerage expenses etc.

4.12 Net trading income

Trading income comprises gains less losses relating to trading assets and liabilities, and includes all realized interest, dividend and foreign exchange differences as well as unrealized changes in fair value of trading assets and liabilities has been presented under this account head.

4.13 Other operating income

Receipt of all other operating income not specifically provided under the income heads above has been booked and presented under this head. This includes foreign exchange revaluation gain, gain/loss on sale of investment at fair value through other comprehensive income, dividend on investment at fair value through other comprehensive income, gain/loss on sale of property and equipment, gain/loss on sale of investment properties, lease income, gain/loss on sale of gold and silver, etc.

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

It includes impairment charge/reversal on loan and advances to customers, loan and advances to bank and financial institutions, investment securities, placement with bank and financial institutions, property and equipment, goodwill and intangible assets, investment properties etc.

4.15 Personnel Expense

All expenses related to employees of Forward MFI has been included under this head. Expenses covered under this head include employees' salary, allowances, pension, gratuity, contribution to provident fund, training expenses, uniform expenses, insurance, staff bonus, Finance expense under NFRSs etc.

4.16 Other operating expense

All operating expense other than those relating to personnel expense are recognized and presented under this account head. The expenses covered under this account head includes office administration expense, other operating and overhead expense, directors' emoluments, remuneration and non-audit fee paid to auditors, professional and legal expense, branch closure cost expense, redundancy cost expense, expense of restructuring, onerous lease provisions etc.

4.17 Depreciation & Amortisation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Amortization is the systematic allocation of the depreciable amount of an intangible asset over its useful life. Depreciation measured and recognized as per NFRSs on property and equipment, right-of-use assets, and investment properties, and amortization of intangible assets has been presented under this account head.

4.18 Non-operating income/expense

The income and expenses that have no direct relationship with the operation of Forward MFI has been presented under this head. The income/expense covered under this account head includes loan written off, recovery of written-off loan, redundancy provision, expense of restructuring etc.

4.19 Income tax Expense

The amount of income tax determined as per the rules of tax authority and any deferred tax effect as per NAS 12 Income taxes has been recognized and presented under this account head.

5 Disclosures & Additional Information

5.1 Risk Assessment and Management

Forward MFI has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risk.

Forward MFI's board of directors has overall responsibility for the establishment and oversight of Forward MFI's risk management framework.

Credit Risk

Credit risk' is the risk of financial loss to Forward MFI if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Forward MFI's loans and advances to customers. For risk management reporting purposes, Forward MFI considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

Forward MFI has applied following mitigates for management of Credit Risk factors:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk: Microfinance Credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Reviewing compliance of business units with agreed exposure limits
- Providing advice, guidance and specialist skills to business units to promote best practice throughout Forward MFI in the management of credit risk.

Such mitigates are monitored by Board of Directors, Risk Management Committee, Risk Department, NRB Inspection team and Internal Audit Department of Forward MFI.

Market Risk

Market risk is the possibility of a customer experiencing losses due to factors that affect the overall performance of Forward MFI in which the customer is involved. Market risk is systematic risk of the financial market.

Factors of Market Risk include Interest Rate Risk, Equity Risk.

Forward MFI has applied following mitigates for management of the Market Risk factors:

- Stress testing/simulation of market conditions
- Gap Analysis
- Regular review of risk management processes
- Regular review of Risk Tolerance and appetite limit.
- Measurement of Interest Rate Shocks
- Interest rate related Risk Monitoring.

Such mitigates are monitored by Board of Directors, Risk Management Committee, Internal Audit Department

Liquidity Risk

'Liquidity risk' is the risk that Forward MFI will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to Forward MFI's operations and investments.

Factors of Liquidity Risk includes Deterioration in quality of credit portfolio Concentrations in either assets or liabilities, Rapid asset growth funded by highly volatile large deposits, A large size of off-balance sheet exposure.

Forward MFI has applied following mitigates for the management of Liquidity Risk:

- Appropriate composition of assets and liabilities

- Diversified and stable sources of funds
- Access to inter-bank market
- Contingency funding plan for crisis situations
- Regular stress testing
- Cushion of liquid assets held
- Consistent analysis using liquidity ratios
- Review of Deposit Mix Concentration.

Such mitigates are monitored by BOD, Finance and Credit Department, Internal Audit Department.

Fair value of Financial Assets and Liabilities

Fair Value of financial assets and liabilities risk management includes effective portfolio management by finance department which is monitored by BOD, and other high-level officials.

5.2 Capital Management

The capital management approach of Forward MFI is driven by its desire to maintain a strong capital base to support the development of its business and to meet the regulatory capital requirements at all times.

As Capital is the centre piece of Forward MFI's performance matrix, a sound capital management forms the very core of the overall performance landscape to ensure that Forward MFI delivers on its objective of maximizing the shareholder's value. The senior management of Forward MFI is engaged and responsible for prudent capital management at all times. In compliance with the regulatory requirement of increasing the capital base as prescribed by the Central Bank, Forward MFI is comfortable in meeting the minimum capital requirements and is strongly positioned to meet the performance benchmarks.

5.3 Risk Management Function

Forward Microfinance Laghubitta Bittiya Sanstha is exposed to various types of risks including credit, market, liquidity, operational, legal, compliance and reputation risks. The objective of the risk management framework at Forward MFI is to ensure that various risks are understood, measured and monitored and that the policies and procedures established to address these risks are strictly adhered to. Forward MFI has set up a strong control and monitoring environment for comprehensive risk management at all levels of operation.

Measurement of Risks for Capital Adequacy Purpose:

Under Pillar 1 of the specific NRB guidelines, the finance company currently follows Simplified Standardized Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Net Open Position approach for Market risk.

A. Credit Risk

Strategies and Process:

All credit related aspects are governed by Operation Manual of Forward MFI. These documents outline the type of products that can be offered, customer categories, credit approval process and limits. These documents are approved by the Board of directors.

Forward MFI Company's main emphasis is on Microfinance credit to deprived sectors. Different limits of lending power have been assigned at branch level, department head level and the credit committee level. Every aspect relating to credit such as procedure, documentation etc. are clearly defined in the Operation Manual and the Credit Policy of Forward MFI.

Pre-Sanction:

The branch managers have the authority to approve the credit within their permissible limits after due scrutiny of background of the member, nature of business, turnover in the account, other financial indicators, income, collateral and security. Loans above the authority of branch are recommended to central credit department for further decision.

Credit Risk Assessment Process:

Risk Management Department carries out a comprehensive credit risk assessment process that encompasses analysis of relevant quantitative and qualitative information to ascertain credit rating of the borrower. The credit rating process involves assessment of risk emanating from various sources such as market risk, management risk, environmental risk, financial risk and security risk taking into consideration as much as 30 sub-parameters under each of these categories. Credit thresholds have been set for forwarding the credit files for risk rating before they are submitted for approval in the credit committee by the concerned credit units.

Post Sanction Monitoring/ Follow up:

Concerned branch are required to obtain regular information of the business. In case of revolving loans, the drawing power is checked commensurate with the existing level of stocks and working capital checked and verified at regular interval. The credit units at the Head Office are also required to prepare quarterly credit report to submit at higher level as a part of formal monitoring process.

B. Operation Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk is inherent in Forward MFI's business activities.

The board level committee that undertakes supervision and review of operational risk aspects are the Risk Management Committee and Audit Committee. The board and the risk committee review the operational risk level and the material operational risk exposure. The Audit committee supervises audit and compliance related aspects. Internal Audit department on the other hand carries out audit according to the audit plan and reports findings to the audit committee.

Risk Arising from breakdown of Information and Operating System:

Forward MFI has implemented centralized software URANUS Core Banking Software and has improved in its MIS infrastructure in order to ensure the associated operational risks being brought down to an acceptably low level.

To safeguard the probable losses resulting from system failure or natural disaster, Forward MFI has taken following policies to minimize the risk:

a. Back up – Daily back up of all balances are taken at the end of the day. Forward MFI is developing a system of auto back up in the near future.
b. Disaster Recovery Site – Forward MFI has established disaster recovery site.
c. Validation of Entry and Password control – There is a system of maker and checker for entry validation before posting. Access authority for data entry, update, modification and validation has been given on the basis of levels of staffs.
d. Exception Reporting – The system creates exception report as and when required.

Risk Arising from Procedural Lapses and Internal control:

Forward MFI has defined every banking procedure in the Operation Manual related to banking transactions. Internal circulars are issued whenever required. Reporting by branches is regular.

Corporate Governance:

NRB Guidelines with respect to Corporate Governance are duly complied with.

C. Market Risk

a. Investments

Currently Forward MFI has not made any investment for trading purpose.

b. Foreign Exchange

Forward MFI's policy is to maintain the net open position of convertible foreign currency where exchange rate risk persists in matching position. At present, Forward microfinance doesn't deal in foreign currency So, there is no any foreign exchange risk at forward MFI.

5.4 Segment Analysis

5.4.1 General Information

Forward MFI's operation is managed centrally through Head Office. All strategic, financial and operational policies and operations are controlled and directed from the head office through province offices. Forward MFI operates in 159 branches with province wise.

Forward MFI has identified following segments as reportable:

a. Koshi Province
b. Madhesh Province
c. Bagmati Province
d. Gandaki Province
e. Lumbini Province
f. Karnali Province
g. Sudurpashchim Province

There is no inter-unit cost transfer mechanism within Forward MFI.

Information about major customer:

None of the customer individually or as a group contributes to 10% or more of Forward MFI's revenue.

5.5 Share options and share based payment

There is no share-based payment made by Forward MFI.

5.6 Contingent Liabilities and Commitments

Litigation is a common occurrence in the banking industry due to the nature of business undertaken. Forward MFI company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, Forward MFI makes adjustment to account for adverse effect which the claims may have on its financial standing. Contingent liabilities on other matters have already been disclosed in notes 4.28.

5.7 Related party disclosures

The related parties of Forward MFI which meets the definition of related parties as defined in "NAS 24 Related Parties Disclosure" are as follows:

i. ***Key Management Personnel (KMP)***

The key management personnel are those persons having authority and responsibility of planning, directing and controlling the activities of the entity, directly or indirectly including any director. The key management personnel of Forward MFI include members of its Board of Directors, Chief Executive Officer, and senior management personnel of Forward MFI.

The members of Board of Directors are entitled for meeting allowances. Salary and allowances are provided to Chief Executive Officer and other member of Key Management Personnel (KMP). Salary and Allowances paid to the Chief Executive Officer is based on the contract entered by Forward MFI with him whereas compensation paid to other member of KMP are governed by Employees Byelaws and decisions made by management time to time in this regard.

The details relating to compensation paid to Board of directors during the fiscal year 2082/83 were as follows:

Particulars	**Amount (NPR.)**
Board Meeting Fees	2,098,369
Other Expenses	137,929
Total	**2,236,298**

The details relating to compensation paid to other key management personnel other than directors were as follows:

Particulars	**Amount (NPR.)**
Short term employee benefits (including Bonus and Paid Leave)	9,033,678

5.8 Merger and acquisition

No any merger and acquisition has taken place in the reporting fiscal year.

5.9 Additional Disclosure of Non-consolidated entities

Since, Forward MFI does not have any subsidiaries, there are no such non-consolidated entities.