

# BOARD OF DIRECTORS

# *report*

FISCAL YEAR 071/072



KARJA SUCHANA KENDRA LIMITED

# BOARD OF DIRECTORS



**MR. TULASI RAM GAUTAM**  
Chairman



**MR. NARA BAHADUR THAPA**  
Director



**MR. AJAY SHRESTHA**  
Director



**MR. JYOTI PRAKASH PANDEY**  
Director



**MR. RAJENDRA MAN SHAKYA**  
Director

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MR. TULASI RAM GAUTAM

**T**he key role played by the bureau in helping banks and financial institutions in their loan assessments is amply demonstrated by the significant increase in the generation of credit reports over time. In spite of slow down in economy and merging of financial institutions, the number of credit reports issued by the bureau has increased by 20.2% from 482,677 reports in 070/071 to 579,925 reports in 071/072. Within six year time, the number of credit reports generated has increased manifolds from 85,175 reports in 2066 to 579,925 reports in 2072, which is nearly 581% increment in report generation.

## MESSAGE FROM THE CHAIRMAN

The credit information service has been contributing immensely in enhancing the growth of the credit market in the country since its inception. Greater access to accurate and quality credit information has enabled the financial institutions to manage credit risk more effectively and drive business profit whilst venturing into new areas of business. The yearly growth of the generation of credit reports is the testimony of the fact that the member institutions place much reliance on credit reports in assessing their existing and prospective borrowers. While there have been significant improvements in terms of turn around time in processing their loans, a higher level of innovation was desired by the member institutions to cater to their needs of new products developments and services that add value in their lending decisions.

Initiatives were taken in this regard to further improve the efficiency of the system by acquiring new system called Silver Blade. Though the Silver Blade was installed and commissioned a year back, its commercial operation got delayed because of the delay on the part of member institutions to develop the required interface to interact with the bureau's new system and upload their data through it. During the year, bureau was completely engaged in helping member institutions to develop their required interface and collect their data through the new system. Since most of data migration and data collection issues have been resolved by now, bureau contemplates to start its operation soon.

This new system is expected to enhance the capacity and performance of the bureau, enabling the bureau to meet the growing demand for credit information services, and deploy new products and services efficiently. Going beyond the traditional scope of the product portfolio and services, the new system would offer value added products like credit scoring, alerts, fraud prevention and portfolio analysis to members whilst making it possible to expand services to wider customer base including SMEs, insurance providers, retailers and trade creditors. In turn, consumers and businesses would be able to obtain more competitively priced loans and financial institutions would be able to make safer and more reliable financial decisions.

There has been a great sense of relief among the microfinance institutions to have dedicated MF bureau coming into operation soon. Though the system was installed and commissioned a year back, the collection of quality data remained a major issue for the bureau during the period. Since sizable number of MF institutions have already joined the bureau and started sending their data, the bureau contemplates to put the system into commercial operation soon once the sanity checks of all the data are completed and data are stored in the database in the correct form. The operation of the MF bureau will play a huge role in restraining the growth of multiple lending, credit delinquencies and over indebtedness prevailing in the microfinance sector. Weakening performance of the MF institutions is due in part to the absence of information sharing among the institutions that has led to increase the level of asymmetric information leading to increase in multiple lending and default loans in the sector. Against this backdrop, the operation of the MF bureau will help in addressing the above problems and contributing to the growth the MF sector in the country.

Secured Transaction Registry service which is considered to be one of the major infrastructures for the development of the financial sector is expected to go on commercial operation very soon. Though the system has already been installed and commissioned, some concerns has been raised by the banking sector regarding some provisions of the STR Act and has requested Ministry of Finance to look into it before the system is put into commercial operation. Ministry of Finance has been deliberating on the issue and is expected to do the needful soon. The operation of Secured Transactions Registry service shall go a long way in contributing to the growth of credit market in the country. Well-functioning secured transactions systems enable businesses to use their movable assets as security to generate capital. Secured Transaction Registry will allow Secured Parties to perfect their security interests and establish priority of their security interests in the movable goods of the borrower.

The key role played by the bureau in helping banks and financial institutions in their loan assessments is amply demonstrated by the significant increase in the generation of credit reports over time. In spite of slow down in economy and merging of financial institutions, the number of credit reports issued by the bureau has increased by 20.2% from 482,677 reports in 070/071 to 579,925 reports in 071/072. Within six year time, the number of credit reports generated has increased manifold from 85,175 reports in 2066 to 579,925 reports in 2072, which is nearly 581% increment in report generation.

The financial performance of the bureau improved significantly during the year as the core income increased with the higher increase in the issue of the credit reports. However there was only the marginal increment in the interest income from the investments because of the lower interest rates in the deposit accounts of the financial institutions during the period. The net operational income of the bureau for the year under review amounted to Rs. 169 million with a 20.7% increment from the previous year income of Rs. 140.7 million. As a result, the net profit for the year increased to Rs. 115 million and earnings per share rose to Rs. 111.8 from Rs. 92.6 in 070/071.

Our vision has always been to develop Kendra as a world class bureau in terms of products and services and establish it as a change agent and major catalyst in the growth of country's credit market. After the operation of all three systems, the Kendra will grow into an institution with the largest repository of credit data in the country. All the credits extended in the economy will be captured by Kendra. With the volume of data collected by it, it can come out with various value-added products and services that will drive the growth of credit market further. The Bureau can turn into a one window solution provider for diverse areas of banking business in the country.

As we end this year on a high note, I would like to thank all the member banks and financial institutions for their continued support to the bureau in its endeavor to provide best credit information services to them. I also would like to thank Nepal Rastra Bank and other government agencies for their continued support to the bureau and look forward for the same in the future as well. There is no denying the fact the continued readiness and effectiveness of the bureau in fulfilling its responsibilities requires a strong collaboration with our member financial institutions, central bank and government agencies. I also extend my sincere gratitude to all the members of the Board for their support, encouragement and valuable inputs all the time. On behalf of the Board, I thank the CEO and all staff members of the bureau for their hard work, perseverance, commitment and their zeal and passion to take this company to the newer heights each year.

Having successfully completed over decades of service to the financial sector, I am confident that the bureau will scale new heights in the future with the patronage and support of all our stakeholders.

Thank you.

## MESSAGE FROM THE CEO



MR. ANIL CHANDRA ADHIKARI  
CEO

**D**espite the challenges, the bureau managed to maintain its growth momentum in the year as well. The issue of the credit reports recorded a growth of 20.2% to the total of 579,925 reports. Thus in spite of the moderation of credit growth during the year, the operating revenue increased by 19% where as operating expenses increased by 5.2% leading to the increment of operating profit by 20.7% to Rs. 169.8 million.

The year 071/072 ended on a good note. The year was no different than any other years in terms of operational and financial performance of the company which has been improving each year since last many years. In spite of being a small company as compared to any other national level organizations, the bureau has established itself as one of the most important institutions in the banking and finance sector of the country. It has been playing a catalytic role in the realm of credit risk management and promotion of healthy credit culture in the country. Besides the direct impact on reducing the credit risk, the bureau has been indirectly influencing the reduction in the percentage of non performing loan by inculcating financial discipline amongst the borrowers.

In its continued effort to develop the bureau as a largest repository of credit data in the country where all lending, big or small, extended in the economy are captured and stored, it is going to start the commercial operation of three new national level projects very soon. The new commercial bureau system and microfinance bureau system has already been installed and commissioned and are in a pre-operation phase of data collection where as Secured Transaction Registry system may go on commercial operation any time very soon.

Data collection process of both the bureaus has turned out to be very cumbersome and time consuming and affected the schedules of their commercial operations. Many banks and financial institutions found difficulties with their MIS system to interface with new bureau system and took time to improve on them before they could effectively load the data through the new system. Similarly, many microfinance institutions took time to work on their data and MIS system before they could upload the data to the bureau. Bureau worked together with both the financial institutions and microfinance institution during the period to expedite the data collection process and verify the sanctity of the data thus collected.

The commercial operation of Secured Transaction Registry service got delayed because of some concerns raised by banking sector regarding some provisions of the Act which is under review and consideration in the Ministry of Finance. It is expected that the issues will be resolved and system will go on live very soon. While developing the Registry System, Bureau ensured that the system was simple and easy to use for any user logging into the system for the registration of notices and searches. The access of the service is web based and can be accessed by any user from any parts of the country where internet service is available. Bureau expects that at the initial phase of the service implementation, the use of STR service will be limited to only banking and the government sectors. As the awareness grows about its use and benefits, the service will pick up its momentum and the subscriber base will slowly increase. In order to generate the awareness about the service, bureau plans to conduct various levels of awareness programs to educate the potential users about the service and its benefits.

Despite the challenges, the bureau managed to maintain its growth momentum in the year as well. The issue of the credit reports recorded a growth of 20.2% to the total of 579,925 reports. Thus in spite of the moderation of credit growth during the year, the operating revenue increased by 19% where as operating expenses increased by 5.2% leading to the increment of operating profit by 20.7% to Rs. 169.8 million. The pre tax profit edged to Rs. 154.4 million and the company earned the net profit of Rs. 115.6 million this year, an increment of 20.7% from the previous year's income of Rs. 95.7 million. The operating profit margin is 89.8% where as net profit margin is 61%. The return on equity is 28% where as earning per share has shoot up to Rs. 111.8 per share.

On the operation side, the bureau delivered a highly secured and reliable service to the member institutions during the period. Since security and confidentiality of data is regarded as vitally important ingredients in the bureau's core values, the security measures were reviewed on a regular basis to ensure its applicability and enforceability across all its activities. The system availability was hundred percent and there were no any reported cases of system inaccessibility, security and confidentiality breaches, data inaccuracies, wrong identifications and credit report errors during the period. The internal control system was highly effective in identifying risks, detecting and preventing frauds and protecting the company's resources both physical and intangible.

During the period, the bureau focused equally well on imparting necessary trainings to the users of the service on the new systems to enhance their skills and knowledge and make them familiar with the new systems. The bureau organized and conducted series of training sessions on three projects on a regular basis during the period.

The bureau expects to face many challenges in the incoming year 072/073. The successful implementation of microfinance bureau is a huge task which requires a lot of efforts by the bureau to bring all the microfinance institutions to use the bureau's service. Bureau has to work together with them to help them build their confidence to join the bureau. They need to be guided and supported to develop their system interface, improve on their data quality and train their staffs to use the bureau's service. Similarly successful implementation of Secured Transaction Registry service also requires a lot of awareness programs to be conducted in order to make people aware about the system and its benefits.

At the end, I would like to thank to all the member banks and financial institutions for their continued support to the Bureau and for their regular suggestions and feedbacks on our services. This always helps us to improve further on our services and provide better quality services to them. I also extend my deep appreciation to the company's Board of Director for their guidance and support to us all the time during the period. At the end, I would like to thank all my colleagues of this company who supported me all the way to take this company to new heights.



# REPORT OF THE BOARD OF DIRECTORS

## PRESENTED BY THE CHAIRMAN

### AT 11<sup>TH</sup> ANNUAL GENERAL MEETING

*Dear Shareholders,*

On behalf of the Board of Directors of the company, I would like to welcome you all to this 11th Annual General Meeting of Karja Suchana Kendra Limited.

Please let me have this opportunity to take over this floor to brief you about the operational and financial performance of the company in the year 071/072, its projected accomplishments, operational activities, status of the on going projects and various other issues related with the delivery of credit information services to the member banks and financial institutions of the country.

The Balance Sheet, Profit & Loss Account and Cash Flow Statement for the Fiscal Year 071/072 and report of the Board of Directors are hereby presented to you for the required discussions and approval.

## REVIEW OF LAST YEAR OPERATION

### OPERATIONAL PERFORMANCE REVIEW

During the year, Kendra put all its efforts in bringing both the new commercial bureau and microfinance bureau into operation. Though the installation and commissioning of the systems were completed in 070/071, its operation got delayed because of the delay by the banks and financial institutions in submitting their data through the new system. Many banks and financial institutions are still struggling hard to update their IT system and interface with the bureau's new system.

Though Microfinance Bureau is ready and is having good participation from microfinance institutions, the quality of their data is poor and system is taking plenty of time in processing their data and submitting the correct data into the database. This has severely hampered the launching of the microfinance bureau.

The Secured Transaction Registry System is already installed and is ready to go "on live". Since it is a web based system, any one can access the system from any place where internet service is available. Since the system is a public registry where any one can register the notices and search the information, the system has been made very simple and user friendly so that even a person with no prior knowledge of the registry system can register the notices without any problem.

Along with the implementation of the new systems, Kendra also put its efforts on providing the required trainings to the users of the new commercial bureau, microfinance bureau and secured transaction registry system so as to make them familiar with the operation of the new systems.

# 1 Summary of the operational activities

To put in an encapsulated form, the major operational highlights of the year 071/072 were as follows:

- the Kendra was totally engaged in data maturation process throughout the year where the incoming data collected from the member institutions through the new system were subjected to the various levels of sanity checks and purification process before storing them into the data base. There was the unexpected delay from the banks and financial institutions in submitting their data through the new system which took its toll on its early commercial operation. Many banks having large number of borrowers' records are still finding difficulties with their system to get connected with the bureau thus delaying the completion of data collection process and the maturity of the database.
- though the bureau received the first level of data from many microfinance institutions during the period, it failed to receive the subsequent levels of updated data from them as per the error logs forwarded to them in various iterations cycles of the validation process. This delayed the data maturation process and the implementation of the microfinance bureau.
- the Secured Transaction Registry system has been installed and commissioned and is ready to put on service.
- the bureau conducted many trainings and interaction programs with the banks and financial institutions during the period. The trainings were focused on various components of the new commercial bureau, microfinance bureau and secured transaction registry systems. The objective was to make the users familiar with the systems to operate the new services.
- apart from working on the new systems, bureau maintained its existing system at its best level. Both the Primary and DR sites were continuously monitored and supervised to ensure that all the hardware and software installed were operating perfectly to give the desired operating performances. The service was provided uninterrupted throughout the year. There were no service breakdowns reported in the Primary Site during the period and system availability was 100 percent. The disaster recovery site (DR Site) was put on a warm standby mode to prevent any breakdown in service in case of any system failure in the primary site.
- since the protection of data has always remained the prime concern of the bureau, the security measures were reviewed on a regular basis to ensure that they were up to date and effective. The encryption techniques were given due importance and were made sufficiently robust to withstand attacks from new decryption software available in the net zones. Latest antivirus protection software along with strong firewall system was deployed. The whole system was properly updated and all the security applications deployed were only as good as their most recent update. Apart from this, it was ensured that the failover systems were functional all the time and the data were mirrored in DR site on real mode.
- because of bureau's relentless efforts and endeavors, the data quality has been improving each year since last couple of years. Apart from educating the banks and financial institutions about the importance of the data quality, the bureau has deployed various kinds of system mechanisms to monitor the incoming data and make the data compatible with the required quality standards.
- the bureau maintained the response cycle time to the lowest of 4secs and improved further on the searching logic of the system. The logic was very fast in processing the results and delivered 100% correct identification of the borrowers. No instances of misidentification of borrowers or incorrect overlaps of loan profiles were reported during the period. Similarly, the data transmission through both the offline and online systems were continuously monitored to ensure the fast and efficient upload of the data from the member institutions to the bureau system.
- the bureau maintained a high "House Keeping" standards that helped in having safe environment for the equipments to operate inside Data Center. The storage, placement and installation of the equipments along with its cabling were properly done. Unauthorized Access was strictly prohibited and emphasis was placed on the neatness and cleanliness of the Data Center all the time. Data related house keeping was done on regular basis that included records deletion, updates, add-ons, storing logs and data files in specific folders, setting changes etc. There were no any operational incidents reported during the period in Data Center that affected the delivery of the services.
- the bureau had put in place a very effective monitoring system that not only detected the security and

confidentiality lapses but also any deviant behavior or changes in the quality of the services rendered. Every activity performed by the user and any change in events such as configuration updates, security profile changes, database changes, transactions were logged into the system and displayed.

- the bureau further improved on its Help Desk system and implemented multi tiered trouble shooting approach by having personnel with extensive technical knowledge. The

bureau had the tracking capabilities of all the incoming problems and deployed escalation matrix to resolve the issues. Help desk service was further strengthened by effective messaging and emailing component which brought huge efficiency in the dissemination of information and delivery of notices and announcements to the banks and financial institutions. During the period, all the technical issues and problems raised by the users' were addressed on time and closed.

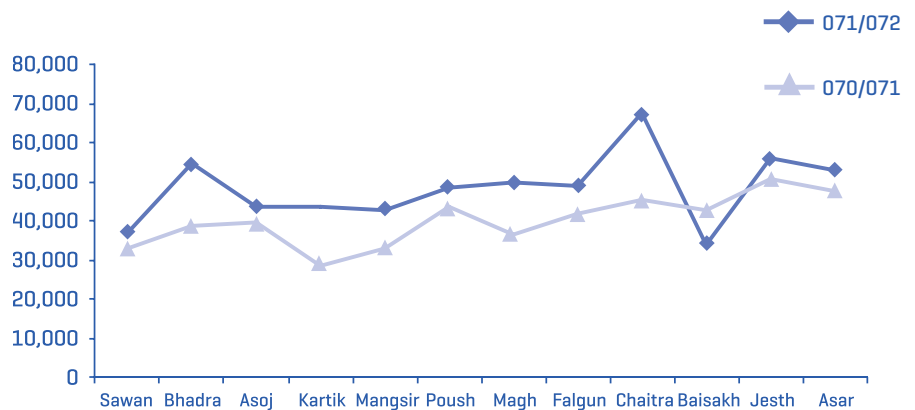
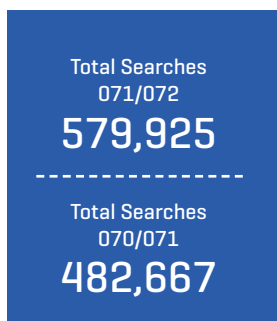
- billing and accounting systems were further strengthened that reduced the errors on the invoices and increased efficiency in the invoice generation and receivables collection process. Because of this, account receivables reduced substantially during the period.
- the capacity of the system was increased further to allow additional users into the system. Many banks and financial institutions were granted additional "Users" to facilitate them to access the system.

## 2 Statistics of the Credit Reports

The number of credit reports generated (Hits/number of searches) by the system increased by nearly 20.2% this year. In spite of decreasing number of banks and financial institutions because of mergers and acquisitions, there has been increase in the generation of credit reports. Many factors such as stable economy, improving real state growth, increasing business opportunities, effective regulation, improved access to bureau's service, high quality credit report, affordable tariffs, increasing awareness among users about the "information based lending" may have contributed for this growth.

The table below shows the month wise generation of the credit report by the member institutions during the period.

Total "Hits"	Sawan	Bhadra	Asoj	Kartik	Mangsir	Poush	Magh	Falgun	Chaitra	Baisakh	Jesth	Asar
071/072	37,155	54,899	43,619	43,436	42,643	48,590	49,945	48,988	67,704	33,931	55,914	53,101
070/071	33,018	38,969	39,735	28,554	32,998	43,570	36,772	41,984	45,561	42,930	50,822	47,754

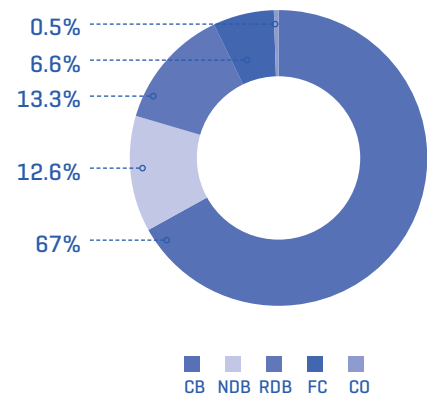


Apart from two major spikes in the months of Bhadra and Chaitra followed by the subsequent dips, the distribution pattern of credit report generation showed the similar trend as that of the previous year 070/071. The sharp dip in the month of Baisakh was because of the major earthquake that struck Nepal during the month that badly affected the lending business of the

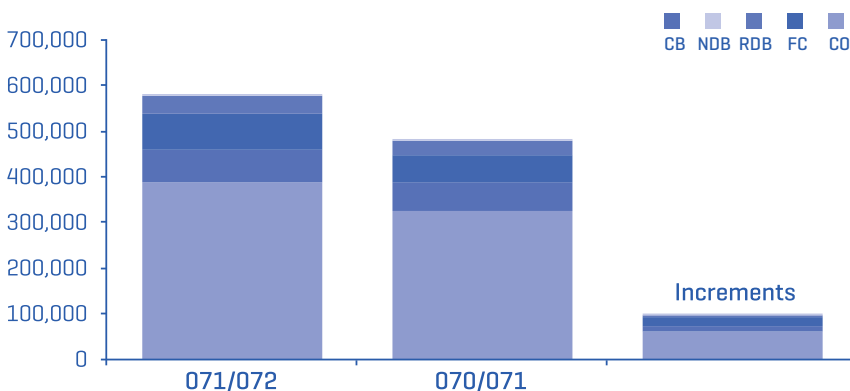
banking sector. The incremental gap is small leading to the lower increments in the credit report generation as compared to the previous year. The average monthly generation of credit report increased from 40,222 reports in 070/071 to 48,327 reports in 071/072 leading to the month wise increments of 8,105 reports.

As the previous years, Commercial Banks generated highest number of credit reports followed by Regional Development Banks, National Development Banks and Finance Companies. Co-operatives and others were the lowest users of the service. The Commercial Banks generated nearly 67% of the total Credit Reports where as National Development Banks, Regional Development Banks and Finance Companies generated 12.6%, 13.3% and 6.6% respectively. Co-operatives and others generated only 0.5% of the total.

Categories of Lending Institutions	Credit Reports	Percentage of the Total
	071/072	
Commercial Banks (CB)	388,218	67%
Development Banks/National (NDB)	73,259	12.60%
Development Banks/Regional (RDB)	77,035	13.30%
Finance Companies (FC)	38,454	6.60%
Co-operatives and Others (CO)	2,959	0.50%
<b>Total Searches</b>	<b>579,925</b>	<b>100%</b>

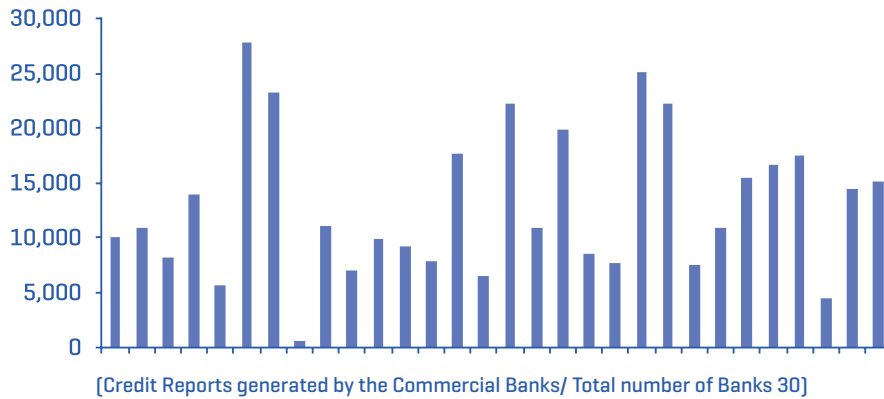


Categories of Lending Institutions	Number of Credit Reports		Increments	% Increments	% of the Total Increments
	071/072	070/071			
Commercial Banks (CB)	388,218	327,096	61,122	18.70%	62.85%
Development Banks/National (NDB)	73,259	60,940	12,319	20.20%	12.66%
Development Banks/Regional (RDB)	77,035	59,284	17,751	29.90%	18.25%
Finance Companies (FC)	38,454	33,774	4,680	13.90%	4.81%
Co-operatives and Others (CO)	2,959	1,573	1,386	88%	1.43%
<b>Total Credit Reports</b>	<b>579,925</b>	<b>482,667</b>	<b>97,258</b>	<b>20.20%</b>	<b>100%</b>

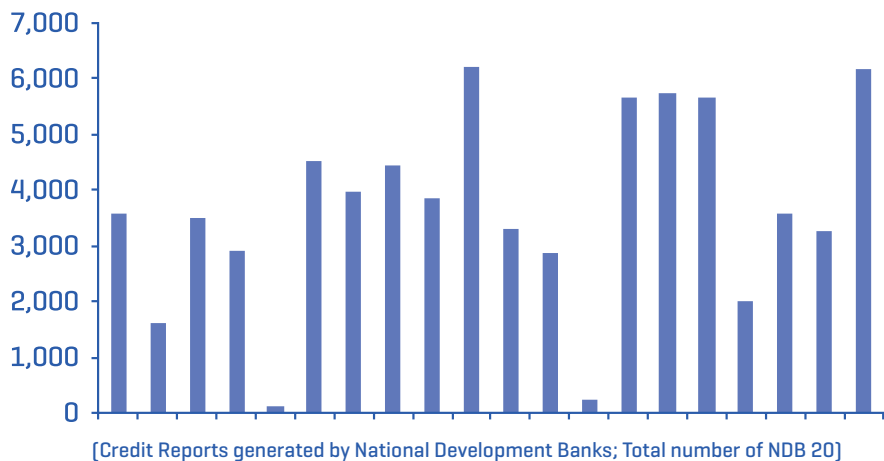


As per the previous years, the commercial banks had the largest increments in the number of credit reports generated (+61,122) followed by Regional Development Banks (+17,751), National Development Banks (+12,319), Finance Companies (+4,680) and Co-operatives (+1386). This year showed the good increment in the use of credit reports among the co-operatives. Percentage wise, Co-operatives had the largest increments (+88%) followed by RDBs (29.9%), NDBs (20.2%), CBs (18.7%) and FCs (+13.9%).

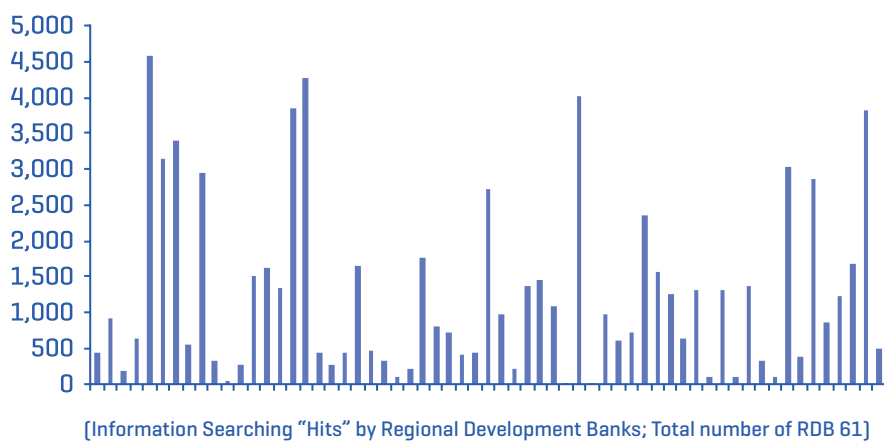
The generation of credit reports among different categories of financial institutions differed quite significantly. There were some CBs who performed quite badly in comparison to other categories of financial institutions such as DBs and FCs. At the same time, there were some FCs who performed quite well in comparison to some CBs, NDBs and RDBs. The Hits of all types of lending institutions were examined and plotted. If “Hits” are any indication of the lending volumes of the institutions, it shows a very alarming trend that some commercial banks are doing extremely poor business where as some lower tier financial companies doing quite good business.



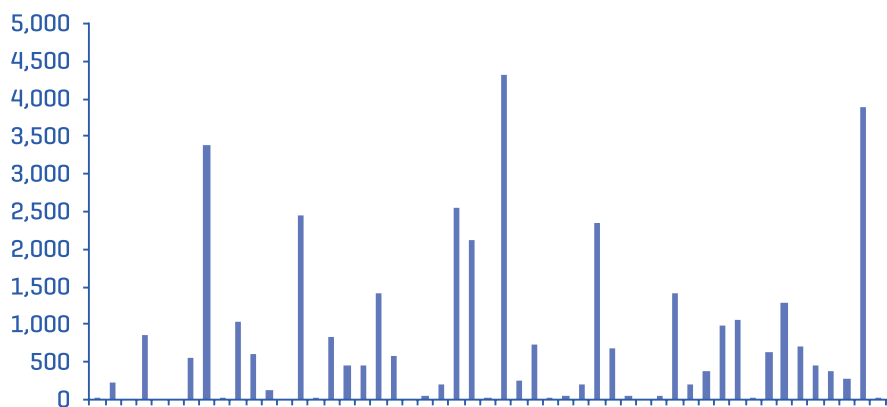
The graph shows that the number of credit reports (Hits) generated by the commercial banks varied widely between twenty eight thousands credit reports to six hundred credit reports. There were nineteen banks that generated more than ten thousands reports where as nine banks generated between five thousands to ten thousands reports. Among the two banks that generated less than five thousands reports, one generated only six hundred reports. The average number of reports generated by the CBs in the year was 12,940 reports only.



Among the NDBs, the generation of credit reports also varied quite widely between six thousands reports to one hundred reports. Many NDBs generated in the range between three thousands reports to five thousands reports. It can be seen that some NDBs did better and generated more reports than some commercial banks. At the same time, few NDBs generated less than five hundred reports. The average number of credit reports generated by the National Development Banks in the year was 3,663 reports.

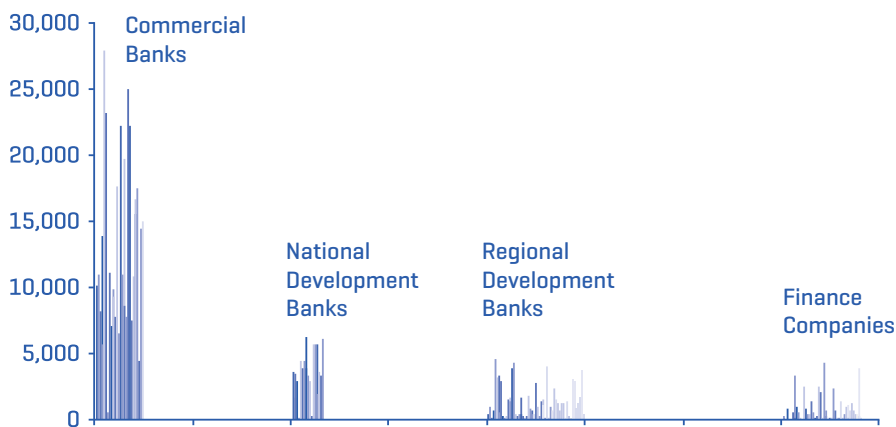


The Regional Developments Banks also showed the similar trend as that of CBs and NDBs where the report generation varied quite widely among them. Some generated as high as four thousands reports where as some could not reach even two figures. Nearly twenty nine RDBs have generated more than one thousands reports out of which nine have crossed over three thousands reports. There are three RDBs that have generated as high as and more than four thousands reports where as few have generated less than one hundred reports. The average number of reports generated by the RDBs in the year is around 1,262 reports.



[Information Searching "Hits" by Finance Companies; Total number of FC 51]

Some finance companies have done exceedingly well and have generated as high as four thousands reports where as some have not generated even one report at all. Only thirteen FCs have crossed over one thousand Hits and the remaining have Hits below one thousand. Thirteen FCs have less than one hundred Hits. The average number of Hits generated by the FCs in the year is 754 reports only.



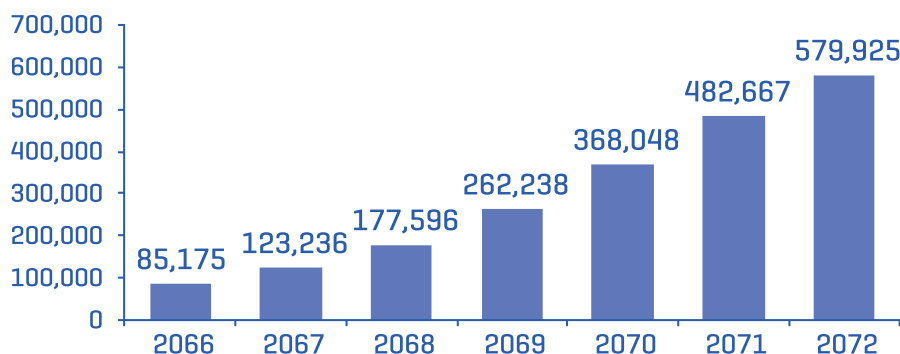
[Comparison of number of Credit Reports generated by the Lending Agencies]

The graph encapsulates all the above graphs and compares the credit reports generated by all four categories of banks and financial institutions.

The graph clearly shows that commercial banks are way ahead in report generation as compared to other categories of financial institutions. The graph also shows that there is quite variation in report generation among the same category of financial institutions. Some have done exceedingly well where as some have done very poorly. Some NDBs, RDBs and FCs have done lot better than many commercial banks. As said earlier, if these statistics are any indications of lending volumes, many financial institutions in each category seem to be facing difficulties in their business.

There has been steady growth of credit report subscriptions since the last couple of years. The graph below shows the yearly statistics of the increments.

	071/072	070/071	069/070	068/069	067/068	066/067	065/066
Total Queries/"Hits"	579,925	482,667	368,048	262,238	177,596	123,236	85,175
Yearly Increments	97,258	114,619	105,810	84,642	54,360	38,061	23,347



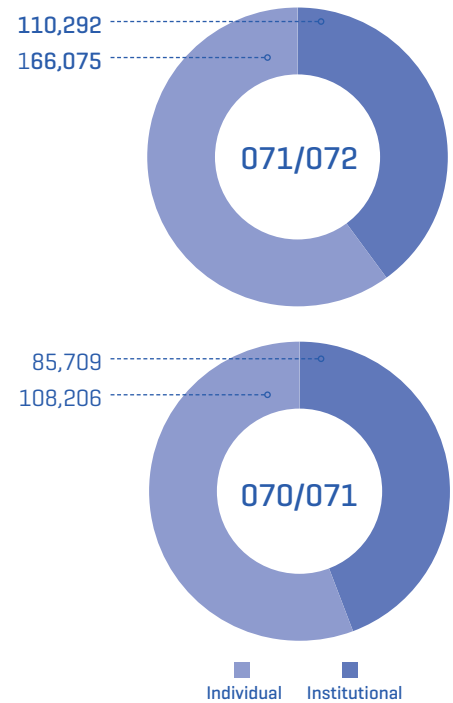
[Annual increment of the Credit Report Generation]

### 3 Statistics of the Borrowers Records

The borrowers' records which indicate the total number of records of the borrowers who were extended the loans of Rs.1million and above facilities by the banks and financial institutions increased by 42.5% from 193,915 records in year 070/071 to 276,367 records in year 071/072. The year saw the sudden surge in records because of the two main reasons; the first was the increased lending of the member institutions and the second was the registration of all the pending records of the borrowers that were not yet registered by the member institutions in the bureau. The continuous follow ups by the bureau during the

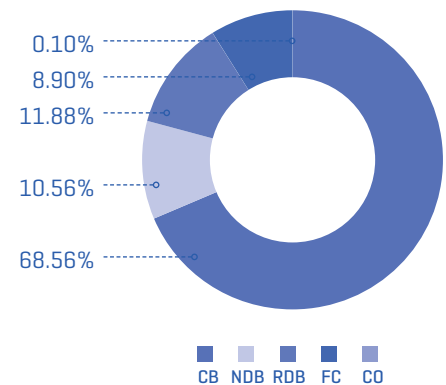
period to submit all the pending records have led to the surge in numbers.

Total borrower records include both individual as well as institutional records. Till the year 070/071, the total number of individual and institutional borrowers registered in bureau was 108,206 and 85,709 respectively which increased to 166,075 and 110,292 respectively in the year 071/072. Thus there was the increment of 53.5% in individual records and nearly 28.7% in the institutional records leading to the total increment of 42.5% in the total borrowers' records.



Borrowers' records distribution shows similar pattern as that of credit reports. As per the statistics available with the Kendra till the year end, Commercial banks have the largest number of borrowers' records followed by Finance Companies and National & Regional Development Banks.

Categories of Lending Institutions	Number of Records	Percentage of the Total
Commercial Banks (CB)	189,485	68.56%
Development Banks/National (NDB)	29,175	10.56%
Development Banks/Regional (RDB)	32,832	11.88%
Finance Companies (FC)	24,678	8.90%
Co-operatives and Others (CO)	197	0.10%
<b>Total Searches</b>	<b>276,367</b>	<b>100%</b>

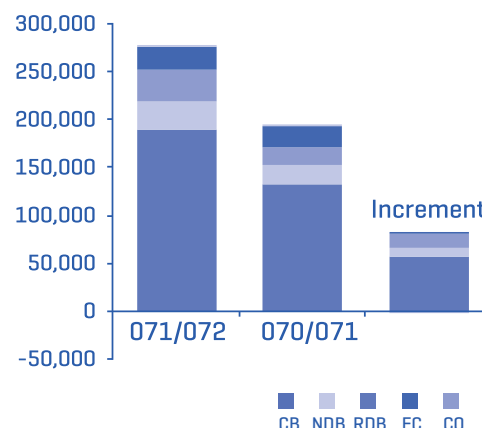


Commercial Banks have 68.56% of the total records where as National Development Banks, Regional Development Banks and Finance Companies have 10.56%, 11.88% and 8.9% respectively of the total records. The Co-operative and others have the lowest number of records (0.1%).

Commercial Banks had the largest increments of records (+56,835) in the year followed by Regional Development Banks (+14,546), National Development Banks (+8,547) and Finance companies (+2,587). The incremental change in Co-operatives has been decreased this year (-63). Out of the total incre-

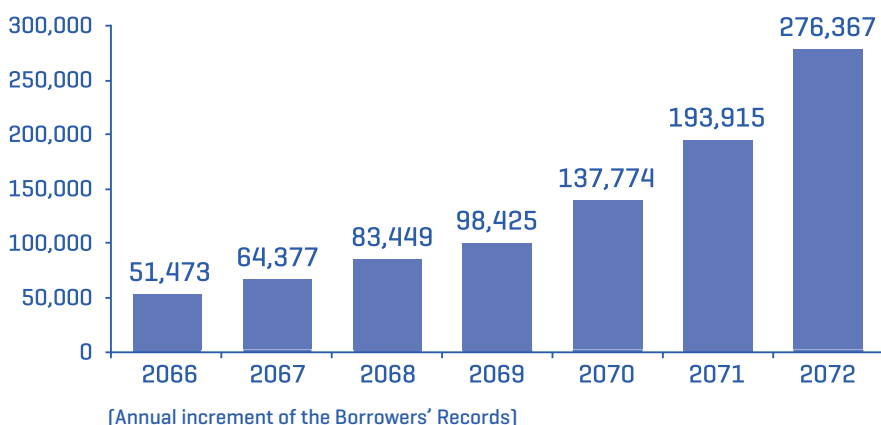
ments, CBs occupied 69% of the total increments where as Regional Development Banks, National Development Banks and Finance companies occupied 17.6%, 10.4% and 3.1% respectively of the total increments.

Categories of Lending Institutions	Number of Records		Total Increments	% Increment	% of Total Increments
	071/072	070/071			
Commercial Banks (CB)	189,485	132,650	56,835	42.80%	69%
Development Banks/ National (NDB)	29,175	20,628	8,547	41.40%	10.40%
Development Banks/ Regional (RDB)	32,832	18,286	14,546	79.50%	17.60%
Finance Companies (FC)	24,678	22,091	2,587	11.70%	3.10%
Co-operatives and Others (CO)	197	260	-63	-25%	0%
<b>Total Borrowers Records</b>	<b>276,367</b>	<b>193,915</b>	<b>82,452</b>	<b>42.50%</b>	<b>100%</b>



There has been steady growth of borrowers' records in bureau's database since the last couple of years. The graph below shows the yearly statistics of the records.

	071/072	070/071	069/070	068/069	067/068	066/067	065/066
Total Queries/"Hits"	276,367	193,915	137,774	98,425	83,449	64,377	51,473
Yearly Increments	82,452	56,141	39,349	14,976	19,072	12,904	7,616



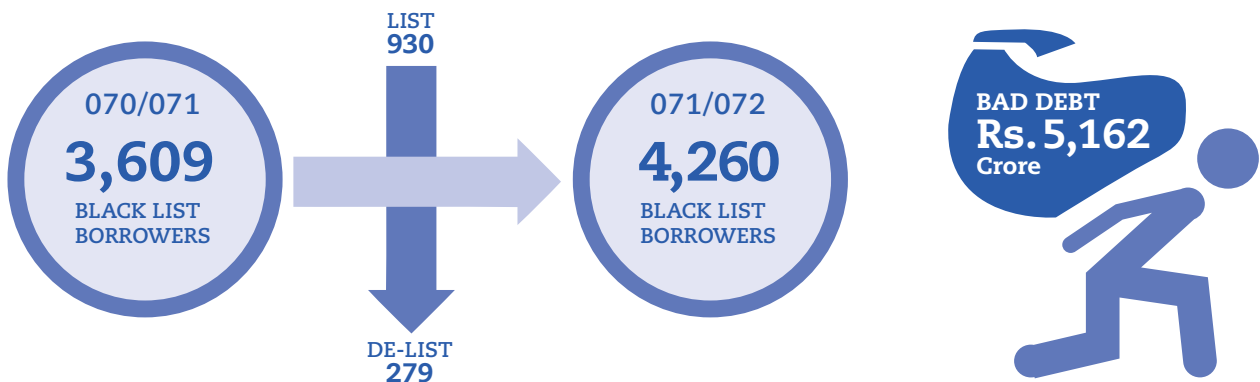
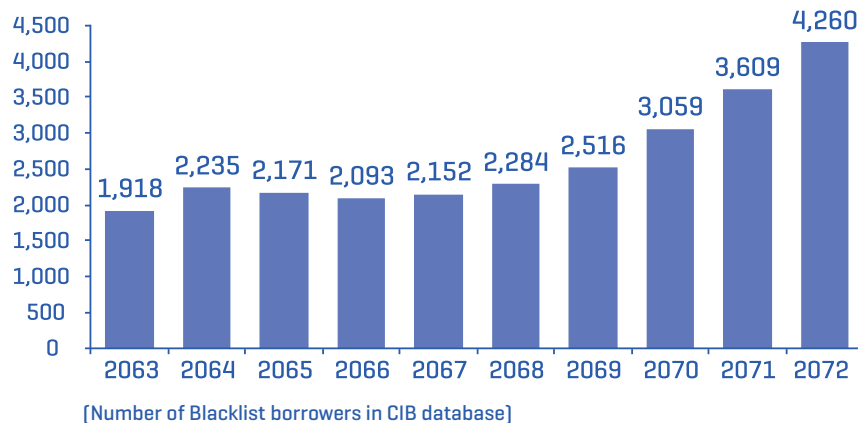


## 4 Statistics of the Blacklisted Borrowers

The year saw the increased addition and removal of blacklist borrowers from the records. Total of 930 borrowers were added into the blacklist where as 279 borrowers were released from the list leading to the addition of 651 new borrowers into the list. Since the additions and removal were both high in the year, it led to near equal increment in the blacklist borrowers as that of previous year 070/071.

### Statistics of the Blacklisted Borrowers

	Till 064/065	065/066	066/067	067/068	068/069	069/070	070/071	071/072
Added in Blacklist	3,421	55	171	263	353	690	738	930
Removed from Blacklist	1,250	133	112	131	121	147	188	279
Total Borrowers in Blacklist at the end of Fiscal Year	2,171	2,093	2,152	2,284	2,516	3,059	3,609	4,260



The increase of 651 borrowers into the Blacklist increased the bad debt amount by Rs. 790 crore from Rs. 4,372 crore in 070/071 to Rs. 5,162 crore in 071/072.

## 5 Corporate Governance

The company has a very high level of corporate governance that focuses not only on profit but also on environmental awareness, ethical behavior and sound corporate governance practices. The practices adopted involve balancing the interests of shareholders, management, member institutions, Nepal Rastra Bank, government entities and community. Company's corporate governance framework encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

The Governing body of the company, the Board of Directors, typically is central to the corporate governance. The Board of Directors is elected by the shareholders to govern the company and look after its interests on behalf of the shareholders.

The Board has the ultimate decision making authority and is empowered to set the policy, objectives, and overall direction of the company. The Board possesses the dual mandate of advisory and oversight. The entire Board will be liable (under the doctrine of collective responsibility) for the consequences of company's policy, actions and failures to act.

The Board of Directors appoints two committees: the audit committee and the recruitment committee. The tenure of both the committees is four years. The Statutory Auditor is appointed by the decision of the shareholders through the Annual General Meeting of the company. Board may also establish ad hoc committees for detailed reviews or consideration of particular topics to be proposed for the approval of the

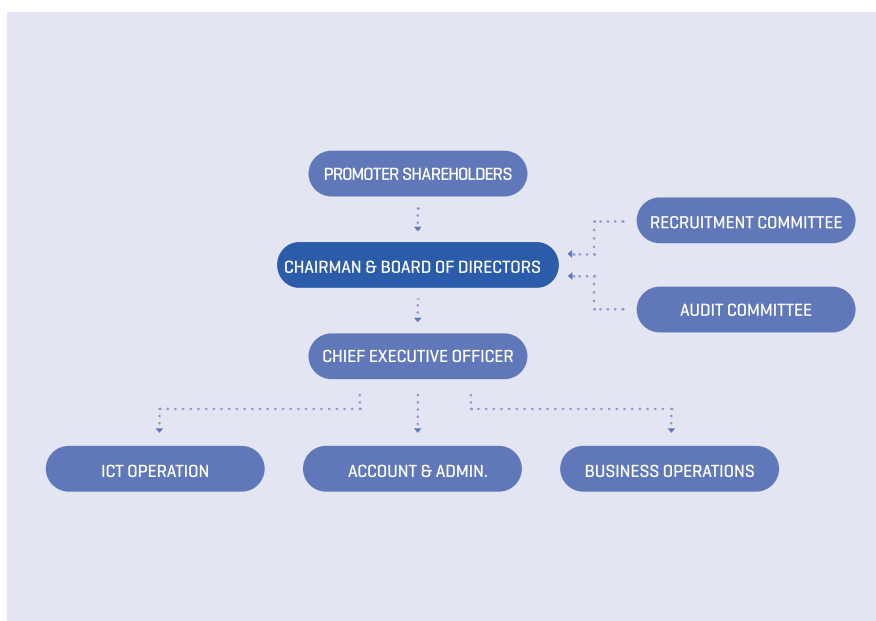
Board. The Board also has the power to appoint independent legal, financial or other advisors as they deem necessary from time to time.

Board appoints CEO for the management of the company and for implementing policies and other management decisions approved by the Board. The CEO is supported by the audit committee and recruitment committee formed by the Board.

The company is subject to and fully complies with, all but not limited to, the Company's Act 2063, Company's Articles of Association, regulatory requirements of Banks and Financial Institutions Act 2063, Directives and Circulars issued by Nepal Rastra Bank and various guidelines issued by the Government of Nepal related with the credit bureau.

## 6 Organization Structure

The company revamped its organization structure few years back after it replaced all its manual systems and automated the whole operations. It curtailed its workforce substantially and transformed itself from a hierarchical organizational structure with lot of managerial levels to a flat structure with fewer levels.



The flat structure removes excess layers of the management and brings more efficiency in completing the tasks. Chain of command becomes short and span of control becomes wide. The structure elevates the employees' level of responsibility, improves coordination and speed of communication between employees, increases team spirit, makes the decision making process easier and faster and reduces cost. This also attracts more talents and allows companies to grow more quickly. By giving every one in a company an equal voice in submitting new ideas and feedback on operational processes, the company creates an environment that breeds innovation and creativity and discover new ideas that lead to competitive success.

## 7 Human Resource Management

Being conscious of the factors that contribute to the culture of an organization allows for consistent improvements that will lead to great employee engagement and satisfaction. The bureau tries to preserve the attributes of the small company where collaborative culture thrives and the employees work as a team for the company's success. Company considers effective HR practices as the vital ingredient for the success of the company and tries to align its organization strategy through a focused HR plan which is in line with the organization goals. The company strives hard to create a safe, healthy and happy workplace where employees feel comfortable to spend time and work without any restraint.

Company follows a conscientious recruiting policy where it takes adequate care to bring the judicious balance between the workload and workforce and prevent redundancies. The sig-

nificant importance is placed on the recruitment practice where candidates are selected after careful screening of their competencies and capabilities. The focus is towards creating a highly competent and motivated workforce that delivers. As per the law, we provide equal employment opportunities to all the deserving and qualified candidates irrespective of caste, creed, race, religion and gender.

The company believes in transparency and encourages the employees to be proactive in sharing their views on the company's policies and practices that they deem relevant. The company has in place both formal and informal channels of communications with an appropriate two way feedback mechanisms. We recognize the employee's contribution to the company and provide them performance linked bonuses and other forms of rewards, incentives or recognitions. We have in place a very

transparent and fair evaluation system with cross functional and 360 degree performance feedback systems.

Rapid changes in technology require a skilled, knowledgeable workforce who are adaptive, flexible, and focused on the future. We encourage growth and personal development of employees and ensure that they are familiar with changing technologies and practices in credit bureau operations. We provide them the opportunities to attend trainings, seminars, conferences overseas and send them for the visits of credit bureaus in other countries on a regular basis.

The company's HR policy is guided by the company's "Karmachari Sewa Biniyamawali 2064". Company makes regular changes on the Biniyamawali to incorporate the best practices in human resource management.

## 8 Management

CEO is appointed by the Board to manage the day to day operation of the company and help the Board to fulfill its governance function. The CEO formulates policies and planning recommendations to the Board and advises the Board as and when necessary. He/she oversees the complete operation of the company,

implements plans & strategies, manages financial & physical resources and acts as an interface between the Board and the management.

The CEO is supported by the team of senior executives who meet regularly and discuss on the various issues related

with the operation of the company. The collaborative culture of the company brings synergy in work, increases innovation, creativity, productivity and helps build more engaged workforce. This leads to an environment where communication is direct and the decision making is transparent.

## 9 The Board and the Committees

The Company has seven members in its Board who are elected by the shareholders in every four years through Annual General Meeting of the company. The Board represents and is accountable to the shareholders. The Board is composed of seven members- four from

Commercial Banks (CB) and one each from Finance Company (FC), Development Bank (DB) and Nepal Rastra Bank (NRB). The number of representation in the Board from each category is based on the distribution of shares among the categories. Commercial Banks holds 65%

stake and has four representations, Development Banks holds 10% stake and has one representation, Finance Companies holds 15% stake and has one representation and Nepal Rastra Bank holds 10% stake and has one representation.

During the period, the Board always acted in good faith and with due care and exercised their business judgment on an

informed basis which they reasonably and honestly believed to be in the best interests of KSKL and its shareholders.

The decisions in the Board were made by majority rule.

### a) Changes in the Board of Directors

There were few changes in the Board of Directors during the period. Mr. Tej Bahadur Budhathoki, the incumbent chairman, attended only one meeting during the period and submitted his resignation thereafter on Bhadra, 2071. Similarly, Mr. Purna Bahadur Khatri also attended only one meeting during the period and was replaced by Mr. Nara Bahadur Thapa on Bhadra, 2071. The Agriculture Development Bank and Yeti Development Bank did not send any new replacements after the resignation of their representatives in the Board. Mr. Tulasi Ram Gautam was elected unanimously by the Board as the new Chairman after the resignation of Mr. Tej Bahadur Budhathoki.

### b) Board Meetings

There were altogether Eight (8) Board meetings held during the period. One board meeting was held under the chairmanship of Mr. Tej Bahadur Budhathoki where as seven meetings were held under the under the chairmanship of Mr. Tulasi Ram Gautam. The numbers of the attendance of the Board members in the Board meetings were as follows:

	Name	Representation from	No. of Meetings held During Tenure	Meetings Attended	% of Attendance
1.	Mr. Tej Bahadur Budhathoki	Agriculture Development Bank	8	1	12.5%
2.	Mr. Tulasi Ram Gautam	Machhapuchhre Bank	8	8	100%
3.	Mr. Purna Bahadur Khatri	Nepal Rastra Bank	8	1	12.5%
4.	Mr. Nar Bahadur Thapa	Nepal Rastra Bank	8	6	75%
5.	Mr. Ajay Shrestha, Director	Bank of Kathmandu Ltd.	8	7	87.5%
6.	Mr. Jyoti Prakash Pandey, Director	Nepal Investment Bank Ltd.	8	7	87.5%
7.	Mr. Rajendra Man Shakya, Director	Synergy Finance Limited	8	7	87.5%

### c) Board of Directors Disclosure

**MR. TULASI RAM GAUTAM**  
Chairman

**Machhapuchchhre Bank Limited**

**CEO**

He is not associated with any other institutions other than Machhapuchchhre Bank Limited at present.

**MR. NARA BAHADUR THAPA**  
Director

**Nepal Rastra Bank**

**Director**

He is not associated with any institutions other than Nepal Rastra Bank at present.

**MR. AJAY SHRESTHA**  
Director

**Bank of Kathmandu**

**CEO**

He is not associated with any institutions other than Bank of Kathmandu at present.

**MR. JYOTI PRAKASH PANDEY**  
Director

**Nepal Investment Bank Limited**  
**NIBL Capital Markets Limited**  
Member, Board of Directors

**CEO**

**Chairman**

**Nepal Clearing House Limited**

**MR. RAJENDRA MAN SHAKYA**  
Director

**Synergy Finance Limited**  
**Nepal Finance Companies Association**  
**FNCCI Commodities Council**  
**Nepal Red Cross Society**  
**Nepal Baudhha Parishad**

**CEO**

**President**

**Executive Member**

**Life Member & Advisor**

**Life Member**

### d) Audit Committee

Audit committee acts as a standing committee that has been formed by the Board of Directors to provide oversight of the company's financial reporting process, audit process, the system of internal controls, risk management and compliance with laws and regulations. The committee oversees, on behalf of the Board, the financial reporting controls implemented by the management and the integrity of the published financial information. It reviews and supervises the compliance of auditor

towards standards, regulations etc. It also makes recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor and approves the remuneration and terms of engagement of the auditor.

Board appoints three members in the committee, two from the Board and one member from external to the Board. The Board ensures that all the members thus appointed have relevant

experience and expertise in the field and have competency and capability to lead the committee.

There were altogether five (5) audit committee meetings conducted during the period. Audit committee met each quarter to discuss on the audit reports submitted by the internal auditors. There were four internal audit reports submitted to the audit committee.

Name	Number of Meetings Held During the Tenure	Number of Meetings Attended	% of Attendance
1. Rajendra Man Shakya, Chairman	5	5	100%
2. Tulasi Ram Gautam*	5	3	60%
3. Purna Chitra Pradhan	5	5	100%

\*Tulasi Ram Gautam attended three meetings as the member of the Audit Committee. He abstained from the remaining meetings after he became the Chairman of the Board.

#### e) Recruitment Committee

Ajay Shrestha, Board Director	Chairman
CEO	Member
HR/Admin Officer	Member

Since there were no new recruitments and promotions of the permanent staffs made during the period, there were no any meetings held of the recruitment committee.

#### f) Expenses Incurred on Committees

Committee	Number of Meetings	Expenses on Committees		
		Meeting Allowance	Other Expenses	Total
1 Board Meetings	8	74,000	13,656	87,656
2 Audit Committee Meetings	5	16,000	1,050	17,050

#### g) Disclosures

Adopting accepted best practices, the bureau discloses relevant information, both financial and non-financial, to its shareholders through the Annual Report. The Financial Statements have been prepared in accordance with Nepal Accounting Standards and the generally accepted accounting principles.

#### h) Compliance Report

The Directors to the best of their knowledge confirm that all taxes and duties payable by the bureau as well as contributions, levies and taxes payable on behalf of and in respect of the employees of the bureau and all other statutory dues, as were due as at the Balance Sheet Date, have been paid or provided for in the Financial Statements.

## 10 Risk Factors Disclosures

The Risk factor Disclosure is one of the most important components of the Annual Report which takes into account most significant risk factors that could affect the KSKL's business, operations, prospects, financial position and future financial performance. In the light of

the changing technology, banking sector business and economic & financial landscape of the country, KSKL takes a careful look at its existing risk factor disclosures to determine whether they accurately reflect the current potential risks of the bureau's business or any

updates are needed on them to make them reflect the current potential risks. Bureau has in place an effective risk management structure in which risks are identified, analyzed, communicated, mitigated and managed across the company and across its all functions.

### MAINTENANCE OF DATA SECRECY (TECHNOLOGY RISK)

#### RISKS

##### Data & System Security

As the world has become more reliant on technology, high tech hackers have also adapted, becoming more and more sophisticated and organized. They can exploit human error and weak security controls to penetrate into the system and steal the confidential information. They gain ingress to the internal network and systems through wireless or remote access or attack IT managed surveillance systems, cameras and equipment to facilitate access to the Data Center.

At this age where all the data systems are susceptible to the various kinds of external threats, safeguarding the IT system properly while enabling easy access of the data to support business operations is very important. Bureau collects and stores millions of very sensitive and confidential data of the lending institutions in its repository. Keeping them secured and protecting them from intrusion and corruption has always remained the major concern for the bureau. Should any breach in the security of the data occur, it will not only damage the bureau's image and reputation but also will lead to huge legal, financial and business losses for the bureau.

#### RISKS MITIGATION STRATEGIES

Security demands focus, with attacks often originating from both internal and external sources. The Bureau has employed a very robust IT security infrastructure and various layers of system security that could circumvent any external threats. Data Center is fully protected & equipped with access control & authentication mechanisms and safety systems. Apart from data encryption, the bureau has adopted tiered data security strategy that aligns multiple perimeter rings of defense to counter applicable threats. Multiple rings can isolate and protect data should one of the defense perimeters be compromised from external and internal threats.

System includes both logical (authorization, authentication, encryption, password) and physical (restricted access and locks on server, storage and networking cabinets) security. The system has been further secured by firewalls, running anti spy ware and virus detection programs on servers and network addressed storage systems. All the login/out activities, user commands and the data analysis operations are logged and stored.

All the facilities are placed in dedicated and well designed Data Center which is physically separated from other infrastructures. UPS (Uninterrupted Power Supply) and PDU (Power Distribution Unit) protections are applied for power outage and surge to provide uninterruptible power and reliable network connectivity. Critical environmental conditions such as temperature and humidity are constant through HVAC (Heating, Ventilation and Air Conditioning), while interactive sensors and cameras are used to monitor smoke, water and power outages. Data Center is subjected to round the clock surveillance and is equipped with highly advanced surveillance tools to monitor the activities inside the Data Center. Unauthorized admission to Data Center is strictly prohibited. There are dedicated teams of IT professionals to supervise and monitor the Data Center and maintain all the facilities in order. Bureau has employed trained staffs for information security who have many years of experience in the field and are capable of dealing with any types of system security problems.

**MAINTENANCE OF DATA SECURITY (TECHNOLOGY RISK)****RISKS**

Technology is changing very fast and bureau always runs the risk of incompatibility of its IT system with the industry standards. Any incompatibility may pose serious problems to the bureau in disseminating its service to the end users.

**RISKS MITIGATION STRATEGIES**

Bureau has established a very modular and flexible system which becomes easy for it to forward integrate with new technology without any major changes in its core platform.

Bureau consistently applies upgrades where needed to match with the industry standards in order to eradicate imbalance in compatibility.

**BUSINESS RISK****RISKS**

As per the NRB regulations, only banks and financial institutions can access the bureau service. Thus the growth of the banking business has the direct impact on the growth of the bureau. Decreasing banking business leads to decline in credit information enquiries which lead to reduced revenue for the bureau. Economy or market down turns or poor state of the banking business adversely impacts the bureau's growth potential. Such uncertainties make it difficult for the bureau to forecast future levels of bureau's income and earning potentials.

**RISKS MITIGATION STRATEGIES**

Bureau is in a process of diversifying its product portfolio in near future. Apart from credit report, it plans to pull out various kinds of value added products and services such as credit bureau score, portfolio management, application processing and fraud control etc once the bureau's data gets matured. This additional range of products generates further revenue for the bureau which more than compensates for any slump in revenue from the poor credit report sales.

In order to avoid the business risk that emerges from the banking sector, bureau plans to diversify its business in other sectors as well. Bureau is also in the process of collecting the data from 3rd party sources (utilities, leasing companies etc.) and providing credit bureau services to them. This will be another source of revenue stream for the bureau. But before this could be done, legal provision has to be in place that empowers bureau to do so.

**OPERATIONAL RISK****RISKS**

Lack of any reliable identification code of the subjects in the country has made the borrower identification process a challenge for the bureau. Without correct identification, the bureau always runs the risk of incorrect subject matching leading to wrong loan profiles being included in the credit reports. This will have the serious impact on the quality of the credit report and on the credibility of the data contained in the credit report.

**RISKS MITIGATION STRATEGIES**

The Bureau has developed the "unique algorithm" that has been very efficient and effective in correctly identifying the borrowers and their loan profiles. The algorithm is based on the borrower's personal identification information and his/her

three generation information. The bureau keeps on improving the algorithm and applies best techniques to avoid any wrong identification. Match and Merge engines are made more effective in order to avoid any identification duplications.



**OPERATIONAL RISK**

**RISKS**

**RISKS MITIGATION STRATEGIES**

Data is collected from the banks and financial institutions; the accuracy of which, the bureau has no control over. This turns out to be substantial risk to the final outcome and on the credibility of the information contained therein the credit report.

All the incoming data from the financial institutions are subjected to the sanity checks and are passed through validation engines where it goes through many layers of data purification process. All the data that do

not meet the required quality standards are rejected and sent to the financial institutions for the corrections and these cycles are repeated many times unless all the data are completely purified.

As confidentiality is paramount, maintaining it at the highest level is a constant challenge that must be met to ensure the credibility and trust.

As per the NRB regulations, the banks and financial institutions are allowed to access the bureau's information strictly for permissible purposes only. The use of the information for any purpose other than allowed are considered to be a serious breach of secrecy & confidentially and will be punishable by the Regulation.

cedures in maintaining the confidentiality of the data. The staffs of the bureau who are authorized to access the information are required to duly sign the "Declaration of Secrecy" before they are deputed on the assignments. Only those staffs "who need to know" are provided with access privileges which will be revoked in a timely manner when no longer warranted.

The Bureau also strictly follows the stipulated guidelines/pro-

Regular breakdowns on commercial power supply and long load shedding hours throughout the year may pose serious problems to the bureau in providing regular and consistent credit bureau services to its users. Bureau runs the risks of losing the confidence of its users on its services and may incur huge business loss because of irregular service delivery.

The bureau has taken all the measures possible to provide the uninterrupted services to its users. Data Center is fully equipped with redundant power supplies (UPS, Batteries, Generator) that are sufficient to withstand the load in case of long power failures. In case of any eventualities where all the redundancies fail to operate and meet the requirements, Bureau can provide its services through

Disaster Recovery Site (DR Site) housed in National Information Technology Center located inside the premise of Singh Durbar. The DR system is in warm-stand by mode and can be put into service immediately. NITC is equipped with 24x7x365 uninterrupted commercial power supply provided through the dedicated power supply feeders of the Nepal Electricity Authority.

Risk of loss or damage to the facility and equipment due to fire, earthquake or other reasons incurring huge financial losses to the bureau.

All our Data Center equipments and infrastructures have been

safeguarded with adequate insurance coverage.

IT talent is a hot commodity in the market now which shows no signs of cooling off. Being an IT driven company with majority of workforce in IT division, bureau always runs the risk of losing the IT talents which are difficult to replace by.

Bureau retains the talents by creating an open and honest work environment where it unleashes their passions, challenges their intellects and engages their creativities. It recognizes their good works,

gives praises, acknowledges contributions and compensates them accordingly. It provides a very competitive compensation package and provides opportunities for continued training, career development and growth.

## FINANCIAL RISK

### RISKS

Risk that arises because of financial liabilities of the company in terms of debt, trade and other payables.

Interest Rate Risk that arises because the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Subsequently that future proceeds have to be reinvested at lower interest rates.

The risk that counterparties will not meet its obligations under a financial instrument or customer contract which will lead to financial losses.

### RISKS MITIGATION STRATEGIES

The bureau has financial assets, trade and other receivables, cash and bank balance, short term deposits that arrive directly from its operations. The implementation of Silver Blade system and Secured Transaction Registry system was financed by the bureau's own resources where as the microfinance bureau was financed through ADB Grant. Thus the bureau does not bear any financial liabilities till date and has the capability to arrange its own resources for the future expansions.

Interest rate risk may not pose serious problem for the bureau since interest income is not the main income and has only marginal contribution on bureau's total income.

Since the customers of the Bureau are all banks & financial institutions, it is exposed to minimum credit risk.

## 11 Issues and Problems Affecting the Service of the Bureau

### DATA QUALITY REPORTING AND UPDATES

#### ISSUES & PROBLEMS

The "quality data" is the life line of the bureau. The bureau tends to lose its credibility if the information contained in the credit report is poor and does not reflect the current status of the borrower. Thus the bureau always puts its consistent efforts in maintaining the quality of data in its repository and ensures that the data is maintained at the highest quality level all the time. But since data is collected from its sources, bureau faces many challenges in collecting the current, correct and complete data on time from them. In spite of all its good efforts, bureau is still finding difficulties in meeting its desired objective of data quality.

#### SOLUTION STRATEGIES

Bureau anticipates that most of the data quality issues will be resolved by the implementation of new Silver Blade system which extracts the data directly from the core banking system (CBS) of the sources through an interface where data is transferred as per the Input File Format of the bureau on a periodic basis without any manual interventions. The data thus extracted by the bureau from the interface is subjected to the sanity checks and passed through the validation engines to purify them as per the required quality standards.

## CREDIT REPORTING THRESHOLD

### ISSUES & PROBLEMS

Collection of the borrowers' records of Rs.1million and above facilities as set by the Central's banks regulations has restricted the Bureau from collecting the data from SME and small borrowers thus preventing the bureau from making its data base more inclusive.

### SOLUTION STRATEGIES

Bureau has submitted its request to Central Bank to make the amendments on the existing NRB Directive to make it mandatory for all the financial institutions to send their borrowers' records to the bureau irrespective of any threshold. Bureau should be allowed to

collect all the lending information extended by the financial institutions in the economy. The Central Bank is seriously working on the request and is in a process of amending the Directive to eliminate the threshold provisions.

## REGULATORY PROVISIONS

### ISSUES & PROBLEMS

The existing NRB Directive 2072 fails to address various issues related with the effective operation of the Bureau. This has led to serious implications on the timely collection of data from the financial institutions. Strong punitive measures or regulatory actions have to be provisioned in the Directive to enforce the financial institutions to submit the data to the bureau on schedule.

### SOLUTION STRATEGIES

As per the best international practice, the bureau should be empowered through regulatory provisions to suspend the membership of the data providers and deprive them from accessing the bureau's service

if they fail to submit the data to the bureau on the regular basis. All the bureaus across the world operate on the same "principle of reciprocity" where the data providers must submit the data in order to access the data.

## 12 Challenges in implementation of new systems

### MICROFINANCE

#### CHALLENGES

The operation of Microfinance Bureau will pose a huge challenge for the Bureau. Many micro-finance institutions suffer from inaccurate & incomplete data, poor IT capability, unskilled staffs and lack of awareness about the bureau which may make the operation of the MF Bureau very difficult. Challenge also exists in setting up a reasonable tariff that is not only affordable to the MFIs but also makes the bureau sustainable.

#### STRATEGIES

The bureau intends to focus first all the “D” class financial institutions regulated by the Nepal Rastra Bank (Microfinance Development Banks & Financial Intermediaries) in the initial phase of its operation (Phase I/Year 1). This will be followed by the penetration of services in Kathmandu Valley in Phase II/Year 2, Regional Centers & Towns in Phase III/Year3 and all across the country in Phase IV/Year 4&5.

The system will be put into Pilot Run initially. The Bureau will study the “Hit Patterns” of the service during the Pilot Run period to determine the tariff structure. A committee comprising of the members from bureau, MF Associations,

Ministry of Finance and the Central Bank will be formed to set up the tariff structure which will determine the tariff based on the cost of the system operation and Hit patterns of the service.

Service delivery will be based on the Principle of Reciprocity. That is, only those institutions who share the information and provide the data will be our members and will be entitled to receive the credit report from the bureau.

Bureau will conduct various kinds of awareness programs to make MFIs aware about the benefits of joining the bureau, sharing the data and use credit reports in making the information based lending.

### COMMERCIAL BUREAU (NEW SILVER BLADE SYSTEM)

#### CHALLENGES

The complete switchover of service from existing system to new system will pose challenge for the bureau. Some data providers are still lagging behind in making their MIS system ready to transfer the data through new system. Unless all data providers send the data through a new system, the users will have to search both the new and old systems to search the borrowers' information creating the lot of inconveniences to the users.

#### STRATEGIES

Bureau has set the cutoff date for all the Banks and Financial Institutions to make their MIS ready and send the Data through the new system. At the same time, Bureau will complete the migration of the existing data to the new system

before the cut off date thus making the new system fully equipped with both new and old data before the date. This will solve the problem of using two systems for searching the information to the users.

## SECURED TRANSACTION REGISTRY (STR)

### CHALLENGES

The effective implementation of Secured Transaction Registry poses another challenge for the bureau. Since users are still unaware about the STR service, its penetration may take years before the service is widely accepted and covered. Apart from this, system has to be accessible, simple and easy to use so that any person can use it without any difficulty.

### STRATEGIES

The bureau has developed a very simple yet user friendly system that can be used by any one with simple computer skills. Since this is the public notice and the information goes to the public domain, only those information that are required as per the Act are given. No other confidential information need to be filled. The objective of the STR system is to register notice and set its priority.

Bureau will conduct the extensive series of awareness programs before and after its implementation that will educate the people about the Registry and its benefits. Bureau will use press & media and organize talk programs, trainings, seminars etc to generate the awareness among the people. Such programs will be conducted in Kathmandu and various parts of the country.

## 13 Major Action Plans for the Year 072-073

- The Silver Blade system which was scheduled to be launched by the end of 071/072 got delayed because of the delay by the banks and financial institutions in upgrading their MIS system and developing the required interface to send the data through the new system. Many banks were found struggling hard in developing the required interface where as many were in the data entry stage into their core banking system. Those who sent the data through new system were also found to have many errors into their data when subjected the bureau's validation engines. The Kendra expects to catch up with the delay and launch the Silver blade solution soon by the beginning of 3rd quarter of 072/073.
- Similarly the implementation of microfinance bureau also got delayed because of the lack of readiness of all microfinance institutions to join the bureau. Only thirty microfinance institutions submitted their data to the bureau. Because of the poor quality of the data submitted, the data purification process consumed plenty of time thus putting behind its scheduled launch. The bureau expects to launch its service by the beginning of 3rd quarter of 072/073.
- Secured Transaction Registry (STR) which was scheduled to be launched at the end of the year also got delayed because of some issues raised by the Nepal Bankers Association regarding some provisions of Secured Transaction Act. The system which has already been installed and commissioned is ready to go on "live" any time now. Bureau plans to make the changes on the system as and when necessary to make it more user-friendly, secured and informative to the users. The bureau's focus in the year lies to make the service "a success" to meet its desired objectives.
- Kendra plans to conduct series of public awareness programs in various parts of the country to educate the stakeholders, financial institutions, leasing companies, private lenders and others about the importance of Registry and how it is going to benefit them in making their lending secured made against the movable assets of the borrowers. Bureau understands very well that unless the market is fully aware about its benefits, its success will remain a pipe dream and can not be guaranteed.
- Kendra aims to increase the frequency of trainings and interactions programs with the banks and financial institutions to make them familiar with the new credit bureau system "Silver Blade". Many users are still finding difficulties in understanding the error logs sent to them by the system for the data corrections. Similarly Kendra needs to put more efforts to train the microfinance institutions about the bureau system, data quality, error logs, input file formats and various other issues related with system performance.

- Kendra plans to further strengthen its IT workforce by recruiting high caliber IT professionals to run the three national level projects. The

workforce will be trained and exposed to best international practices through various layers of local and overseas trainings that will make

them competent to address any issues related with the systems and services.

## 14 Long Term Action Plans

There have been no major changes in the long term goals of the company which remain the same as that of the previous year. Nonetheless, the delays in the implementation of the three projects have deferred the schedules of the long term action plans accordingly.

- Organize the Business and its Processes around a strong technology base. Use Technology all across the operations to increase efficiency of service delivery, reduce costs of operations, provide internal support system and manage changes fast etc.
- Enhance the scope of operation by collecting information from all other sources (3rd Party) such as utilities, leasing companies, insurance companies, investment funds and other lending institutions. Enrich the quality of data and bring maturity in it by employing advanced data processing techniques. Develop the highly inclusive credit report based

on the information received from various sources.

- Bring out various kinds of value added products and service on a phase wise basis within 5 years of the implementation of the new commercial bureau system. This includes the simple products like credit scoring, check return and identification verification in the initial years followed by more complex products such as Fraud Prevention, Marketing Services, Basel II models and Behavioral Statistics in later years.
- Expand microfinance bureau service all across the country within five years period and bring all the

microfinance institutions under its umbrella. Develop various kinds of products and services for microfinance institutions including the delivery of the credit report service through mobile phones.

- Contribute in the growth of credit market by making Secured Transaction Registry service available all across the country. Generate wide spread public awareness of the service and bring all the potential users under its umbrella.
- Establish Kendra at par with other credit bureau operators of the region in terms of service standards and service delivery.

## 15 Bureau's Relations with its Stakeholders

Bureau has maintained very good relations with all its stakeholders and has regular interactions with them to brief them about the company's business and policies. It has maintained an effective two way communications and regularly appraises them about the new developments taking place in the company.

- **Users:** Kendra encourages the users to come forward with their problems and regularly seeks their suggestions in improving the service of the bureau. It holds regular meetings with them to make them aware about new technologies being introduced by the bureau and conduct trainings to make them familiar with these technologies. The bureau informs the members through emails and other mediums

and keeps them at close proximity in sharing the relevant information on time.

- **Shareholders:** Board always ensures that the shareholders are regularly informed and apprised about the company's financial position, business potential, policies, market trends, issues and problems so that they can share their views and suggestions to the Board through

the appropriate platform. Board aims to incorporate the suggestions made by the shareholders if they add value in company's business and give it a competitive edge. The communication with the shareholders generally commences on annual general meeting where Board engages in extensive discussions with the shareholders on the company's matters. Apart from this, shareholders are regularly communicated

through annual reports, business reports, company's web site, briefing sessions and personal meetings.

- **Regulator:**

*Central Bank:* The Kendra communicates with the Regulator (Nepal Rastra Bank) on the regular basis and brings to its notice various issues related with the operations of the bureau. It also brings to the notice the implications and effectiveness of various NRB regulations that have the direct bearings on the operation of the bureau. Regulator provides feedbacks and suggestions to the bureau as required.

*Ministry of Finance:* The Kendra has been working closely with Ministry of Finance for the implementation of Secured Transaction Registry service. Kendra has been empowered by the MOF to operate the service as per the provisions made in the Act and Agreement made between the two parties.

- **External Agencies:** Kendra has maintained very cordial relations with donor agencies such as Asian Development Bank, World Bank, International Finance Corporation and has received financial as well as technical assistance from them time

and again. The Bureau received the Grant from the Asian Development Bank for the implementation of microfinance credit bureau where as it received the technical assistance from IFC for the implementation of the new commercial credit bureau system. It has been getting good help and assistance from Nepal Bankers Association, Nepal Development Banks Association, Nepal Finance Companies Association and others. The bureau holds formal and informal meetings regularly with the representatives of those institutions and briefs them about the current status of the bureau.

## 16 Corporate Social Responsibility (CSR)

- The Kendra embeds CSR into the core of its business operations to create shared values for business and society. By creating a CSR strategy that aligns social and environmental efforts with the business objectives of the company, bureau intends to maximize positive social, environmental and economic outcomes. It has been engaged in various environment sustainability

programs and social welfare initiatives to benefit the community and is focused on integrating greater environmental sustainability through out its business. The company has remained a keen supporter of green environment and is associated with various environmental organizations that are engaged in protecting and improving environment.

- The company was actively engaged in rescue and relief operations in the recent earthquake that struck Nepal on 15th April, 2015. The staffs of the company spent many days in the outskirts of Kathmandu valley which were badly affected by the earthquakes and extended helps by distributing relief packages to the victims of the earthquake.

## FINANCIAL INDICATORS

Statement of Financial Position	071/072	070/071
<b>CAPITAL &amp; LIABILITIES</b>		
Share Capital	103,408,000	103,408,000
Reserve & Surplus	308,468,999	213,507,755
Loan/Funds	231,369,813	231,369,813
Trade & Other Payables	9,276,768	6,785,873
Provisions	15,442,623	12,794,729
<b>Total Liabilities</b>	<b>667,966,203</b>	<b>567,866,170</b>
<b>ASSETS</b>		
Cash & Bank Balance	4,187,265	3,916,288
Investments	366,080,089	265,743,277
Prepaid, Advances, Loans and Deposits	11,805,238	18,669,398
Trade & Other Receivables	10,139,222	10,139,130
Fixed Assets	274,752,174	268,392,073
Deferred Tax Assets	1,002,215	1,006,004
<b>Total Assets</b>	<b>667,966,203</b>	<b>567,866,170</b>
<b>Income Statement</b>		
	071/072	070/071
<b>INCOME</b>		
Service Charge	169,862,348	140,550,540
Interest	18,713,967	18,535,221
Registration Charge	2,000	1,000
Other Income	600,300	2,500
<b>Total</b>	<b>189,178,615</b>	<b>159,089,261</b>
<b>EXPENDITURE</b>		
Operating Expenses	18,076,852	16,841,909
Non Operating Expenses		
Depreciation	1,232,906	1,505,339
Provision for Bonus	15,442,623	12,794,729
<b>PROFIT BEFORE TAX (PBT)</b>	<b>154,426,234</b>	<b>127,947,285</b>
Provision For Taxation	38,783,389	32,195,150
Current Tax Expenses	38,779,600	32,278,490
Deferred Tax Expenses	3,789	(83,341)
<b>Net Profit Transferred to Accumulated Profit</b>	<b>115,642,845</b>	<b>95,752,135</b>



- The shareholder's equity of the company increased by 29.96% to Rs. 411,876,999 from last year's figure of Rs. 316,915,754 mainly because of the increments in General Reserve and Accumulated Profit by 37% and 50.7% respectively. There was the marginal decrease in Deferred Tax Reserve where as Capital Reserve remained the same as that of previous year. Company transferred 20% of the net profit amounting to Rs. 23,128,569 to General Reserve this year. There has been no change in the Loans/Funds amount that has been received in the form of Grant from the Asian Development Bank for the implementation of Micro-finance Credit Information Bureau System.

Particulars	071/072	070/071	Increase (Rs.)
<b>CAPITAL &amp; LIABILITIES</b>			
Paid up Share Capital	103,408,000	103,408,000	0
Reserve & Surplus	308,468,999	213,507,754	94,961,245
Shareholder's Equity	411,876,999	316,915,754	94,961,245
Loans/Funds	231,369,813	231,369,813	0
<b>Total</b>	<b>643,246,812</b>	<b>548,285,567</b>	<b>94,961,245</b>

Particulars	071/072	070/071	Increase (Rs.)
<b>RESERVE &amp; SURPLUS</b>			
Capital Reserve	7,299,257	7,299,257	0
General Reserve	85,642,631	62,514,062	23,128,569
Accumulated Profit	214,524,896	142,688,431	71,836,465
Deferred Tax Reserve	1,002,215	1,006,004	-3789
<b>Total</b>	<b>308,468,999</b>	<b>213,507,754</b>	<b>94,961,245</b>

- The major increment in the fixed assets was due to the purchase of Hardware, 3rd party software and some logistics for the implementation of the Secured Transaction Registry (STR) system. The total cost incurred for the implementation of the STR system till the end of fiscal year was Rs. 5,922,302. Since STR system was not in operation during the period, the depreciation expense was not accounted for. Similarly, the depreciation expense for the MF bureau system was also not accounted for. There was the marginal increment of Rs. 181,802 in its fixed assets because of the additional cost incurred for the insurance of Data Center equipments. Apart from the above new projects, there were some additions of assets in the form of Plant and Machinery and Computers in the existing system leading to the total depreciated value of Rs. 7,535,047.

Particulars	071/072	070/071	Increase (Rs.)
<b>FIXED ASSETS</b>			
Fixed Assets less Depreciation (Regular)	7,535,047	7,279,050	255,997
Fixed Assets (Infrastructures for MF Bureau)	261,294,825	261,113,023	181,802
Fixed Assets (Secured Transaction Registry)	5,922,302	-	5,922,302
<b>Total</b>	<b>274,752,174</b>	<b>268,392,073</b>	<b>6,360,101</b>

- The total investments in the form of interest bearing long term and short term deposits at various banks and financial institutions increased by Rs. 100,100,000 to Rs. 362,900,000 in 071/072 as compared to Rs. 262,800,000 in 070/071. All the earnings after deducting the essentials were invested in various categories of financial institutions based on the criteria set forth by the

Particulars	071/072	070/071	Increase (Rs.)
<b>INVESTMENTS</b>			
Fixed Deposits at Different Banks and Financial Institutions	362,900,000	262,800,000	100,100,000
Citizens Investment Trust	2,180,089	1,943,277	236,812
ICRA Nepal	1,000,000	1,000,000	0
<b>Total</b>	<b>366,080,089</b>	<b>265,743,277</b>	<b>100,336,812</b>

Board. The Gratuity fund of the employees which has been invested separately into Citizens Investment Trust has been increased by Rs. 236,812. The investment of Rs. 1 million made in ICRA Nepal in 068/069 has remained the same.

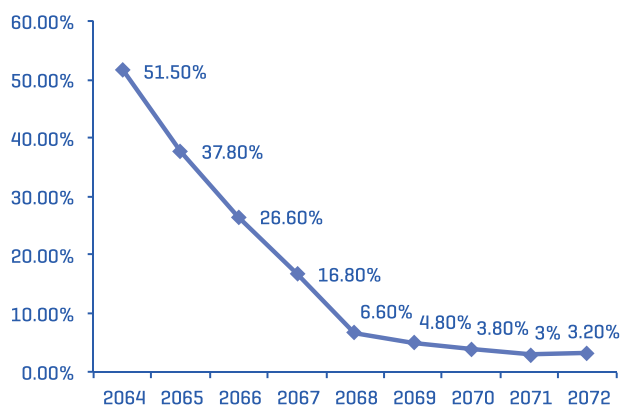
- Trade and Other Receivables include the service charge receivable that has been increased by 14.34% where as Interest Accrued has been decreased by 13% this year.

Particulars	071/072	070/071	Increase (Rs.)
<b>TRADE &amp; ACCOUNT RECEIVABLES</b>			
Service Charge	5,500,152	4,810,153	689,999
Interest Accrued	4,639,070	5,328,977	(689,907)

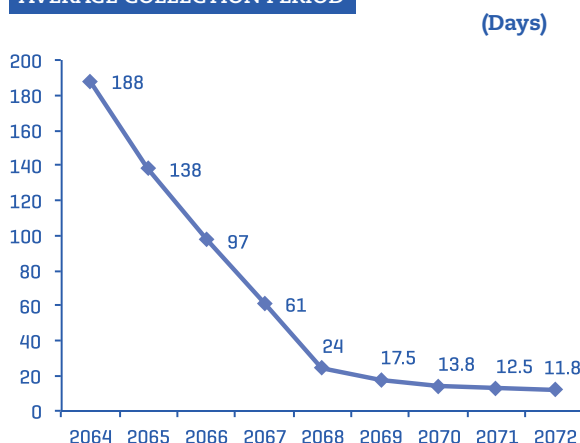
- The service charge receivable against the total invoice bills decreased from 3.4% in 070/071 to 3.2% in 071/072. Company has been making remarkable progress in service charge receivable which has been decreasing each year since last many years. The reasons for this decrease can be attributed to the technology driven invoice generation and billing process, very tight credit policy and efficient and effective bills collection mechanisms. Average collection period of the invoice bills has been reduced accordingly from 12.5 days to 11.8 days.

	065/066	066/067	067/068	068/069	069/070	070/071	071/072
Total Invoice	29,554,400	42,167,870	64,378,968	82,933,858	112,271,008	140,550,540	169,862,348
Service Charge Receivable	7,850,600	7,083,868	4,265,269	4,003,328	4,250,910	4,810,153	5,500,152
% Receivable	26.60%	16.80%	6.60%	4.80%	3.80%	3.40%	3.20%

#### ACCOUNT RECEIVABLE



#### AVERAGE COLLECTION PERIOD

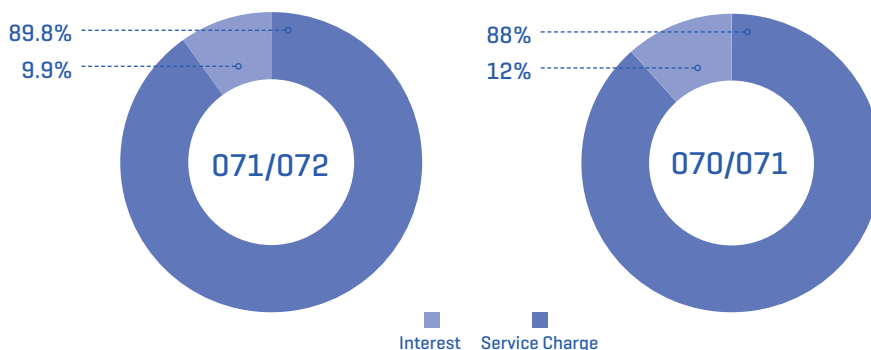


- The Cash and Bank Balance increased marginally by only 6.9% this year. The company maintains a right balance between having too much of cash on hand and having an inadequate supply. It intends to strike a balance between its operational needs and investment opportunities. It ensures not to hold too much of idle cash on hand and miss out on investment opportunities to generate earnings. All the revenues are immediately invested and deposits accounts and operational accounts are maintained at its acceptable level.
- Prepaid Advances, Loans and Deposits account has been reduced by nearly 37%. The major reduction was in Cheque in Hand which reduced by nearly 87% where as Advance Tax reduced by nearly 48%. The “other receivable and advance” which occupies nearly 76% of the prepaid expenses was due to the advance payment of nearly Rs. 8.45 million made to the Application Software vendor as per the contractual terms and conditions signed between the vendor and the company.
- Trade and Other Payables also increased by 36.7% this year. The major components of Trade payables were Dividend payable (Rs. 511,142), Gratuity fund (Rs. 2,180,089), Leave Fund (Rs. 1,909,055) and “Others Payable” (Rs. 4,058,292). The major items of “Other Payable” included the payments to be made to MF Bureau vendor, rental expenses for Data Center and pending payments to be made for the development of the STR system software.

- The increase in net profit has led to the increase in Provisions for Bonus by 20.7% this year.
- The Service Charge, the core revenue generating activity of the company, increased by 20.8% where as the increase in interest income was virtually negligible. Though the investment amount increased by nearly Rs. 10 crore, the declining rate of interest on deposit accounts of all financial institutions led to the poor growth of the interest income. There were only two financial institutions registered as members during the period leading to the income of Rs. 2,000. There has been significant increment in Other Income to Rs. 600,300 this year. This increment is due to inclusion of prior period excessive rental paid for Data Center amounting to Rs. 594,300 as income this year. The remaining amount of 6,000 was made from the sale of the bid document for the procurement of STR infrastructure system. The revenue from Operation thus increased by approximately 19% this year to reach to the total of Rs. 18.9 crore.

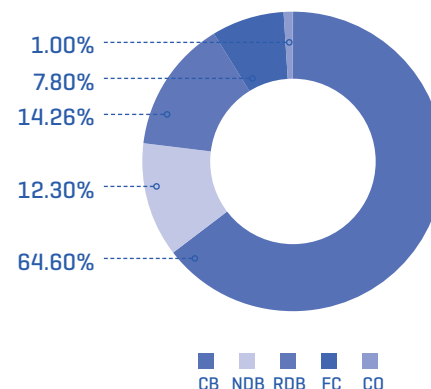
Particulars	071/072	070/071	Increase (Rs.)
Prepaid, Advances, Loans & Deposits	11,805,238	18,669,399	(6,864,161)
Trade & Other Payables	9,276,768	6,785,873	2,490,895
Provisions for Bonus	15,442,623	12,794,729	2,647,894

No.	Particulars	071/072	070/071	Changes
<b>INCOME</b>				
1	Service Charge	169,862,348	140,550,540	29,311,808 20.85%
2	Interest	18,713,967	18,535,221	178,746 0.96%
3	Registration Charge	2,000	1,000	1,000 100%
4	Other Income	600,300	2,500	597,800
<b>Total</b>		<b>189,178,615</b>	<b>159,089,261</b>	<b>30,089,354 19%</b>



- The revenue from the service charge and interest income contributed 89.8% and 9.9% respectively of the total operating revenue. The remaining contribution of 0.3% was made through other income. The increase in credit reports issue by 20.2% led to the increase in service charge by 20.8% where as increase in investments by 38% led to the increase in interest income by only 0.96% because of the decreased rate of portfolio return from 8.6% in 070/071 to 6.5% in 071/072.
- The Commercial Banks were the largest contributor of the service charge revenue followed by Regional Development Banks, National Development Banks and Finance Companies. The revenue from the Co-operatives and Others were minimal. Service Charge from the “Others” included the revenue from the official Blacklist Report that bureau generated for the borrowers upon their request.

S. No.	Names	Revenue Generated	% of the Total
1.	Commercial Banks (CB)	109,772,968	64.60%
2.	National Development Banks (NDB)	20,876,540	12.30%
3.	Regional Development Banks (RDB)	24,214,680	14.26%
4.	Finance Companies (FC)	13,286,040	7.80%
5.	Co-operatives & Others (CO)	1,712,120	1%
<b>Total</b>		<b>169,862,348</b>	<b>100%</b>



- Company maintained an effective control on its operating expenses where staff related expenses increased by 4.3% where as administrative expenses increased by 11.9% leading to the total increment of operating expenses by 7.3%. Staff related expense (primarily the salary expenses) and administrative expenses occupied respectively 59% and 41% of the total expenses. The major expense items of administrative expenses were office rent, web charges, electricity expenses and traveling expenses which occupied nearly 57.6% of the total administrative expenses. The total administrative expense utilization and salary expense utilization was 61.5% and 83.7% respectively of the budgeted amount. All the expense items were within the approved limit of the budgeted figure.

S. No.	Particulars	071/072	070/071	Changes	
<b>EXPENDITURE</b>					
1	Operating Expenses	18,076,852	16,841,909	1,234,943	7.30%
1a.	Salary, Allowance and other Staff related Expenses	10,667,795	10,222,564	445,231	4.30%
1b.	Administrative Expenses	7,409,057	6,619,345	789,712	11.90%

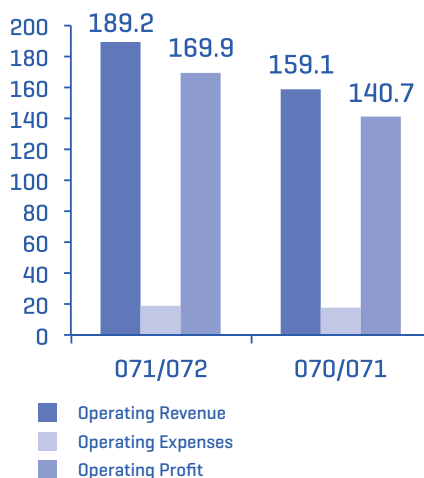
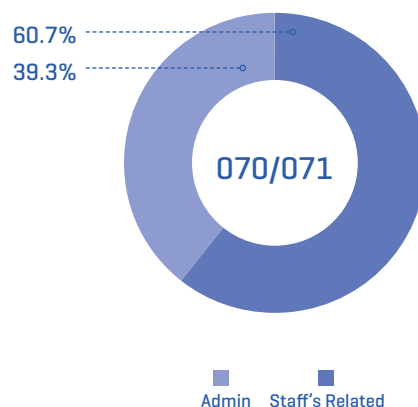
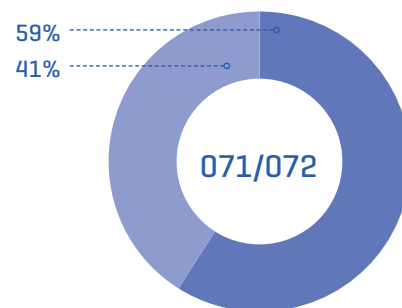
- The new assets worth Rs. 1,488,904 were added on the existing system in the fiscal year 071/072. The total value of the assets of the existing system at the cost price amounted to Rs. 24,671,682 where as the total depreciation of the assets till the end of the period amounted to Rs. 17,136,636 leading to the written down value of the assets to be Rs. 7,535,047 which was carried forward for the incoming fiscal year. The depreciation expense decreased by 18% this year and amounted to Rs. 1,232,906.

The depreciations of newly acquired fixed assets for Microfinance Bureau and Secured Transaction Registry system worth Rs. 261 million and 5.9 million respectively were not accounted for this year because of the delay in their commercial operations. Depreciation will be accounted for from the day the systems will be put in commercial use.

S. No.	Particulars	071/072	070/071	Changes	
...Expenditure					
3.	Depreciation on Fixed Assets	1,232,906	1,505,339	-272,433	(18%)

- The company earned the operating profit of Rs.169.9million as compared to previous year's earning of Rs. 140.7 million thus increasing the operating profit by 20.7% to Rs. 29.1 million.

Particulars	071/072	070/071	Changes	
Operating Revenue	189,178,615	159,089,261	30,089,354	19%
Operating Expenses including Depreciation	19,309,758	18,347,248	962,510	5.20%
Operating Profit	169,868,857	140,742,013	29,126,844	20.70%



- Provision for Bonus increased by 20.7% from the previous year (070/071) figure of Rs. 12.8 million to 15.4 million this year. Staff Bonus is provided as per Bonus Act, 1974. The Bonus Act requires provision at the rate of 10% on the amount of net profit before tax.

S. No.	Particulars	071/072	070/071	Changes	
...Expenditure					
4.	Provision for Bonus	15,442,623	12,794,729	2,647,894	20.70%

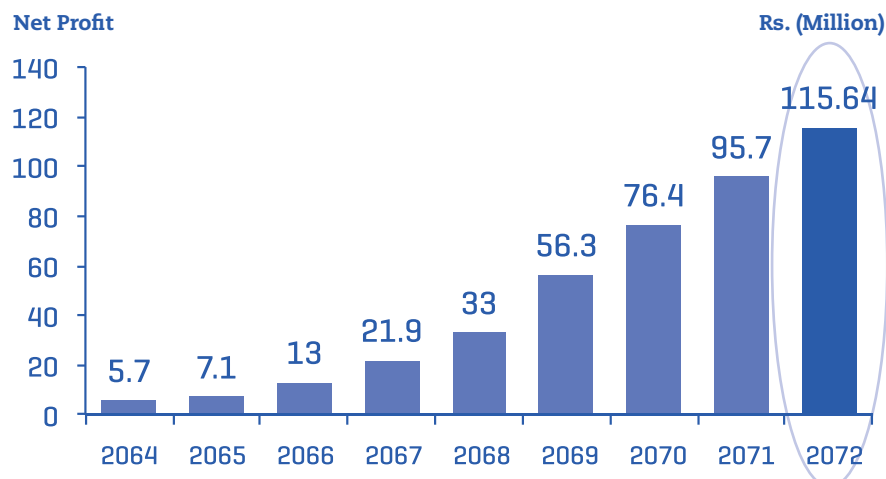
- The company made the pretax profit of Rs. 154.4 million this year. The provision for Income Tax as per Income Tax Act 2058 for the year amounted to Rs. 38,779,600 which was adjusted against the total tax deposit of Rs. 40,000,208 during the period. Thus the excess tax deposit of Rs. 1,220,609 was shown as the Advance Tax in financial statements.

S. No.	Particulars	071/072	070/071	Changes	
...Expenditure					
5.	Profit Before Tax	154,426,234	127,947,285	26,478,949	20.70%
6.	Provision for Taxation (with Deferred Tax)	38,783,389	32,195,149	6,588,240	20.46%
6a.	Current Tax Expenses	38,779,600	32,278,490		
6b.	Deferred Tax Expenses	3,789	(83,341)		
Net Profit		115,642,845	95,752,136	19,890,709	20.77%

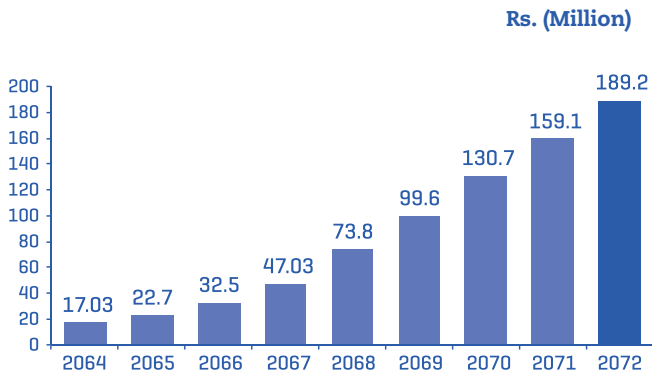
- The Deferred Tax Assets arising due to temporary difference amounts to Rs. 1,002,215 this year where as it was 1,006,004 last year. The decrease in deferred tax assets of Rs. 3,789 during the year has been adjusted in the Balance Sheet and incorporated in the Income Statement accordingly. As of Asar end 2072, the items attributable to deferred tax assets and liabilities and their movements are as follows:

	Books of Account	Income Tax	Deductible Temporary Difference	Taxable Temporary Difference	Deferred Tax
Fixed Assets	7,535,047	7,454,764	(80,284)	(80,284)	(20,071)
Retirement Fund (CIT)	2,180,089		2,180,089	2,180,089	545,022
Leave Fund	1,909,055		1,909,055	1,909,055	477,264
Deferred Tax this Year	4,008,860		4,008,860	4,008,860	1,002,215
Previous Year Deferred Tax					1,006,004
Deferred Tax Changes					-3,789

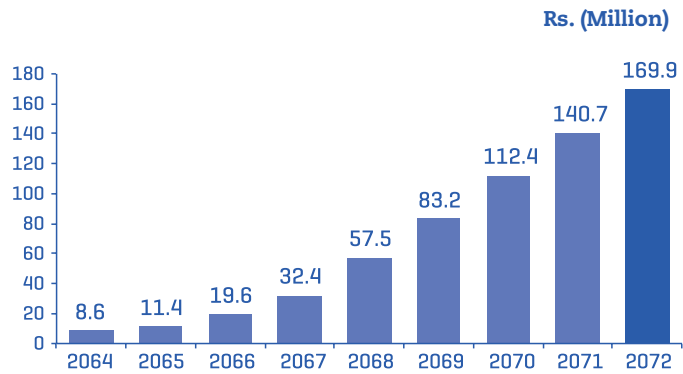
- The company made the net profit of Rs. 115,642,845 this year which is an increment of 20.77% from the previous year's figure of Rs. 95,752,136.



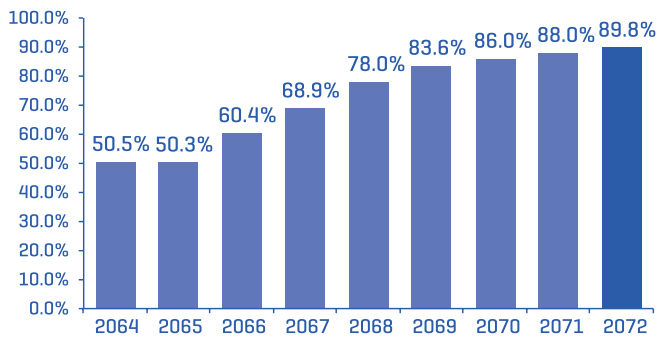
### Operating Income



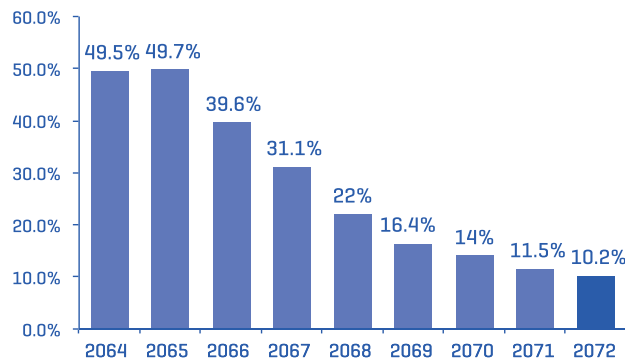
### Operating Profit



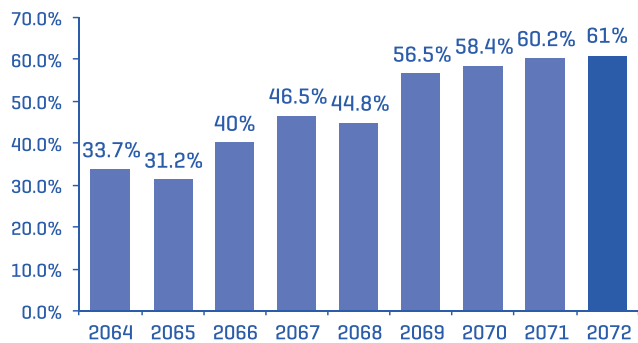
### Operating Profit Margin



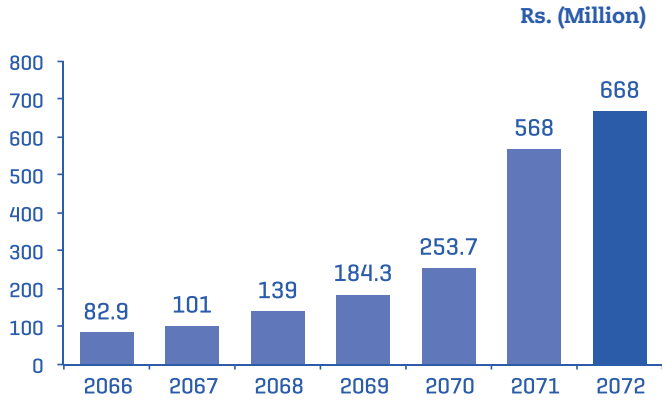
### Cost to Income Ratio



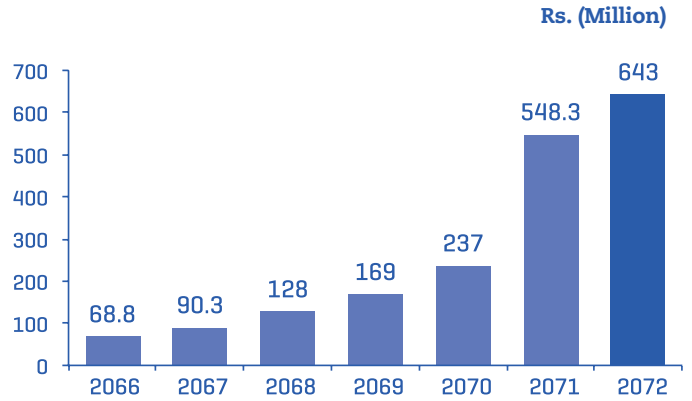
### Net Profit Margin



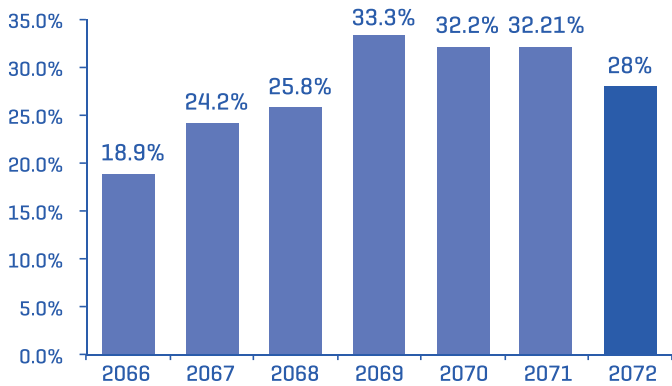
### Assets



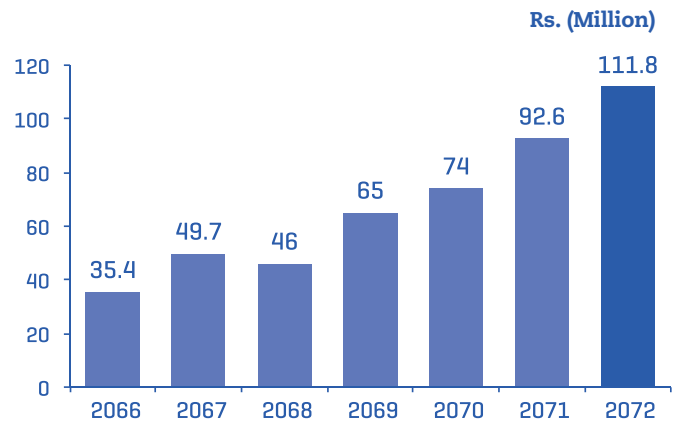
### Total Capital



### Return on Equity



### Earning per Share



## INTERNAL CONTROL SYSTEM

- Internal Controls are an integral part of Kendra’s business process. It covers the entire range of procedures, methods and controls established by the Kendra for the purpose of ensuring proper functioning of its business operations. It encompasses a set of rules, policies and procedures the company implements to provide reasonable assurance that its financial reports are reliable, its operations are efficient & effective and its activities comply with applicable laws and regulations. It is a means by which a company’s resources are directed, monitored, and measured. It plays an important role in detecting and preventing fraud and protecting the company’s resources, both physical (Hardware & peripherals) and intangible (application software).
- The Kendra’s framework for internal control system consists of the following elements:
  - *Control Environment*: this includes focus on integrity and ethical behavior, a commitment to investigating discrepancies, commitment to competence, and diligence in designing systems and assigning responsibilities.
  - *Control Activities*: this includes the focus on policies and procedures, security, application change management and Back ups.
  - *Risk Assessment*: this includes focus on company wide objectives, risk identification and analysis and managing change.
  - *Monitoring*: this includes on-going monitoring and separate evaluations of control mechanisms to ensure whether they are effective and delivering results.
  - *Information & Communication*: this includes the focus on effective channels for the dissemination of quality information within the company.
- The Kendra employs both preventive and detective control activities. The preventive control activities prevent undesirable activities from happening where as detective control activities identify undesirable occurrences after the fact. The Kendra regularly communicates updates and reminders of policies and procedures to staffs through emails, staff meetings and other communication methods. It periodically assesses risks and level of internal control required to protect Kendra’s assets and records related to those risks.
- In order to strengthen the internal control system in accounting and finance, the Board relies on the audit committee and the internal audit reports. The company’s periodic internal audit is done on a quarterly basis by the firm LDSA Associates, Chartered Accountants”, having its principle office in Bishalnagar, Kathmandu where as the annual audit at the end of fiscal year is done by the firm “M.B Shrestha & Co., Chartered Accountants” having its principle office in Sankhamul Road, New Baneshwor.
- Audit Committee mandates internal auditors to review and report on the quarterly basis the effectiveness of the existing controls and procedures adopted by Kendra. The internal and external auditors are allowed to perform independently and without any external pressure. At the same time they are expected to perform proficiently and with impartiality and due professional care.



## REPORTS OF THE AUDIT COMMITTEE

- The Audit Committee, currently consisting of three members, assists the Board of Directors in fulfilling its supervisory responsibilities for providing oversight of the financial reporting process, the audit process, the system of internal controls and compliance with the prevailing laws and regulations. The committee provides independent assurance and advice to the Board in the areas of risk management, internal control, financial statements, compliance requirements, internal audit, external audit and other relevant functions including the Kendra's performance framework and its process for monitoring compliance with laws and regulations and the general business principles.
- The audit committee met five times during the year to discharge its duties and responsibilities. During the period, the Audit Committee periodically reviewed matters relating to accounting policies, financial risks and compliance with accounting standards. The Committee focused on ensuring that the company's systems and controls are operating effectively, are responsive to the challenges of the external environment and evolving in line with the company's growth. The Bureau's high risk areas were also regularly reviewed by the Committee to avoid/minimize business risks.

Specially, the committee among other actions:

- reviewed the Kendra's quarterly earnings, consolidated financial statements and other financial reports as submitted by the internal auditor at each quarter. It assessed the accounting provisions and statements included in the financial statements, unusual transactions and management's responses to them. It also assessed in its quarterly meetings the adequacy and appropriateness of internal control policies and internal audit programs and their findings.
- reviewed the final annual audit report submitted by the external auditor, including non financial information, prior to publication there of. The audit committee discussed the report in which the external auditor set forth its findings and attention points and management's responses to those attention points.
- reviewed compliance with statutory and legal requirements and regulations, particularly in the financial domain. Important findings, identified risks and follow up actions

were examined thoroughly in order to allow appropriate measures to be taken.

- inquired about significant risks, reviewed Kendra's policy for risks assessment and risk management, and assessed the steps management has taken to control these risks.
- met in periodic executive session with each of the external auditor, management and internal auditor.
- Assessed the performance of the internal and external auditor.

After the review of the financial statements for the year ended Asar 31, 2072, the Audit Committee hereby states as follows:

- the scope and planning of the audit were adequate in committee's opinion;
- the accounting and reporting policies of the company confirmed with the statutory requirements and agreed ethical practices;
- the Internal Control and Internal Audit Functions were operating effectively; and
- the external auditor's findings as stated in the audit report were being dealt by the management satisfactorily.
- the company's internal controls and business risks management frameworks are delivering the desired outputs and working effectively. The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the financial position of the Bureau is well monitored and assets are safeguarded.

Audit Committee thus recommends for the submission of the Consolidated Financial Statement to Board of Directors for its approval and for its filing to the Inland Revenue Department of the Ministry of Finance for the tax purposes and the copies sent to Company Registrar office and Nepal Rastra Bank for their reference.

Audit Committee also recommends the name of M.B Shrestha & Co. as the external auditor of the company for the year 072/073.

## COMMENTS & OBSERVATIONS OF THE BOARD ON THE AUDIT COMMITTEE REPORT

The Board reviewed the operational and financial performance of the company and took assessment of the company's risks and internal control framework & its effectiveness as briefed by the Audit Committee and presented in its Audit Report. Board also reviewed whether the accounting and operating policies employed by the Kendra confirms with legal and statutory requirements and best ethical practices.

Based on the review of the Report, Board concluded that the Committee has presented a balanced report and given a fair assessment of the company's operating and financial performance. Board was also satisfied with the measures employed by the company in maintaining the account books correct and transparent and introducing the best practices in internal control system and risk management. Board thus approved

the consolidated financial statement of the company and gave its approval to be presented to the shareholders in the forthcoming 11th Annual General Meeting of the company.

Board at the same time thanked the Audit Committee, Management, Internal Auditor and Statutory Auditor for their cumulative efforts in meeting the desired objectives of the company.

As per the recommendation made by the Audit Committee, Board agreed on the name of M.B Shrestha & Company as the Statutory Auditor of the company for the fiscal year 072/73. Board will propose the name of Statutory Auditor in the 11th Annual General Meeting of the company for its ratification.

## STATEMENT OF THE VALUE ADDED AND ITS DISTRIBUTION

### CONTRIBUTION TO THE NATIONAL EXCHEQUER AND TO THE ECONOMY

The company paid Rs. 38,779,599 as the corporate tax to the Government of Nepal in the year 071/072. Kendra also helped to collect Rs. 229.9 crores from the serious defaulters (from blacklist borrowers) in the year thus helping the banks and financial institutions reduce their non performing loans.

### EMPLOYEES SALARY

The total expense incurred by the company in the form of salary, allowance and other facilities to the staffs amounted to Rs. 10,568,138. CEO was paid the total remuneration package of Rs 3,797,000 and the remaining staffs were paid Rs. 6,771,138. CEO is also provided with vehicle and all its operating costs.

### EMPLOYEES BONUS

Company has allocated Rs. 15,442,623 as the provision for bonus for the year 071/072 to be distributed to its staffs. Bonus will be paid to all its staffs as per the provisions made in the Labor Act of the country. The amount left after making the bonus payment, 30% will be deposited in the National Staff Welfare Fund and the remaining 70% will be deposited in Staff Welfare Fund of the company.

### RETAINED BY THE ENTITY

Company has transferred Rs. 115,642,845 to its Accumulated Profit Account from the earnings of the fiscal year 071/072.

## ADDITIONAL DETAILS

### LITIGATION CASES

Out of the nineteen court cases carried forward from the year 070/071, seven new cases were registered and fifteen cases were settled by the court during the period. Thus there were only eleven cases pending at the end of fiscal year 071/072 which will be carried forward in the year 072/073.

### NUMBER OF REGISTERED MEMBERS

Categories of Financial Institutions	Registered Members Till 071/072	Registered Members Till 070/071
Commercial Banks	30	30
National Development Banks	20	20
Regional Development Banks	61	65
Finance Companies	49	52
Others (Rural Development Banks, Microfinance Institutions)	5	4
<b>Total Registered Numbers</b>	<b>165</b>	<b>171</b>

The year 071/072 saw large drop in the number of financial institutions from 171 to 165 institutions. Major drops were in Regional Development Banks where four regional development banks merged with one commercial bank and two national development banks. Similarly three finance companies merged with one national development bank and one commercial bank.

## PROPOSAL FOR THE ISSUE OF CASH DIVIDEND

As per the decision reached by the 94th meeting of the Board of Directors of the company, Board decides to disburse 15% cash dividend this year from its earning of the fiscal year 071/072. This will incur the total cash out flow of Rs. 15,511,200/- from the company's reserves.

On behalf of the Board of the Directors, I would like to bring forward this proposal on the floor of this AGM for your discussion and approval.

## GRATITUDE

On behalf of the entire Board of Directors and the management team, I offer my sincere thanks to all the promoter shareholders for their continued support to this company. It is through your support that this company is able to grow every year and consolidate its position as the provider of high quality credit bureau services to its users. I also would like to express my sincere gratitude to our Board of Directors for offering steadfast direction and guidance over the last year. I would like to thank all our member banks and financial institutions for being with us and supporting us all the time. Your regular comments on our services have always kept us on toes and made us to be alert on our service deliveries. We are grateful to Nepal Rastra Bank, our regulator, and all other concerned agencies for guiding us and supporting us in our endeavor to move forward. At the end, our success would not have been possible without the efforts of our staffs who have always given their best to this company.

## LIST OF PROMOTER SHAREHOLDERS AND THEIR SHARES

S.No.	Name of Banks and Financial Institutions	Total Shares
1	Nepal Rastra Bank	103,680
<b>COMMERCIAL BANKS</b>		
1	Nepal Bank Limited	13,724
2	Rastriya Banijya Bank	13,724
3	Nabil Bank	36,599
4	Nepal Investment Bank	42,007
5	Standard Chartered Bank Nepal	36,599
6	Himalayan Bank	39,304
7	Nepal SBI Bank	36,599
8	Nepal Bangladesh Bank	40,448
9	Everest Bank	36,599
10	Bank of Kathmandu	56,414
11	Nepal Credit & Commerce Bank	36,599
12	NIC Asia Bank	42,013
13	Lumbini Bank	16,524
14	Machhapuchhre Bank	39,399
15	Kumari Bank	36,599
16	Laxmi Bank	51,840
17	Siddhartha Bank	41,904
18	Agriculture Development Bank	31,104
19	Grand Bank Nepal	36,512
20	NMB Bank	2,800
21	Prabhu Bank	19,872
22	Citizen Bank International	3,850
<b>Total Commercial Bank</b>		<b>711,033</b>

S.No.	Name of Banks and Financial Institutions	Total Share
<b>DEVELOPMENT BANKS</b>		
1	N.I.D.C. Development Bank	11,664
2	Yeti Development Bank	32,470
3	Ace Development Bank	31,600
4	Kailash Bikas Bank	2,800
5	Business Universal Development Bank	8,126
6	Vibhor Bikas Bank	1,050
7	Apex Bikas Bank	2,800
<b>Total Development Banks</b>		<b>90,510</b>
<b>FINANCE COMPANIES</b>		
1	Nepal Aawas Finance	2,800
2	NIDC Capital Market	1,050
3	Narayani National Finance	5,599
4	Nepal Share Markets & Finance	2,800
5	Himalaya Finance & Savings	1,050
6	United Finance	2,800
7	Union Finance	2,800
8	Srijana Finance	4,549
9	Kathmandu Finance	7,984
10	Prudential Finance	2,800
11	Paschimanchal Finance Company	2,800
12	Samjhana Finance	2,800
13	Goodwill Finance	6,134
14	Shree Investment & Finance	8,916

S.No.	Name of Banks and Financial Institutions	Total Share
15	Siddhartha Finance	13,168
16	International Leasing & Finance Company	3,590
17	Mahalaxmi Finance	2,800
18	Progressive Finance	2,800
19	General Finance	2,800
20	Central Finance	2,800
21	Premier Finance	2,800
22	Multipurpose Saving Co-operative	2,800
23	Synergy Finance	20,632
24	Om Finance	1,050
25	World Merchant Banking & Finance	2,800
26	Capital Merchant Banking & Finance	1,050
27	Crystal Finance	2,800
28	Ghuweshwori Merchant Banking & Finance	2,800
29	Patan Finance	1,050
30	Lalitpur Finance	2,800
31	Nepal Finance	4,385
32	Lumbini Finance & Leasing	1,050
Total Finance Companies		128,857
Grand Total		1,034,080

# M.B. SHRESTHA & CO.

Chartered Accountants  
Sankhamul Road  
New Baneshwar

Tel : 4781818  
Fax No. : 977-1-4781789  
E-mail : mbsshrestha@gmail.com  
G.P.O. Box : 720  
Kathmandu, Nepal.

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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KARJA SUCHANA KENDRA LTD.

### Report on the Financial Statements

We have audited the accompanying financial statements of M/S Karja Suchana Kendra Limited, which comprise the Balance Sheet as at Ashadh 31, 2072 corresponding to July 16, 2015 and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and notes to accounts.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the presentation of these financial statements in accordance with Nepal Accounting Standards in so far as applicable in compliance with prevailing legislations, and for such internal control as management determines necessary to enable the preparation of the financial statements that are free from material mis-statement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Nepal Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material mis-statement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's Judgment, including the assessment of the risks of material mis-statement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Report on Requirement of Company Act

On examination of the financial statements as aforesaid, we report that

- a) We have obtained informations and explanations asked for, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- b) In our opinion, proper books of account as required by the company law have been kept by the company, in so far as appears from our examination of those books of account and the financial statements dealt with by this report, are in agreement with the book of accounts.
- c) During the audit, we have not come across the cases, where the Board of Directors or any member thereof or any employee of the company has acted deliberately in contravention to the provisions of the law relating to accounts or mis-appropriated funds of the company or damage to the company, nor have we been informed of any such case by the management.

## Opinion on the Financial Statements

In our opinion and to the best of our information and according to the explanations given to us, the said financial statements referred to above, read together with the notes attached thereto give a true and fair view of the financial position of the company as of Ashadh 31, 2072 (July 16, 2015), and of the results of its financial performances and its cash flows for the year then ended in accordance with Nepal Accounting Standards in so far as applicable in compliance with the prevailing legislations.



Maheswarendra Bdr. Shrestha, FCA  
M.B.Shrestha & Co.  
Chartered Accountants  
Date: November 27, 2015 (11/08/2072)





**Balance Sheet**

As on Ashad 31, 2072 (Corresponding to July 16, 2015)

Particulars	Schedule	Current Year (NRs.)	Previous Year (NRs.)
<b>CAPITAL AND LIABILITIES</b>			
<b>Share Capital</b>			
Paid up Share Capital	1	103,408,000	103,408,000
<b>Reserve and Surplus</b>			
Reserve Fund and Accumulated Profit	2	308,468,999	213,507,754
<b>Loan/ Funds</b>			
Grant/Fund from Asian Development Bank	3	231,369,813	231,369,813
<b>Total</b>		<b>643,246,812</b>	<b>548,285,567</b>
<b>ASSETS</b>			
Fixed Assets less Depreciation	4	274,752,174	268,392,073
<b>Investments</b>	5	<b>366,080,089</b>	<b>265,743,277</b>
<b>Current Assets (A)</b>			
Trade and Other Receivable	6	10,139,222	10,139,130
Cash and Bank Balances	7	4,187,265	3,916,287
Pre-Paid, Advances, Loans and Deposits	8	11,805,238	18,669,398
<b>Total (A)</b>		<b>26,131,725</b>	<b>32,724,815</b>
<b>Current Liabilities and Provisions (B)</b>			
Trade and Other Payables	9	9,276,768	6,785,873
Provisions	10	15,442,623	12,794,729
<b>Total (B)</b>		<b>24,719,391</b>	<b>19,580,602</b>
<b>Net Current Assets (A - B)</b>		<b>1,412,334</b>	<b>13,144,213</b>
<b>Deferred Tax Assets</b>		<b>1,002,215</b>	<b>1,006,004</b>
<b>Total</b>		<b>643,246,812</b>	<b>548,285,567</b>
Significant Accounting Policies and Notes	13		

All Schedules form an integral parts of this Financial Statements.

As per our report of even date

Anil Chandra Adhikari  
Chief Executive OfficerTulasi Ram Gautam  
ChairmanC.A., Maheswarendra B. Shrestha  
M.B. Shrestha & Co.  
Chartered AccountantsAjay Shrestha  
DirectorJyoti Prakash Pandey  
DirectorNara Bahadur Thapa  
DirectorRajendra Man Shakya  
DirectorDate : 2072/07/17  
Place: Kathmandu, Nepal

## Income Statement

For the period from Shrawan 01, 2071 to Ashad 31, 2072  
(Corresponding period from July 17, 2014 to July 16, 2015)

Particulars	Schedule	Current Year (NRs.)	Previous Year (NRs.)
<b>A. INCOME :</b>			
1. Service Charge		169,862,348	140,550,540
2. Interest		18,713,967	18,535,221
3. Registration Charge		2,000	1,000
4. Other Income		600,300	2,500
<b>Total</b>		<b>189,178,615</b>	<b>159,089,261</b>
<b>B. EXPENDITURE :</b>			
1. Operating Expenses	11	18,076,852	16,841,909
2. Non Operating Expenses	12	-	-
3. Depreciation on Fixed Assets	4	1,232,906	1,505,339
4. Provision for bonus		15,442,623	12,794,728
<b>Profit Before Tax (PBT)</b>		<b>154,426,234</b>	<b>127,947,285</b>
5. Provision for Taxation (with Deferred Tax)		38,783,389	32,195,149
5.1 Current Tax Expenses		38,779,600	32,278,490
5.2 Deferred Tax Expenses		3,789	(83,341)
6. Net Profit Transferred to Accumulated Profit		115,642,845	95,752,136
<b>Total</b>		<b>189,178,615</b>	<b>159,089,261</b>

All Schedules form an integral parts of this Financial Statements.

As per our report of even date

Anil Chandra Adhikari  
Chief Executive Officer

Tulasi Ram Gautam  
Chairman

C.A., Maheswarendra B. Shrestha  
M.B. Shrestha & Co.  
Chartered Accountants

Ajay Shrestha  
Director

Jyoti Prakash Pandey  
Director

Nara Bahadur Thapa  
Director

Rajendra Man Shakya  
Director

Date : 2072/07/17  
Place: Kathmandu, Nepal

**Profit and Loss Appropriation Account**

For the period from Shrawan 01, 2071 to Ashad 31, 2072  
(Corresponding period from July 17, 2014 to July 16, 2015)

Particulars	Current Year (NRs.)	Previous Year (NRs.)
<b>INCOME :</b>		
1 Accumulated Profit up to the Last Year	122,006,831	66,404,833
2 Current Period's Profit	115,642,845	95,752,135
<b>Total</b>	<b>237,649,676</b>	<b>162,156,968</b>
<b>EXPENSES :</b>		
1 Accumulated Loss up to the Last Year	-	-
2 Current Year's Loss	-	-
3 General Reserve	23,128,569	19,150,427
4 Provision for Previous Year Taxation	-	-
5 Capital Reserve	-	-
6 Proposed Cash Dividend	15,511,200	20,681,600
7 Bonus Share	-	-
8 Deferred Tax	(3,789)	83,341
9 Proposed Bonus Share	-	-
10 Prior Period Adjustment	-	234,769
<b>Total</b>	<b>38,635,980</b>	<b>40,150,137</b>
<b>Accumulated Profit/(Loss)</b>	<b>199,013,696</b>	<b>122,006,831</b>

As per our report of even date

Anil Chandra Adhikari  
Chief Executive Officer

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Chairman

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M.B. Shrestha & Co.  
Chartered Accountants

Ajay Shrestha  
Director

Jyoti Prakash Pandey  
Director

Nara Bahadur Thapa  
Director

Rajendra Man Shakya  
Director

Date : 2072/07/17  
Place: Kathmandu, Nepal

## Cash Flow Statement

For the period from Shrawan 01, 2071 to Ashad 31, 2072  
(Corresponding period from July 17, 2014 to July 16, 2015)

Particulars	Current Year (NRs.)	Previous Year (NRs.)
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit as per P&L A/C	115,642,845	95,752,135
<b>Adjustments:</b>		
Interest Income	(18,713,967)	(18,535,221)
Depreciation	1,232,906	1,505,339
Prior Period Adjustment	-	(234,769)
<b>Operating Profit Before Working Capital Changes</b>	<b>98,161,784</b>	<b>78,487,484</b>
<b>Change in Working Capital</b>		
Increase/(Decrease) in Provision	2,647,894	2,607,079
Increase/(Decrease) in Trade and Other Payables	2,494,684	88,451
(Increase)/Decrease in Advances, Loans & Deposits	6,864,160	(8,107,433)
(Increase)/Decrease in Trade & Other Receivables	(92)	(886,548)
<b>Total (A)</b>	<b>110,168,430</b>	<b>72,189,033</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets	(7,593,007)	(31,970,051)
Sale of Fixed Assets		
Investments	(100,336,812)	(48,244,301)
Interest Income	18,713,967	18,535,221
<b>Total (B)</b>	<b>(89,215,852)</b>	<b>(61,679,131)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issue of Share Capital (Except Bonus Share)		
Dividend Paid	(20,681,600)	(15,511,200)
<b>Total (C)</b>	<b>(20,681,600)</b>	<b>(15,511,200)</b>
<b>Net Cash Increase/Decrease (A+B+C)</b>	<b>270,978</b>	<b>(5,001,298)</b>
<b>Add: Opening Cash &amp; Bank Balance</b>	<b>3,916,287</b>	<b>8,917,584</b>
<b>Closing Cash &amp; Bank Balance</b>	<b>4,187,265</b>	<b>3,916,287</b>

Anil Chandra Adhikari  
Chief Executive Officer

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Nara Bahadur Thapa  
Director

Rajendra Man Shakya  
Director

Date : 2072/07/17  
Place: Kathmandu, Nepal

**Statement of Changes in Equity**

For the period from Shrawan 01, 2071 to Ashad 31, 2072  
(Corresponding period from July 17, 2014 to July 16, 2015)

Particulars	(Amount in NRs.)						
	Share Capital	Accumulated Profit/Loss	General Reserve	Capital Reserve	Deferred Tax Reserve	Proposed Cash Dividend	Total Amount
Opening Balance	103,408,000	122,006,831	62,514,062	7,299,257	1,006,004	-	296,234,154
Adjustments							
Current Year's Net Profit	-	115,642,845	-	-	-	-	115,642,845
General Reserve	-	(23,128,569)	23,128,569	-	-	-	-
Right Share	-	-	-	-	-	-	-
Issue of Bonus Share	-	-	-	-	-	-	-
Proposed Cash Dividend	-	(15,511,200)	-	-	-	15,511,200	-
Deferred Tax Income/Expenses	-	3,789	-	-	(3,789)	-	-
Issue of Undistributed Share	-	-	-	-	-	-	-
Proposed Bonus Share	-	-	-	-	-	-	-
Prior Period adjustment	-	-	-	-	-	-	-
<b>Closing Balance</b>	<b>103,408,000</b>	<b>199,013,696</b>	<b>85,642,631</b>	<b>7,299,257</b>	<b>1,002,215</b>	<b>15,511,200</b>	<b>411,876,999</b>

As per our report of even date

Anil Chandra Adhikari  
Chief Executive Officer

Tulasi Ram Gautam  
Chairman

C.A., Maheswarendra B. Shrestha  
M.B. Shrestha & Co.  
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Nara Bahadur Thapa  
Director

Rajendra Man Shakya  
Director

Date : 2072/07/17

Place: Kathmandu, Nepal

## Schedules to Balance Sheet

As at Ashad 31, 2072

### SHARE CAPITAL

Schedule -1

Particulars	Current Year (NRs.)	Previous Year (NRs.)
<b>Authorised Share Capital</b>		
(15,00,000 Ordinary Share of Rs. 100 each)	150,000,000	150,000,000
<b>Issued Share Capital</b>		
(1,034,080 Ordinary Shares of Rs. 100 each)	103,408,000	103,408,000
<b>Paid-Up Share Capital</b>		
(1,034,080 Ordinary Shares of Rs. 100 each)	103,408,000	103,408,000
<b>Total</b>	<b>103,408,000</b>	<b>103,408,000</b>

### RESERVE & SURPLUS

Schedule -2

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Capital Reserve	7,299,257	7,299,257
General Reserve	85,642,631	62,514,062
Accumulated Profit	199,013,696	122,006,831
Deferred Tax Reserve	1,002,215	1,006,004
Proposed Cash Dividend	15,511,200	20,681,600
<b>Total</b>	<b>308,468,999</b>	<b>213,507,754</b>

### GRANT/FUND

Schedule -3

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Asian Development Bank	231,369,813	231,369,813
<b>Total</b>	<b>231,369,813</b>	<b>231,369,813</b>

## FIXED ASSETS AND DEPRECIATION

For the period from Shrawan 01, 2071 to Ashad 31, 2072

		COST PRICE					DEPRECIATION					WDV	
Pool	Particulars	Dep. Rate	Previous Year (NRs.)	Addition Current Year (NRs.)	Sales Adjust-ment	Balances (NRs.)	Previous Year (NRs.)	Current Year (NRs.)	Sales Adjust-ment	Balances (NRs.)	Current Year (NRs.)	Previous Year (NRs.)	
A	Building, Structures and similar Works of Permanent Nature	5%	2,612,760	-	-	2,612,760	218,770	119,864	-	338,634	2,274,126	2,393,990	
B	Computers, Furniture & Fixtures and Office Equipment	25%	10,629,136	288,900	-	10,918,036	8,095,626	653,682	-	8,749,308	2,168,728	2,533,510	
C	Vehicle	20%	5,027,429	-	-	5,027,429	3,396,450	326,196	-	3,722,646	1,304,783	1,630,979	
D	Plant and Machinery	15%	1,263,080	1,200,003	-	2,463,083	669,821	89,975	-	759,796	1,703,287	593,259	
E	Other Intangible Assets	20%	3,650,374	-	-	3,650,374	3,523,062	43,189	-	3,566,251	84,123	127,312	
Balance of Current Year			23,182,779	1,488,903	-	24,671,682	15,903,729	1,232,906	-	17,136,635	7,535,047	7,279,050	

## Micro Finance Project

		COST PRICE					DEPRECIATION					WDV	
Pool	Particulars	Dep. Rate	Previous Year (NRs.)	Addition Current Year (NRs.)	Sales Adjust-ment	Balances (NRs.)	Previous Year (NRs.)	Current Year (NRs.)	Sales Adjust-ment	Balances (NRs.)	Current Year (NRs.)	Previous Year (NRs.)	
E	Hardware & Third party Software	Amor-tize	261,113,023	181,802	-	261,294,825	-	-	-	-	261,294,825	261,113,023	
Total Fixed Assets			261,113,023	181,802	-	261,294,825	-	-	-	-	261,294,825	261,113,023	

## STR PROJECT

		COST PRICE					DEPRECIATION					WDV	
Pool	Particulars	Dep. Rate	Previous Year (NRs.)	Addition Current Year (NRs.)	Sales Adjust-ment	Balances (NRs.)	Previous Year (NRs.)	Current Year (NRs.)	Sales Adjust-ment	Balances (NRs.)	Current Year (NRs.)	Previous Year (NRs.)	
B	Server	25%	-	1,647,178	-	1,647,178	-	-	-	-	1,647,178	-	
C	I 10 Car	20%	-	2,131,000	-	2,131,000	-	-	-	-	2,131,000	-	
E	Software	Amor-tize	-	1,692,124	-	1,692,124	-	-	-	-	1,692,124	-	
Others			-	452,000	-	452,000	-	-	-	-	452,000.00	-	
Total			-	5,922,302	-	5,922,302	-	-	-	-	5,922,302	-	
Grand Total of Fixed Assets			-	7,593,007	-	291,888,809	15,903,729	1,232,906	-	17,136,635	274,752,174	268,392,073	

Schedule - 4 a

Schedule - 4 b

Schedule - 4 c

## Schedules to Balance Sheet

As at Ashad 31, 2072

### INVESTMENTS

Schedule - 5

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Fixed deposit at Different Bank and Financial Institution	362,900,000	262,800,000
Citizen Investment Trust	2,180,089	1,943,277
ICRA Nepal	1,000,000	1,000,000
<b>Total</b>	<b>366,080,089</b>	<b>265,743,277</b>

### TRADE AND OTHER RECEIVABLE

Schedule - 6

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Service Charge	5,500,152	4,810,153
Interest Accrued	4,639,070	5,328,977
<b>Total</b>	<b>10,139,222</b>	<b>10,139,130</b>

### CASH AND BANK BALANCE

Schedule -7

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Cash in Hand	-	-
Nepal Rastra Bank	53,968	52,768
Bank of Kathmandu	1,715,666	996,877
Nabil Bank	694,325	2,450,181
Nabil Bank (Leave Deposit)	116,067	142,622
Civil Bank Ltd. - Current A/C	1,607,239	273,839
<b>Total</b>	<b>4,187,265</b>	<b>3,916,287</b>

### PRE-PAID, ADVANCES, LOANS AND DEPOSITS

Schedule - 8

Particulars	Current Year (NRs.)	Previous Year (NRs.)
National Life Insurance (Loan Deposit)	447,118	410,579
Nepal Telecommunication	23,060	23,060
Staff Loan and Advances	143,738	224,251
Advance Tax	1,220,609	2,352,329
Cheque in Hand	960,520	7,202,435
Other receivable and advance	9,010,193	8,456,745
<b>Total</b>	<b>11,805,238</b>	<b>18,669,399</b>



<b>TRADE AND OTHER PAYABLES</b>		Schedule - 9
Particulars	Current Year (NRs.)	Previous Year (NRs.)
Auditors Fee	337,040	192,469
Telephone Charge	8,000	746
Others	4,058,292	2,443,835
Advance Received of Service Charges	-	142,695
Gratuity Fund/Retirement Fund (CIT)	2,180,089	1,943,277
Leave Fund	1,909,055	2,041,665
TDS Payable	217,314	-
Bonus Payable	55,836	21,186
Dividend Payable	511,142	-
<b>Total</b>	<b>9,276,768</b>	<b>6,785,873</b>

<b>PROVISIONS</b>		Schedule - 10
Particulars	Current Year (NRs.)	Previous Year (NRs.)
Provision for Income Tax	-	-
Provision for Bonus	15,442,623	12,794,729
<b>Total</b>	<b>15,442,623</b>	<b>12,794,729</b>

## Schedules to Income Statement

For the Period from Shrawan 01, 2071 to Ashad 31, 2072

### OPERATING EXPENSES

Schedule - 11

#### A. Staff Related Expenses

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Salary & Allowances	10,568,138	10,148,844
Uniform Expenses	99,657	73,720
<b>Sub - Total A</b>	<b>10,667,795</b>	<b>10,222,564</b>

#### B. Administrative Expenses

Particulars	Current Quarter (NRs.)	Previous Year (NRs.)
Printing and Stationery	137,100	197,989
Fuel Expenses	208,380	280,780
Postal Charge	615	5,440
<b>Repair and Maintenance</b>		
a) Repair Expenses	119,794	63,008
b) Maintenance Expenses	227,575	751,430
<b>Meeting Expenses</b>		
a) Meeting Allowances	90,000	144,000
b) Other Meeting Expenses	14,706	18,307
Telephone Charge	94,452	70,093
Training Expenses	158,043	56,339
Travelling Expenses	800,000	477,796
Insurance Premium	74,072	75,142
<b>Auditor Expenses</b>		
a) Auditor's Fee	290,223	178,843
b) Other Auditor's Expenses	60,322	22,728
<b>Water, Electricity and Others</b>		
a) Electricity Expenses	755,267.00	530,923
b) Drinking Water	40,549.00	40,784
c) Others (Kitchen and Toiletries)	60,470.00	57,639
<b>Legal Expenses</b>		
a) Legal Fee	254,150.00	17,647
b) Other Legal Expenses	590.00	35,855
Books and Periodicals	300	450
Web Charges	712,428	552,570
Paper and Publication	48,963	99,720
Office Rent, Security and Other Expenses	2,002,928	1,957,950
Miscellaneous Expenses	176,766	181,457
AGM Expenses	280,677	449,339
Furniture and Equipment Expenses	28,654	81,887
Business Expenses	200,000	200,000
Festival and Ceremony Expenses	120,945	71,229
Corporate Social Responsibilities	451,088	-
<b>Sub - Total B</b>	<b>7,409,057</b>	<b>6,619,345</b>
<b>Grand Total</b>	<b>18,076,852</b>	<b>16,841,909</b>

<b>NON OPERATING EXPENSES</b>		<b>Schedule -12</b>	
<b>Particulars</b>	<b>Current Quarter (NRs.)</b>	<b>Previous Year (NRs.)</b>	
Waive Off Loan and Advance	-	-	
Write Off	-	-	
<b>Total</b>	<b>-</b>	<b>-</b>	

## Significant Accounting Policies and Notes to Account

For the period ended on Ashad 31, 2072

Schedule - 13

### 1. General

Incorporation and Legal form of the Company:

The company is incorporated as a public limited company under the Company Act 2063.

### 2. Nature of Business

The primary objective of the company is to provide Credit Information to Banks and Financial Institutions.

### 3. Accounting Convention

The Financial Statements have been prepared under the historical cost convention and comply with Nepal Accounting Standards in so far as applicable.

### 4. Basis of Accounting

Income and Expenses have been accounted for on Accrual basis.

### 5. Fixed Assets and Depreciation

- 5.1 The Fixed Assets of the company are stated at Cost less Accumulated Depreciation. Depreciation is charged to the Profit & Loss Account using the following rates and methods:

Nature of Assets	Depreciation Rate	Method of Calculation
Building	5%	WDV
Computers, Furniture & Fixtures and Office Equipment	25%	WDV
Vehicles	20%	WDV
Plant and Machinery	15%	WDV
Other Intangible Assets	20%	STL

### 5.2 Fixed Assets (Hardware and Third Party Software)

The Fixed Assets as aforesaid are yet to generate expected future economic benefits and these fixed assets are still to put in use for commercial purposes. As such, pending capitalization, no depreciation expenses is recognized.

### 5.3 Secure Transaction Registry Software Development

The total expenditure incurred for developing such application software so far is amounted to Rs. 5,922,302. Details of which are as follows:-

Particulars	Hardware	Software	Others	Total
Expenditure incurred till Ashad end, 2072	1,647,178	1,692,124	2,583,000	5,922,302
Nature/Purpose	Server purchase	In house development of software by hiring software developers	Vehicle (110 Car) = Rs. 2,131,000 Legal Expenses for training & public awareness = Rs. 452,000	

As the software development is still completable, and economic benefits is yet to flow to the entity from the development of the intangible asset, total development costs incurred is yet to be capitalized.

**6. Provision for Income tax**

The provision for Income Tax has been calculated at the rate applicable for that year in accordance with Income Tax Act and Rules. The Provision for Income Tax as per Income Tax Act 2058 for the year is NRs 38,783,389. The amount has been adjusted against the Advance Tax.

**7. Deferred Tax**

Nepal Accounting Standard 09, "Income Taxes" has been complied with from the fiscal year 2064/065. The details of deferred tax assets and liabilities for the year 071/072 are as follows:-

Particulars	Deductible Temporary Differences (NRs.)	Taxable Temporary Differences (NRs.)	Net (NRs.)
Fixed Assets	(80,284)	-	(80,284)
Retirement Fund (CIT)	2,180,089	-	2,180,089
Leave Fund	1,909,055	-	1,909,055
Total Temporary Difference	4,008,860	-	4,008,860
Deferred Tax Assets (Liability)	1,002,215	-	1,002,215

The deferred tax asset arising due to the temporary difference amounts to NRs. 1,002,215 this year whereas it was NRs. 1,006,004 in previous year. The decrease in deferred tax assets by NRs. 3,789 during the year has been reduced from the previous years' balance of the deferred tax assets in the Balance Sheet and incorporated the same figure in the Income Statement of the current year.

**8. Provision for Staff Bonus**

Staff bonus is provided at 10% of Net Profit before Tax.

**9. General Reserve**

As per the provision of the Articles of Association, 20% of the current year's profit amounting to NRs. 23,128,569 has been transferred to General Reserve.

**10. Investments**

Investments have been recorded at Cost Price.

**11. Loan to Staff**

Loan to staff represent loan granted to employees at concessional interest rate as per the policy of the company. Interest on such loan is recovered from employees on monthly basis and shown as income. Employees of the company availing such loan facility are required to obtain life insurance policy with insured sum equivalent to the amount of loan granted. Such policies are assigned to the company. Loans are recovered upon maturity of insurance policy.

**12. Cash Dividend and Bonus Share**

Board has decided on its 94<sup>th</sup> Board Meeting dated November 03, 2015 to disburse 15% Cash Dividend to its existing shareholders subject to the approval from the forthcoming 11<sup>th</sup> Annual General Meeting of the Company. Cash dividend amounting to NRs. 15,511,200 has been set aside through Profit and Loss Appropriation Account.

**13. Rounding-Off/Previous Year Figures**

Figures are rounded off to the nearest rupee. Previous year figures has been regrouped or rearranged wherever necessary.

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