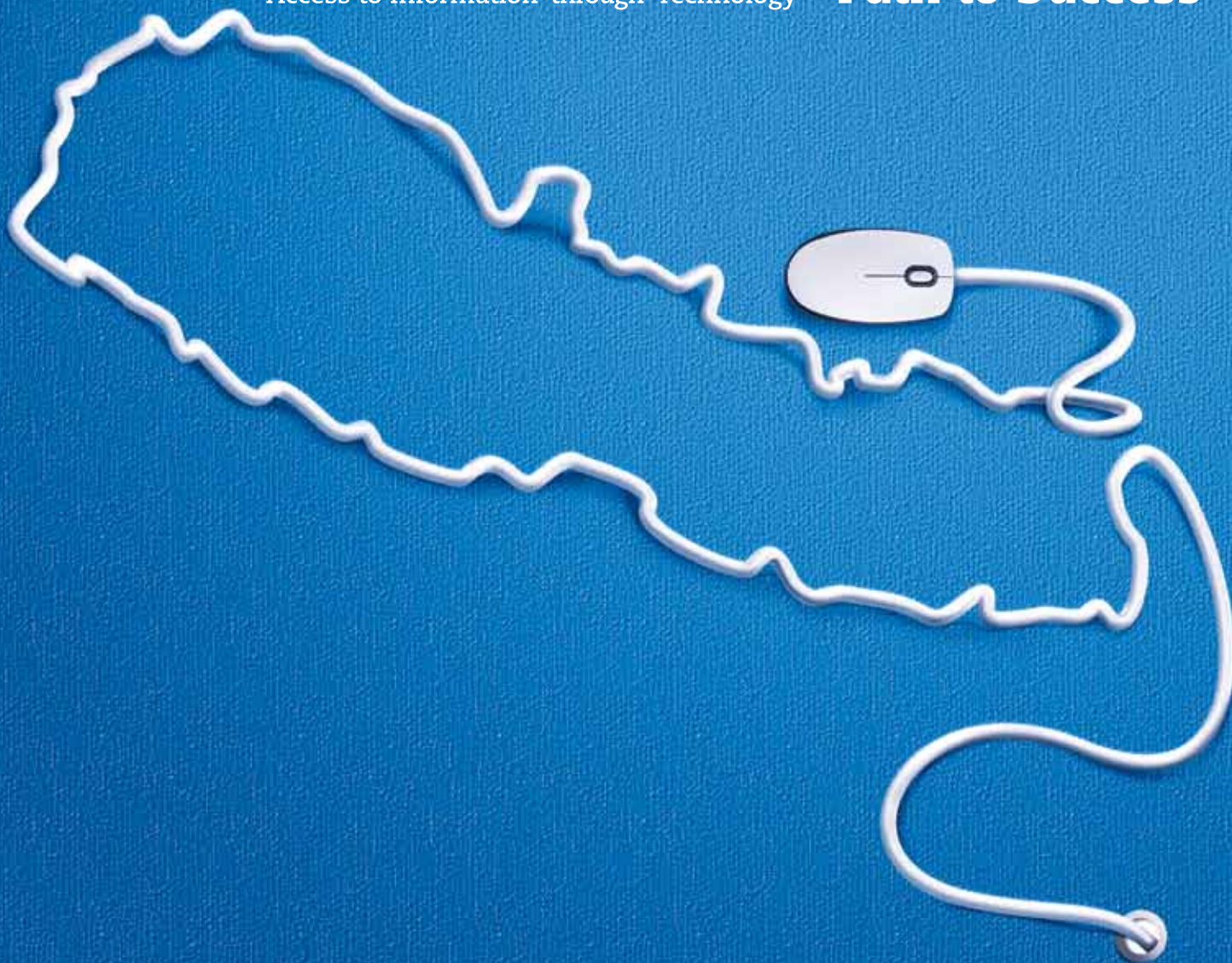


Access to Information through Technology = **Path to Success**



**Annual
Report
2013**

Fiscal Year 069/070



KARJA SUCHANA KENDRA LIMITED



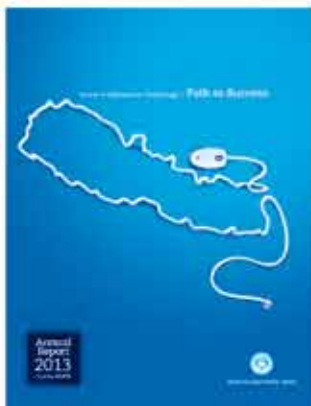


WHO WE ARE ?

Karja Suchana Kendra Limited is one of the oldest Credit Information Bureau in the SAARC region and was established in May 1989 with the sole objective of restraining the growth of the Non Performing Assets of the Banking and Financial sector of the country that was increasing alarmingly during the period. Later, it got registered as the Company in 2004 under the Company Act 2053 and started its operation as the independent and autonomous entity from March 2005.

Go to "<http://www.cibnepal.org.np/products.php>"





Path to Success (*Theme*)

The recent advances in information technology are becoming central to the process of socio-economic development. Information technology offers new ways of exchanging information, and transacting business, changes the nature of the financial and other service sectors and provides efficient means of using the human and institutional capabilities of the country in both the public and private sectors. As a matter of fact, Technology has evolved business into a fluid, self working clock. We propose to employ this process of technology innovation to highlight the journey of Kendra.

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From history leaf...

...Synopsis of evolution of Credit Bureau Industry

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From History Leaf ...

...SYNOPSIS OF EVOLUTION OF CREDIT BUREAU INDUSTRY

1860-1930

Earlier bureaus were small and community based. Co-operative credit bureaus were known in some countries from the early 1860s. They were originally organized to facilitate the exchange of credit information among merchants. These early credit reporting companies represented cooperatives efforts among creditors in a specific region and were operated solely for the benefit of its members. They typically limited their credit-related reporting to negative or "derogatory" information (e.g. delinquencies or defaults). They just maintained the list of customers who were considered by the merchants to be poor risks. For example, a group of retailers in a small town might have agreed to form a cooperative that kept track of customers who were considered delinquent by any member of the group. The individual merchants would then use this information in managing their own credit relationships with prospective and current customers.

1930-1965

The industry experienced rapid growth only after World War I. The people became more mobile and the credit bureaus expanded to serve a wider audience of dispersed merchants. The bureaus started collecting the information in a structured way. In addition to capturing name, address, and some loan information, the bureaus started scouring local newspapers for notices of arrests, promotions, marriages, and deaths. These notices would then be clipped and attached to a consumer's paper credit report. Requests or "inquiries" from creditors to see a particular consumer's information would also be noted in the report. These inquiries would indicate that a consumer was requesting credit. After World War I, the credit reporting business became industry specific in its focus. As such, bank, retailer, or finance company sponsored "bureaus" did not share loan or inquiry information with each other. This kept banks from knowing about loans or inquiries made by finance companies or retailers and vice versa. The situation limited any creditor's ability to understand a potential customer's entire debt situation.

1965-1990

The rapid development of computing and communications technology in 1960s & 1970s became central to the rapid growth of Credit Bureau industry. Apart from the technology, the political and market pressure that exerted themselves on the credit reporting industry played an important role in shaping the modern-day credit reporting industry. During the period, the industry harnessed the power of computers and databases to process, organize, and report on credit data. Those bureaus that adopted computer technology realized operating efficiencies that allowed them to move data faster and attract more business. This, along with the costs associated with migrating to computer-based systems, compelled smaller operations that were not yet automated to sell their files and exit the industry. As a result of this consolidation and in order to meet the demands of an exploding unsecured lending market, credit reporting companies started including lending activity from banks, finance companies, and retailers from wider geographic areas.

1990 +

The further innovation in computer technology and the development of various types of advanced office systems helped to fully computerize data-collection operations, providing the ability to link and analyze categories of information in entirely new ways, and to deliver information to customers faster and more economically. The high speed computers, digital networking and communications, powerful data base and storage systems, world-wide web, internet, email & messaging systems etc all changed the landscape of credit bureau business. The content, storage, and processing of credit reports changed dramatically during the period. More accurate information was electronically stored and the histories that were once read over the phone to an inquiring business were now transmitted electronically in a most secured medium. Overall, computer technology, market forces, and the supporting Regulations provided credit reporting companies with the impetus to transform themselves from "local associations" or "bureaus" to "efficient integrated systems" serving an entire society.



Top Left: Winner of the **National Best Presented Account Award 2009**
 Top Right: Winner of the **National Best Presented Account Award 2010**
 Bottom: Winner of the **National Best Presented Account Award 2011 [1st Runner Up]**



South Asian Federation of Accountants [SAFA] presents
Best Presented Accounts Award 2010 [2nd Runner Up] to Karja Suchana Kendra Limited
 CEO Mr. Anil Chandra Adhikari receiving the Award from Mr. Faruk Khan, Commerce
 Minister of Bangladesh, at Bang Bandhu International Conference Center in Dhaka.
 First Nepali Company to win the Regional Award.



The leadership watching the signing of the Agreement with
Dun & Bradstreet for the procurement of Application Software

The background of the page is a solid blue color. Overlaid on this background are white, stylized circuit board traces. These traces enter from the left and right edges of the page, featuring various components like circles and dots, and then converge towards the center where they frame a white rectangular area. The word 'About' is centered within this white area in a large, bold, black sans-serif font.

About

KARJA SUCHANA KENDRA

Karja Suchana Kendra Limited (Credit Information Bureau) was established in 14 May, 1989 with the sole objective of improving the functionality of the country's financial system. With an alarming proportion of the Non Performing Assets (NPAs) in the economy, it became imperative to arrest accretion of the fresh NPAs in the banking sector through an efficient system of credit information on borrowers as a first step in controlling NPAs. In this context the requirement of an adequate, comprehensive and reliable information system on the borrowers through an efficient data base was felt by the Nepal Rastra Bank, Central Government, Credit Institutions and other players in the banking and financial sector of the country. The answer took shape when Credit Information Bureau was incorporated under Nepal Bankers Association in 1989 as a non-profit organization to provide vital credit information service to its member institutions, in order to allow them to make informed and objective credit decisions.

CIB's operation was initially guided by the NRB directive which was insufficient. Many litigation cases followed against CIB that challenged its very existence and its legality for blacklisting and disclosure of information. Legal challenges, poor compliance, and inadequate enforcement led to strengthen its regulatory framework. NRB came out with new amendments to consolidate the functioning of CIB and gave a legal framework for its operation through Nepal Rastra Bank Act 2058, Clause 88. It was reorganized as a public company in order to strengthen its autonomy and increase its operational efficiency. It was renamed as Karja Suchana Kendra Limited as per the new directive and got registered as the Company in September, 2004 under the Company Act 2053 and started its operation as an independent and autonomous entity from March 2005.

SOME MAJOR MILESTONES

- Established in 14 May, 1989 as Credit Information Bureau (CIB) under Nepal Bankers Association. Established with a view to curb the burgeoning NPL of the Banking and Finance sector.
- Remained under the operational and supervisory umbrella of Central Bank for 15 years. It was housed in Nepal Rastra Bank premise in Thapathali, Kathmandu, Nepal.
- Initially many litigation cases against it challenged its existence & legality for Blacklisting & disclosure of information.
- NRB promulgated NRB Act 88, 2058 to give legal framework for CIB Operation.
- Registered as a Company in 2004 as per Company Act 2053 and started its operation from May 2005

LEGAL & REGULATORY FRAMEWORK

- Operates through Provisions made in *Clause 88, NRB Act 2058*.
- Pursuant to section 88(2) and exercising the power granted under Clause 110(2) of NRB Act 2058, "*Nepal Rastra Bank Credit Information Bylaws 2059*" were issued.
- Pursuant to Clause 88, NRB Act 2058 and exercising the power granted under NRB Act 79 and Credit Information Bylaws 2059(7), *NRB Directives No. 12* was initially issued for the effective regulation of Credit Information Bureau relating with credit information management and Blacklisting.

SOME PROVISIONS OF THE ACT

- Mandatory requirement for all members to receive credit reports before *any new credit extension, renewal, restructuring, and/or rescheduling of NRs. 1 million or above facility*.
- Credit Reports only to members, central bank or to any institutes as recommended by the Central Bank.
- Mandatory requirement for all members to report to CIB in prescribed formats within stipulated time for any credits of NRs. *1 million or above facility*.
- Mandates CIB to *inspect and supervise* the member Banks & Financial institutions to check their credit reporting to CIB.
- *Maintain a list of borrowers referred to as the Blacklist*. CIB lists the borrowers in blacklist only upon the recommendation of Banks and Financial Institutions.
- *Penalties* for not reporting data or reporting false/inaccurate data.



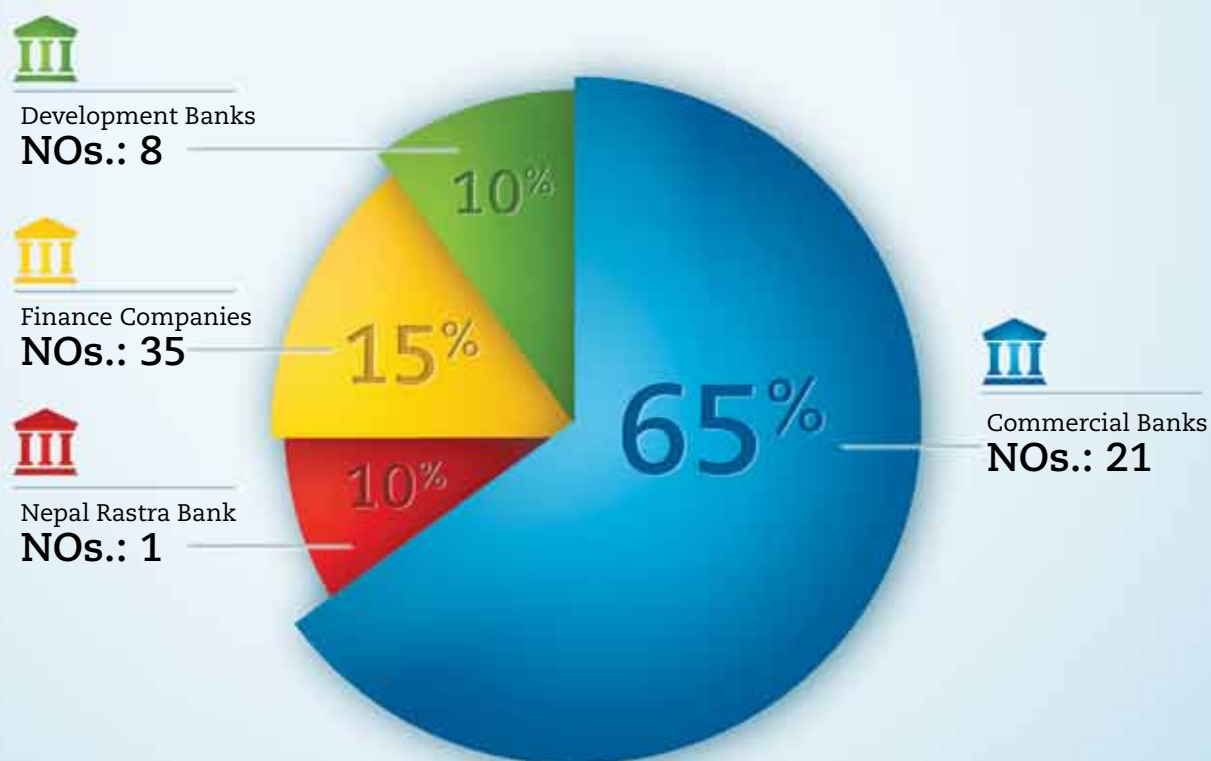
CIB FAMILY

Small but Dynamic

Shareholding

STRUCTURE OF THE COMPANY

All the major Commercial Banks, Development Banks, Finance Companies along with the Central Bank hold stake in the bureau.



The number of shareholders has been reduced in the recent years because of the merging of various Financial Institutions in the country.



VISION

- ...Develop Kendra as a world class bureau in terms of Products, Services & Standards and establish it as a change agent and major catalyst in the growth of country's credit market.



MISSION

- Install and commission an advanced credit bureau system using a state of the art technology and build a repository of high quality "credit information" data.
- Enhance the credibility in operation by installing a highly secured technical and physical infrastructure providing a user friendly and superior information availability service to the users.
- Adopt a moral and ethical data handling standards and practices to maintain the accuracy, integrity and confidentiality of the data.
- Facilitate member banks and financial institutions to make informed, objective and faster credit decisions thus helping contain the NPL level and improving credit grantor's portfolio quality.
- Promote a culture of information sharing and information based lending.
- Promote the public to strive for good credit reputation and build reputation collateral.
- Increase the confidence of investors in the banking and finance sector which is vital for the development of the economy and for the well-being of society.
- Provide an efficient and effective credit information service and other value added services to the members and consistently offer various innovative solutions in credit information reporting by being responsive towards the changing market needs.
- Focus on good corporate culture, governance and practices.
- Invest in talent and develop the workforce that continuously strives hard to provide cutting edge solutions and services to the users.



OBJECTIVES

- Make Kendra highly organized and efficient institution with best supporting platform to meet the increasing information needs of the banking and finance sector. Make information delivery system fast, secured and error free and continuously endeavor to increase its scope of operations.
- Develop CIB to be a highly professional entity with strong market focus and strive hard to continuously increase its quality of service and profitability for its sustenance, expansion and continuous growth thus creating the value to the nation, stakeholders, clients and staffs.



CORE FUNCTIONS

An organization that:

- Collects data pertaining to
 - Identity data about Consumer (Individual) and Commercial (Business) entities
 - Credit Information
 - Payment History
 - Litigation Information
 - Public Records
- Compiles Credit Information Reports on consumer and commercial borrowers and makes these available to members on request.
- Is a neutral third-party service provider for the financial sector

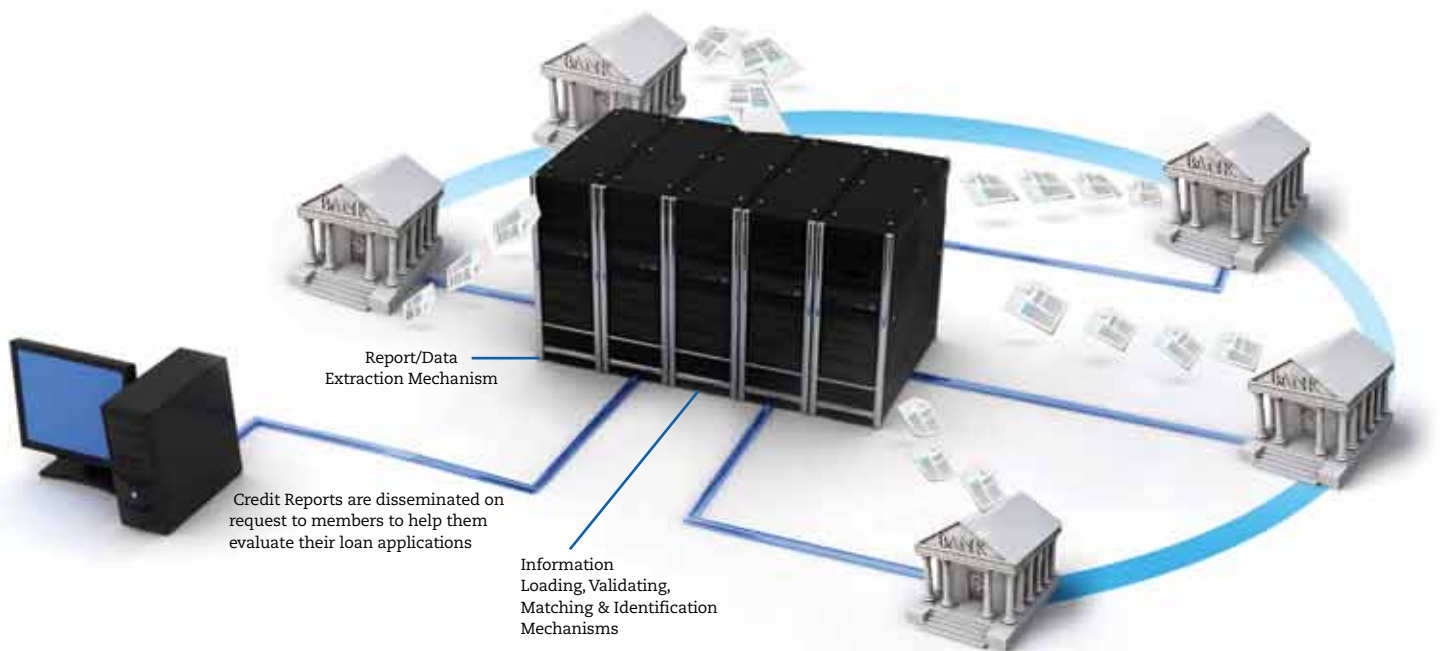
FUNDAMENTAL OPERATING PRINCIPLES

- Build Trust & Credibility in operation.
- Maintain Accuracy and Currency of the Data (Correct and Recent Data)
- Maintain Security & Confidentiality of the Data (Secured Environment; Authorized Usage)
- Adhere to the Principle of Neutrality & Non Discrimination (Equal Treatment; Facts Only)
- Adhere to the Principle of Reciprocity in Data Sharing (Provide Data = Access to Data)
- Efficient Dispute Handling (Right to Review Information)
- Customer Oriented Services

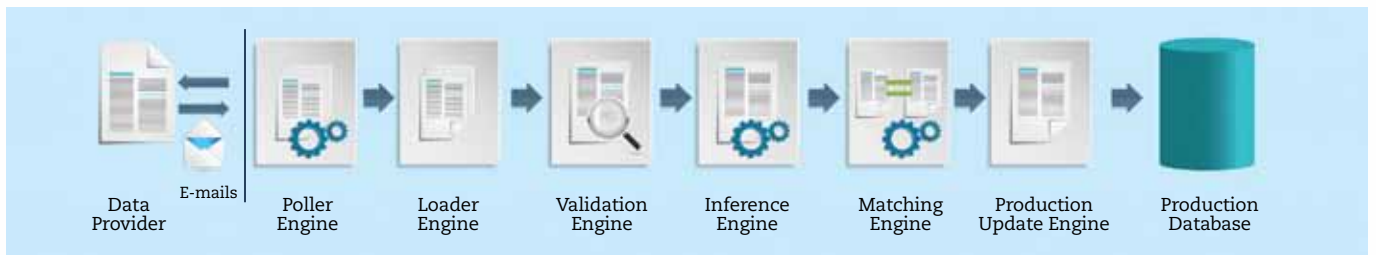
THUS,
**KARJA SUCHANA
KENDRA WILL**

- Supplement credit growth without increasing risk exposures of credit grantors.
- Improves Access to Credit.
- Empower credit grantors to make more informed lending decisions
- Reduce costs to serve
- Facilitate in reduction of total non performing loans over a period of time
- Facilitate better credit terms for financially responsible borrowers
- Facilitate Regulators to manage consumer and business indebtedness, and ensure economic stability
- Create a healthy credit culture

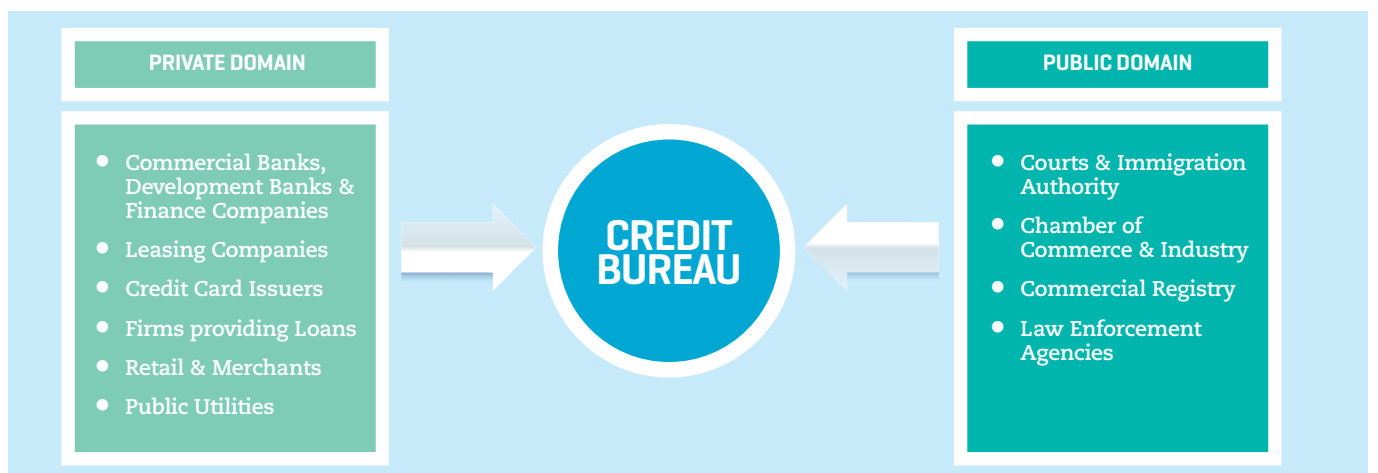
DATA FROM MEMBER INSTITUTIONS



Kendra collects and maintains the credit information of the borrowers received from the banks and financial institutions on a periodic basis and disseminates the information back to them upon request in the form of Credit Information Report. The data received are made to pass through various validation, matching and identification cycles before loading them into the database.



Though the Kendra collects the data only from the financial institutions at present, Kendra intends to collect the data from the various other sources as mentioned below to enrich its database.



Financial Highlights

OF THE YEAR 069/070

Operating Profit
Rs. 112.4
Million

Operating Profit Margin
86%

Net Profit
Rs. 76.4
Million

Net Profit Margin
58.4%

Earning per Share
Rs. 74

Shareholders Fund
Rs. 237
Million

Particulars	069/070	068/069	067/068	066/067	065/066
Operating Revenue (Rs.)	130,700,903	99,573,369	73,757,579	47,029,263	32,502,767
Operating Expenses (Rs.)	18,262,004	16,332,849	16,244,453	14,634,296	12,863,754
Operating Profit (Rs.)	112,438,899	83,240,520	57,513,126	32,394,967	19,639,013
Net Profit (Rs.)	76,358,846	56,298,396	33,013,687	21,875,117	13,000,580
Operating Profit Margin Ratio (%)	86	83.6	78	68.9	60.4
Net Profit Margin Ratio (%)	58.4	56.5	44.8	46.5	40
Share Capital (Rs.)	103,408,000	86,172,600	71,810,100	44,020,200	36,683,500
Reserve and Surplus (Rs.)	133,501,593	82,995,407	56,101,638	46,256,477	32,104,203
Shareholders Funds (Rs.)	236,909,593	169,168,007	127,911,738	90,276,677	68,787,703

FIVE YEAR FINANCIAL SUMMARY

Statement of Financial Position

Particulars	069/070	068/069	067/068	066/067	065/066
CAPITAL & LIABILITIES					
Share Capital	103,408,000	86,172,600	71,810,100	44,020,200	36,683,500
Reserve & Surplus	133,501,593	82,995,407	56,101,638	46,256,477	32,104,203
Loan Funds					2,500,000
Trade & Other Payables	6,614,082	7,599,791	6,879,099	7,784,870	5,941,430
Provisions	10,187,650	7,546,701	4,403,714	2,924,279	5,628,354
Total Liabilities	253,711,326	184,314,499	139,194,551	100,985,826	82,857,487
ASSETS					
Cash & Bank Balance	16,730,510	18,654,419	4,026,289	16,951,935	33,544,269
Investments	217,498,976	147,117,786	114,090,804	59,815,728	26,000,000
Prepaid, Advances, Loans and Deposits	2,749,039	2,061,117	2,884,611	7,530,589	6,836,203
Trade & Other Receivables	9,252,582	7,920,713	7,438,867	8,441,427	8,500,759
Fixed Assets	6,557,550	7,882,744	9,887,878	7,071,046	6,931,598
Deferred Tax Assets	922,688	677,720	866,101	1,175,101	1,044,658
Total Assets	253,711,326	184,314,499	139,194,551	100,985,826	82,857,487

Company has made a steady growth during the last five years and its balance sheet size has grown to Rs. 253.7 million by the end of 069/070 from Rs. 83.8 million in 065/066. Cumulative Average Growth Rate (CAGR) of the balance sheet size during the period thus has remained 32.3%. The total Shareholder's fund of

Rs. 68.8 million in the beginning of the fiscal year 065/066 has increased to Rs. 237 million by the end of the year 069/070. Company intends to strengthen its capital base and use the resources to upgrade its credit bureau system and reward its shareholders with fair returns on their investments. The company thus in the last five years from 065/066 to 068/069 issued bonus shares at the rate of 20%, 50%, 20% & 20% respectively to its shareholders while it also distributed cash dividends of 20% and 10% in the year 067/068

and 068/069 respectively amounting to total cash dividend payment of Rs. 23.7 million. For the year 069/070, Board has proposed the cash dividend of 15% to its shareholders from the earning of the year 069/070.

Income Statement

S. No.	Particulars	069/070	068/069	067/068	066/067	065/066
A.	INCOME					
1.	Service Charge	112,271,008	82,933,858	64,378,968	42,167,870	29,554,400
2.	Interest	18,375,895	15,444,374	9,349,311	4,840,393	2,220,647
3.	Registration Charge	4,000	4,000	18,000	21,000	13,000
4.	Other Income	50,000	1,191,137	11,300		714,720
	Total	130,700,903	99,573,369	73,757,579	47,029,263	32,502,767

B.	EXPENDITURE					
1.	Operating Expenses	16,422,452	13,580,873	13,496,156	12,484,136	10,651,384
2.	Non Operating Expenses	374,749	226,812	9,072,273	227,900	
3.	Depreciation	1,839,552	2,751,976	2,748,297	2,150,160	2,212,370
4.	Provision for Bonus	10,187,650	7,546,701	4,403,714	2,924,279	1,785,365
	Profit before Tax (PBT)	101,876,500	75,467,007	44,037,139	29,242,789	17,853,648
5.	Provision For Taxation	25,517,655	19,168,612	11,023,452	7,367,672	4,853,068
5.1	Current Tax Expenses	25,762,603	18,980,230	10,714,452	7,498,116	4,448,078
5.2	Deferred Tax Expenses	(244,948)	188,382	309,000	(130,144)	404,990
	Net Profit Transferred to Accumulated Profit	76,358,846	56,298,396	33,013,687	21,875,117	13,000,580

The company has remained a consistent performer all throughout the five years. The company's net profit increased from Rs. 13 million in 065/066 to Rs. 76 million in 069/070 achieving the net profit gain of Rs. 63 million, growth of 487% and CAGR of 55.6%. The revenue from the service charge i.e. sales of the credit reports increased from Rs. 29.6 million in 065/066 to 112.3 million in 069/070 leading to the flat growth of 280% and CAGR of 39.6%. Similarly the Interest revenue from the investments also increased from Rs. 2.2 million to 18.4 million during the period. In comparison to the growth of

revenue, the growth of expenses remained relatively small. Company implemented very strong measures to restrain the growth of operating costs and bring it to a minimum level. Company cut down its unnecessary workforce that became redundant after the implementation of the online system. Company spent Rs. 9 million for the VRS scheme which is shown as the non-operating expense in the year 067/068. Overall, the operating expenses grew by only Rs. 5.8 million during the period with CAGR of 11.1% as against the cumulative average revenue growth rate of 55.6%.

Principle Indicators

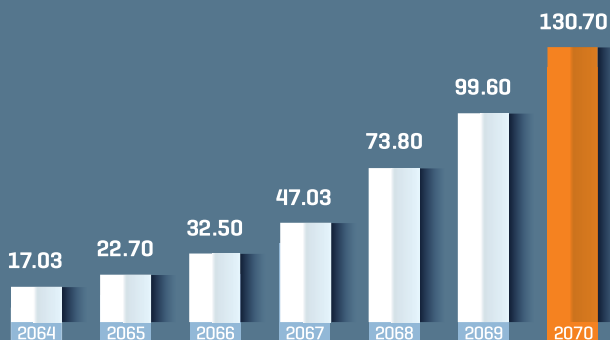
Particulars	Indi- cators	065/066	066/067	067/068	068/069	069/070
Operating Revenue	Rs.	32,502,767	47,029,263	73,757,579	99,573,369	130,700,903
Operating Expenses (including Depreciation)	Rs.	12,863,754	14,634,296	16,244,453	16,332,849	18,262,004
Operating Profit	Rs.	19,639,013	32,394,967	57,513,126	83,240,520	112,438,899
Net Profit	Rs.	13,000,580	21,857,117	33,013,687	56,298,396	76,358,846
Operating Profit Margin Ratio	%	60.4	68.9	78	83.6	86
Net Profit Margin Ratio	%	40	46.5	44.8	56.5	58.4

Cost to Income Ratio	%	39.6	31.1	22	16.4	14
Staff's Expenses	Rs.	7,173,148	8,434,154	8,839,400	8,113,893	9,655,010
Expenses per Employee	Rs.	265,672	324,391	491,078	579,564	804,584
Net Profit per Employee	Rs.	481,503	840,658	1,834,094	4,021,314	6,363,237
Staffs Expenses/ Operating Expenses	%	55.8	57.6	54.4	49.7	52.8
Bonus		1,785,365	2,924,279	4,403,714	7,546,701	10,187,650

Total Assets	Rs.	82,857,486	100,985,826	139,194,550	184,314,499	253,711,326
Shareholder's Funds	Rs.	68,787,703	90,276,677	127,911,738	169,168,007	236,909,593
Number of Shares	Rs.	366,835	440,202	718,101	861,726	1,034,080
Book Net-Worth per Share	Rs.	187.5	205	178	196	229
Return on Assets	%	15.7	21.6	23.7	30.5	30.1
Return on Equity	%	18.9	24.2	25.8	33.3	32.2
Total Operating Expenses to Total Assets	%	15.5	14.5	11.7	8.9	7.2
Total Assets to Shareholder's Funds	Times	1.2	1.12	1.09	1.09	1.07
Earning per Share	Rs.	35.4	49.6	46	65	74
Dividend (Bonus Inclusive) per Share	Rs.	21.05	52.63	41	30	15
Dividend (Cash) per Share	Rs.	1.05	2.63	21	10	15
Number of Employees	Num.	27	26	18	14	12

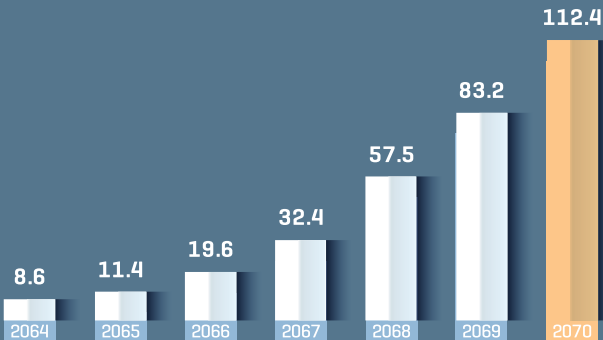
OPERATING INCOME

Rs. Million

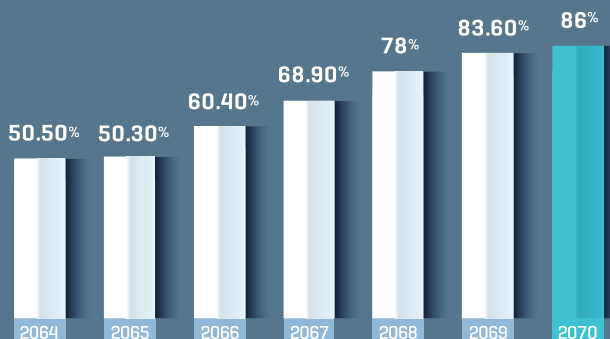


OPERATING PROFIT

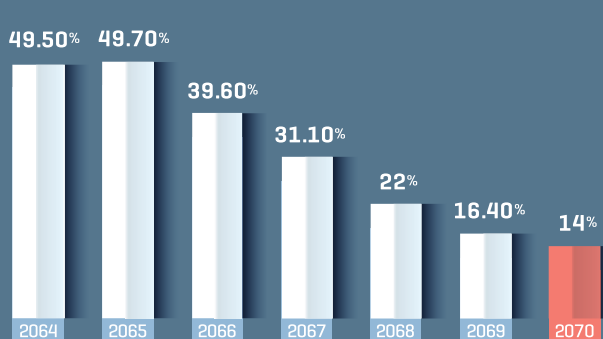
Rs. Million



OPERATING PROFIT MARGIN

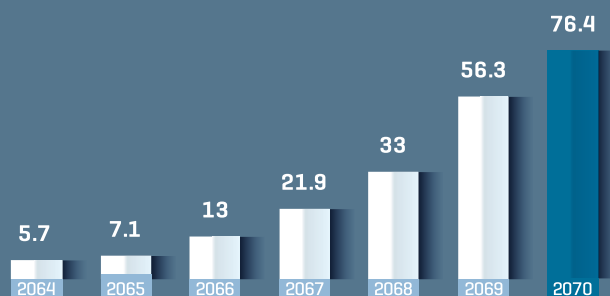


COST TO INCOME RATIO

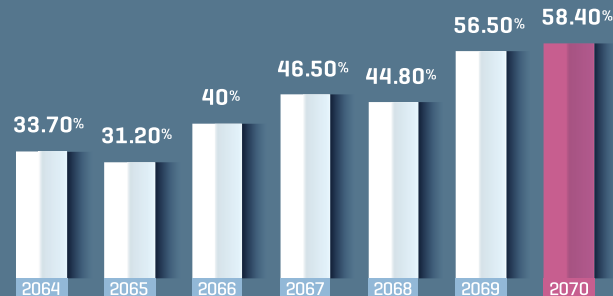


NET PROFIT

Rs. Million

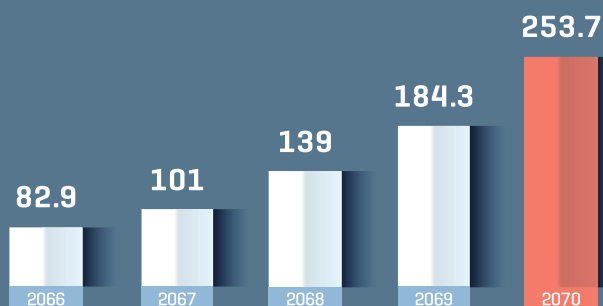


NET PROFIT MARGIN



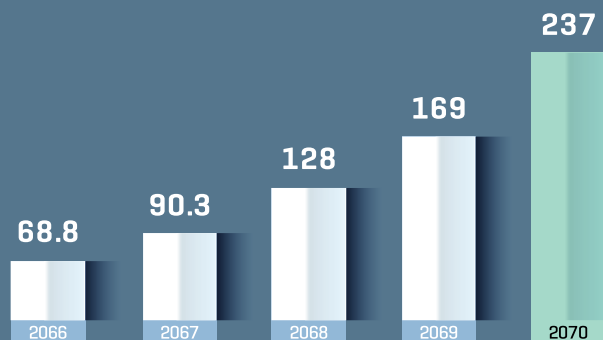
ASSETS

Rs. Million

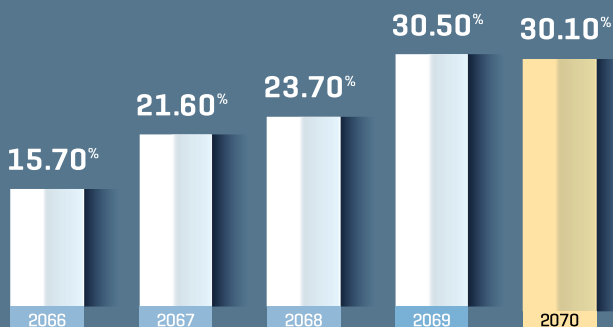


SHAREHOLDERS FUNDS

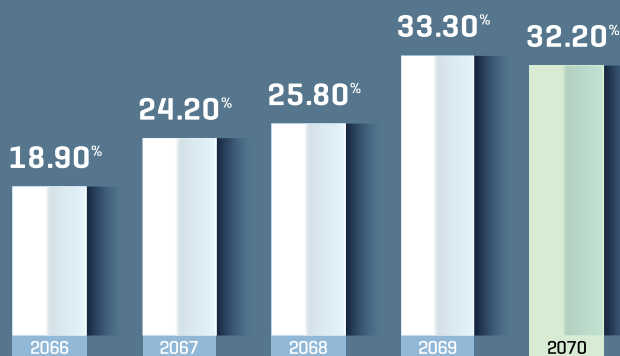
Rs. Million



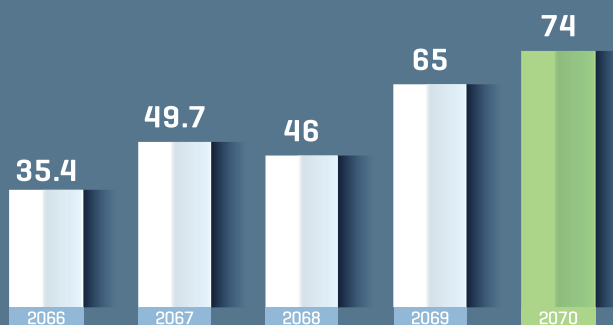
RETURN ON ASSETS



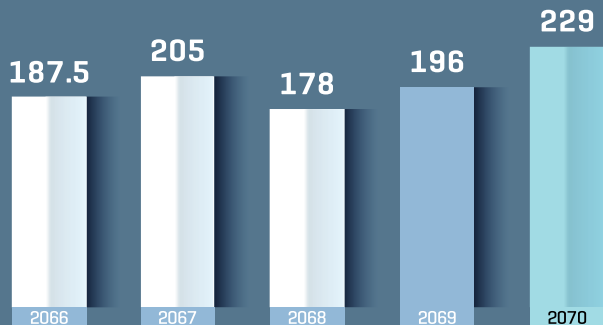
RETURN ON EQUITY



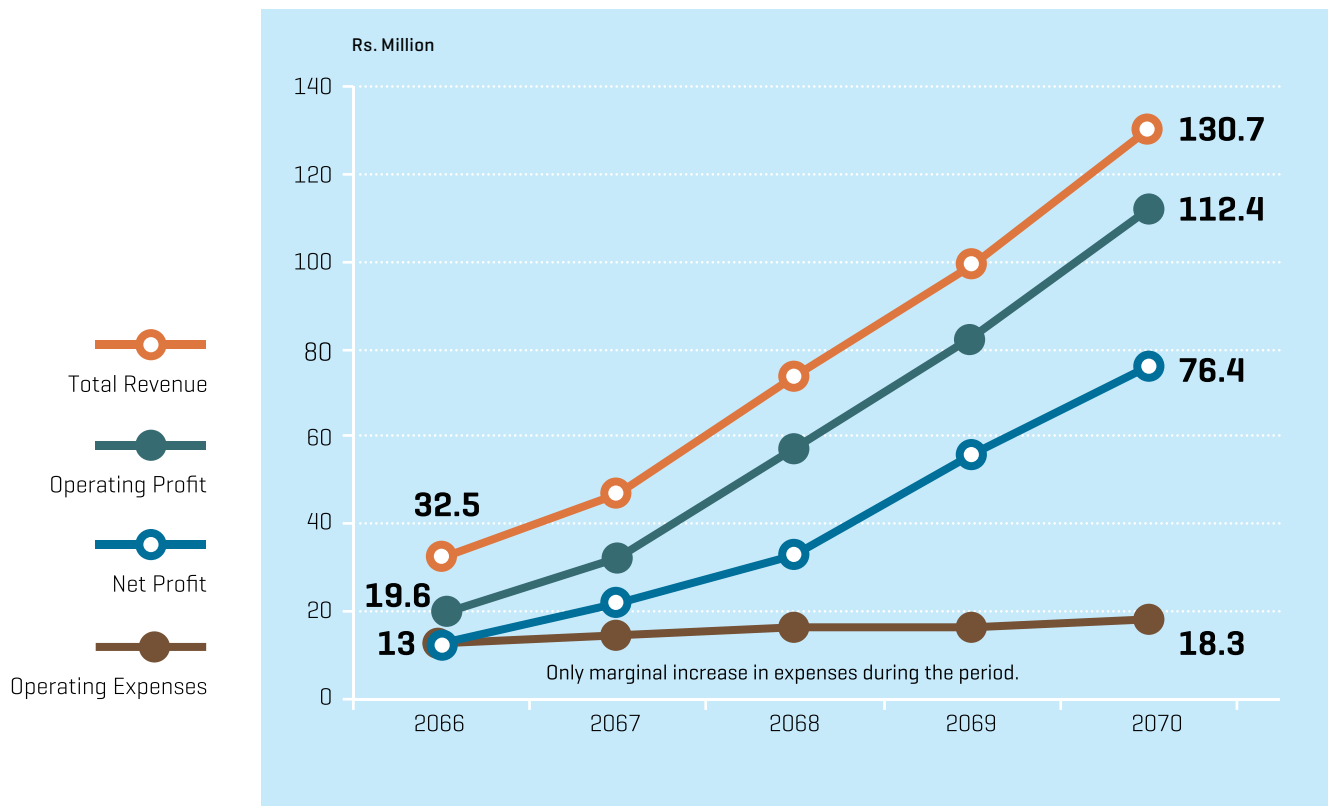
EARNING PER SHARE



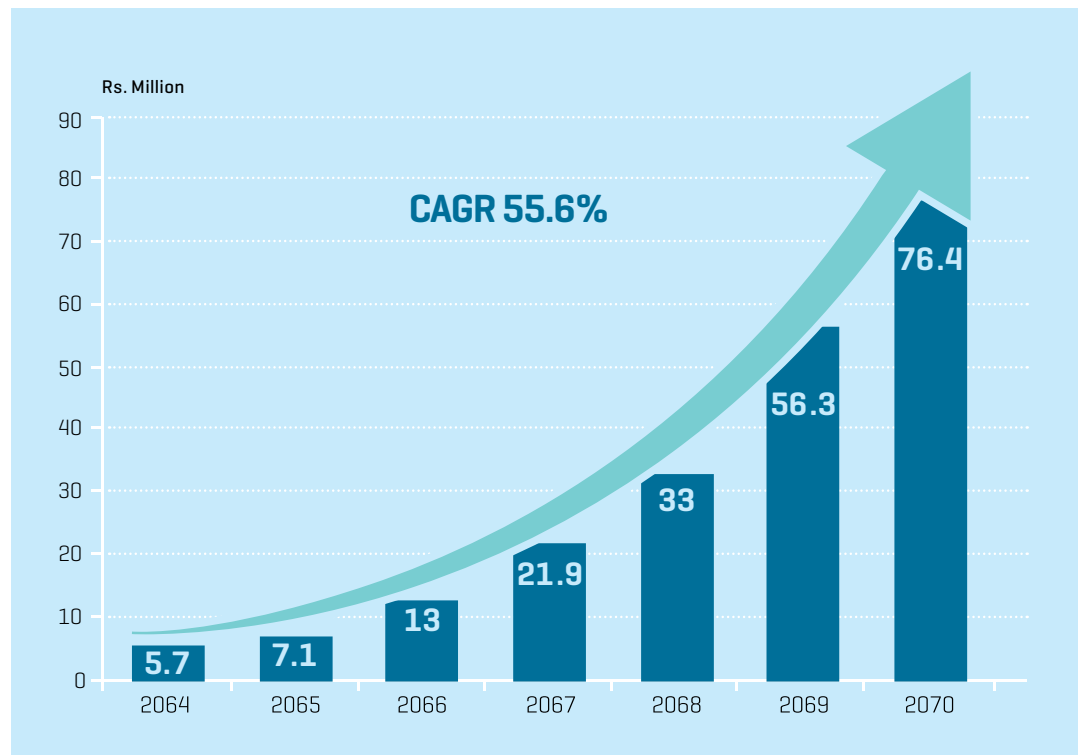
BOOK NET-WORTH PER SHARE



MAJOR PERFORMANCE CHART



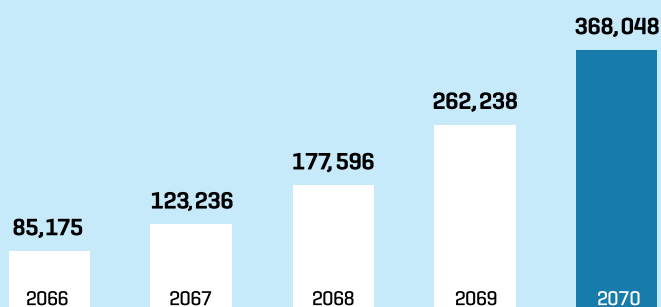
NET PROFIT



FIVE YEAR OPERATIONAL HIGHLIGHTS

- “Credit Reports Issued” increased from 85,175 reports in 065/066 to 368,048 reports in 069/070 achieving the growth of 332% and CAGR of 44.2%. There was the huge growth in the credit reports generation after the bureau introduced the web based online system in the year 066/067 and provided its service to all the banks and financial institutions of the country. Easy access, user friendly system, improved credit report quality, extended coverage, increased awareness about the information sharing and growing banking business all contributed to the increase of number of credit reports during the period.

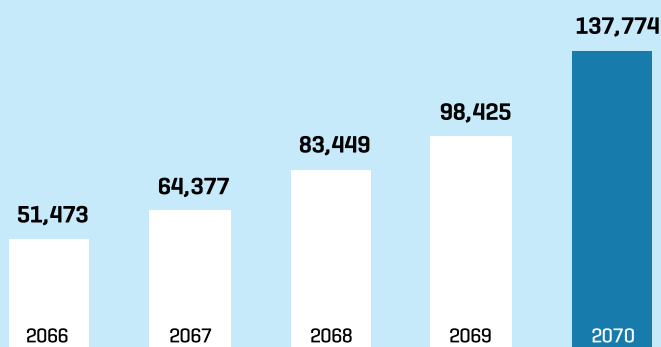
Year	069/070	068/069	067/068	066/067	065/066
Total Queries/ “Hits”	368,048	262,238	177,596	123,236	85,175
Yearly Increments	105,810	84,642	54,360	38,061	23,347



- Registered Borrowers in the CIB database also showed the growth after the introduction of the online system. Bureau introduced the effective mechanisms that helped the banks and finance companies to upload the data online from their system to the bureau. Apart from this, the lowering of the collection threshold from Rs. 2.5 million to Rs. 1 million also helped to increase the number of registered borrowers in the bureau.

Registered borrowers in CIB Database

Year	069/070	068/069	067/068	066/067	065/066
Total Borrowers	137,774	98,425	83,449	64,377	51,473
Yearly Increments	39,349	14,976	19,072	12,904	7,616



- The continuous improvement in the quality of data has been the key concern of the bureau throughout the period. Our determination and commitment to improve the quality of data with new internal measures coupled with strict system controls in the data processing have contributed significantly in addressing the data quality issues of the bureau. The bureau in this regard conducted several trainings, one-on-one meetings and seminars with members who required special attention on data submission.

Till the end of 2065, bureau received the borrowers' information on hardcopies from banks and financial institutions which were loaded into the bureau's database manually by the bureau. The information sent on hardcopies came with many errors and inaccuracies with many required and mandatory fields missing from the report and their reentry into bureau's database manually by the bureau led to severe deterioration in the quality of database. After the inception of the online system and further improvements on the system logics and data processing techniques, the manual intervention was reduced to the minimum and the data was transferred electronically from the banks to the bureau after making the data pass through various validation engines to verify the accuracy and the quality of the data. This helped in drastically improving the quality of the bureau's database.

- During the period, the bureau paid its due attention to keep on improving on its Help Desk service and address the issues and problems of the users and borrowers on time. The Help Desk which was solely established with the aim of assisting users who require guidance and assistance on various issues relating to their credit information has been very effective and well accepted by the users for the quality of service rendered by the bureau.

- Kendra brought major overhaul in its corporate structure and reduced workforce that became redundant after the implementation of the online system. Company made the cut of nearly fifty percent in the number of its employees and maintained the workforce that matched with

the workload. Company expensed nearly Rs. 9 million to give a golden handshake to the retrenched staffs.

- Kendra also automated its accounting system where the invoices were generated and sent to the banks and

financial institutions online. Because of the efficiency developed in invoice generation and distribution, the payment collection cycle reduced drastically from 138 days in 2066 to 13.8 days in 2070.

FIVE YEAR ICT HIGHLIGHTS

2066

Implementation of in-house developed web based online Credit Bureau System.

Construction of New Data Center

2067-2069

Further improvements in the System Architecture and System Configuration to make it more robust and secured.

Improved the validation rules to check the sanity of the data; Improved on the matching engines.

Enhanced File Processing Efficiency & Data Submission Mechanisms.

Improved the Response Cycle Time

Last five years had been quite productive for the bureau in terms of bringing many improvements in the credit bureau system where many upgrades in the hardware and software system were made to make the system more reliable and efficient. First Kendra replaced the manual system by the web based online system and housed the system in a newly built Data Center. Bureau kept on improving on the web based system to make it secured, user friendly and easy to use.

The Bureau's efforts to develop a state-of-the-art credit information bureau have always been reinforced by the developments in technology and innovation. Given the lot of limitations in the existing in-house built web based system, Bureau decided to go for the new advanced system which is robust, flexible, modular and is embedded with highly advanced security protocols that cocoons the system from any external threats. Bureau at present is at the last leg of implementation of new credit bureau system.

Considering the importance of the microfinance in promoting financial inclusion, one important area in promoting microfinance is the establishment of a credit information bureau covering the microfinance sector. The Bureau has taken the initiative to establish such bureau within its existing operational framework and provide services to the sector.

2069- 2070

NEW CREDIT BUREAU SYSTEM

Kendra is in a process to install one of the most advanced credit bureau solutions for the banks and financial institutions and has completed all the preliminary works for the implementation of the system. This includes the customization of Application Software and other software needed for the system.

Kendra has also completed the upgrade and renovation of the existing Data Center to house the new System.

2069 - 2070

MICROFINANCE CREDIT INFORMATION BUREAU

Kendra has taken the initiative to install & operate the Microfinance Bureau dedicated to MF institutions only.

Kendra has completed all the preliminary works for setting up the microfinance bureau which includes the development of Application Software and procurement & installation of Hardware and other peripherals needed for the MF Bureau.

SUMMARY OF 5 YEAR PERFORMANCE

Financials

	Year 2066	Year 2070
	Rs. Million	Rs. Million
Operating Revenue	32.5	130.7
Operating Profit	19.6	112.4
Net Profit	13	76.4
Net Profit/Employee	0.48	6.4
Shareholders Funds	68.8	237
Total Assets	82.9	253.7

Operations

No. of Credit Reports	85,175	368,048
No. of Borrowers' Records	51,473	137,774
Invoice Bills Collection	188 Days	13.8 Days
Account Receivables	51.5%	3.8%
Corporate Structure	Hierarchical	Flat
No. of Staffs	27	12

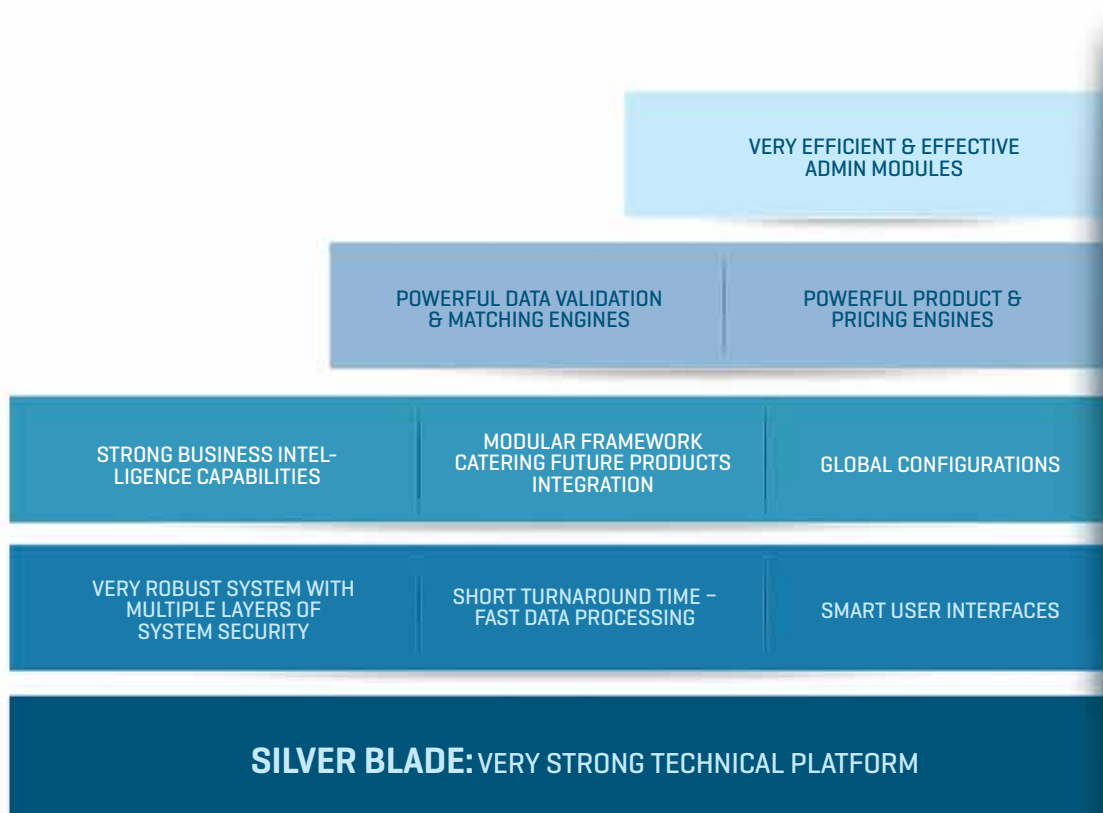
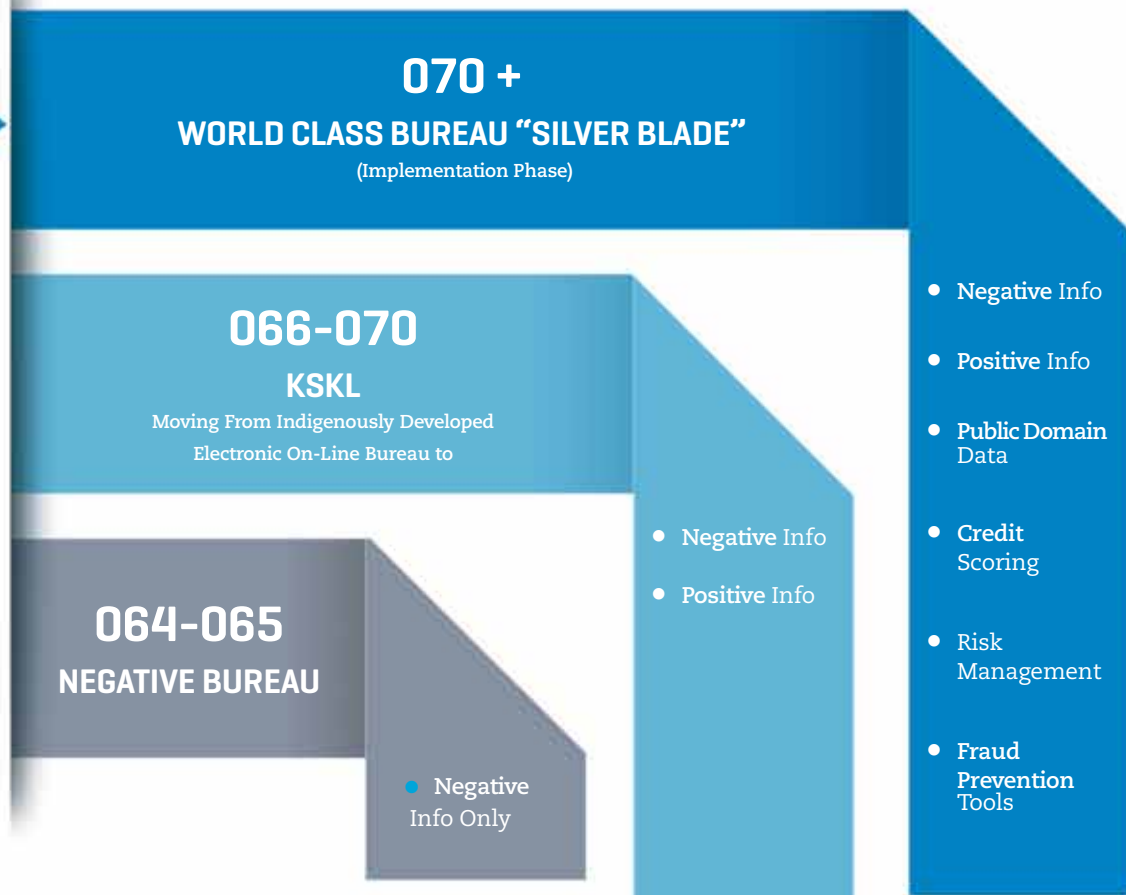
ICT

Credit Bureau Service	Manual	Web Based Online
Report Delivery Time	7 Days (Average)	4 secs.
Data Upload	Manual	Online
Data Quality	Poor	Highly Improved
System Security	No Redundancy [No DR Provisions]	Highly Redundant [DR Provisions]
Dedicated Data Center	No	Yes
Office Operations (Account, House Keeping, Help Desk, Blacklist)	Manual	Automated

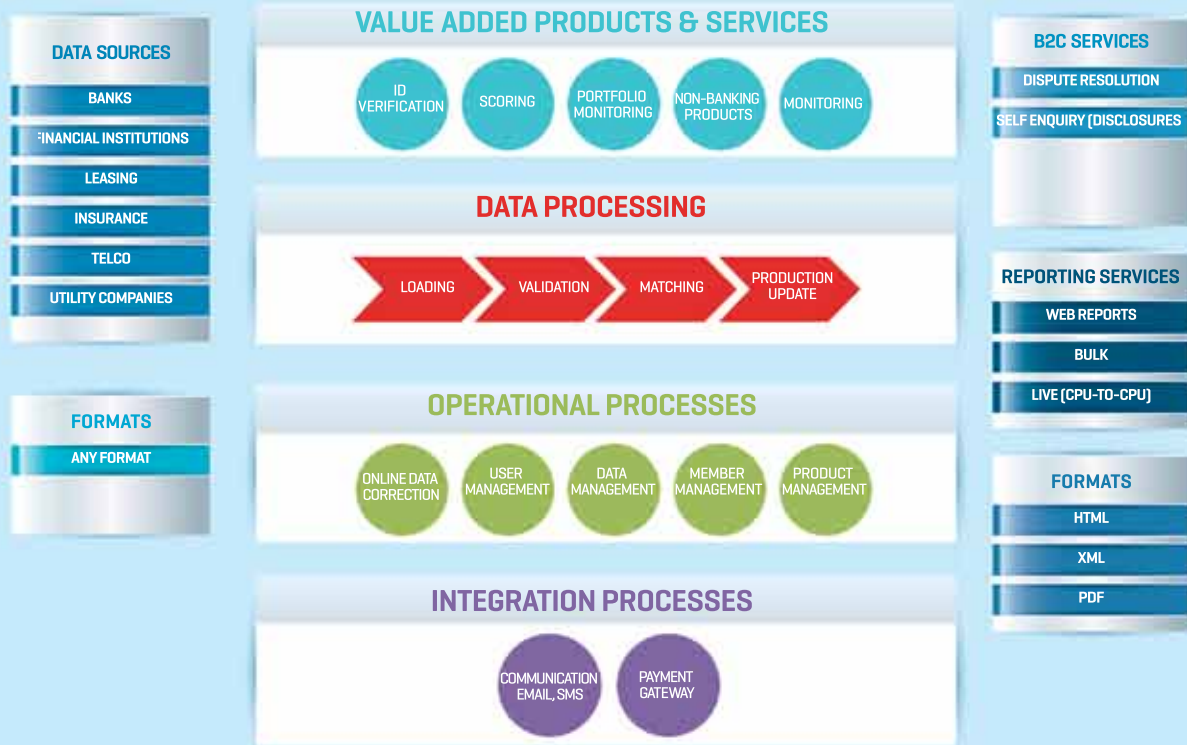
New Ventures

New Application Software	None	Implementation Phase
Microfinance Bureau	None	Implementation Phase

...MOVING AHEAD (070+)



SILVER BLADE: SOLUTION FRAMEWORK



SILVER BLADE : SYSTEM SECURITY





Round the clock Supervision and Monitoring of the System



Message

FROM THE CHAIRMAN



It is certainly a great pleasure for me to inform you that the Company has passed yet another fiscal year 069/070 on a very satisfactory note. The Kendra has not only maintained its pace of growth and improved on its operational & financial performance during the period, but also succeeded in moving forward various project activities that remained stagnant since last many years.

The project related with the development of new Application Software both for Commercial Bureau and Microfinance Bureau is at the final stage of completion. The Kendra has signed an agreement with Dun & Bradstreet, the Application Vendor, to install and commission one of the world's most advanced credit bureau solutions in Nepal. The new Application System will be highly secured and provide very high speed credit bureau services to its users. Through the new system, the users can have access to not only the personal & credit profiles of the borrowers but also their other credit related information available with 3rd party sources such as utilities, investment agencies, courts and others.

The installation of Hardware & 3rd party software upon which the Application software resides is also at the last leg of completion. Kendra has received the Grant of US\$ 2 million from Asian Development Bank under the Rural Finance Sector Development Cluster Program II for the implementation of the MF Bureau service in the country. The Grant has been utilized solely for the purpose of setting up the infrastructure to host the MF bureau that includes the construction of new Data Center and the procurement of Hardware, 3rd Party software and other accessories needed for the bureau.

Since all the banks and financial institutions are familiar with the new commercial credit bureau system, its operation is expected to be smooth. The operation of MF bureau will be challenging in the initial phase because of the perceived lack of readiness of the MFIs to join the bureau due to their poor quality of data, IT capability and their lack of awareness about the bureau. We anticipate the collection of data on a timely basis from MF institutions to be an arduous task for some time to come. But we are very much hopeful that with increasing awareness and effective regulation, microfinance institutions will gradually improve on their data quality and MIS capability and join the bureau gradually in the following years.

The activities of Kendra will increase manifold once MF bureau comes into operation. For few years, both bureaus will run independently of each other but will be merged into one once the MF bureau database is matured. With both the bureaus running together under its one umbrella, Kendra will be the largest repository of credit data in the country with the information of all credits, big or small, extended in the economy being collected and recorded in its database. This will make Kendra a most vital institution in the growth of credit market in the country and make it a "one window solution provider" for diverse areas of banking business.

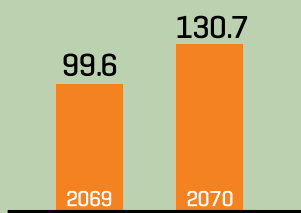
We are also working closely with Ministry of Finance to get the approval for the implementation of the Secured Transaction Registry (STR) Service in the country. Though the implementation of STR service is long overdue and most talked about, there are some serious legal issues which have been hindering its immediate implementation. Unless the Ministry of Finance empowers Kendra with legal provisions to implement the service, Kendra on its own can not do any thing at this stage.

Kendra's financial performance has been impressive this year as well. The operating revenue witnessed the growth of 31% where as operating expense increased by only 11.8% leading to the operating profit margin ratio of 86%."



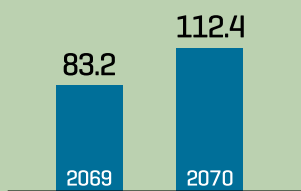
OPERATING INCOME

Rs. Million

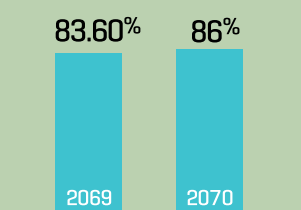


OPERATING PROFIT

Rs. Million



OPERATING PROFIT MARGIN



Kendra's financial performance has been impressive this year as well. The operating revenue witnessed the growth of 31% where as operating expense increased by only 11.8% leading to the operating profit margin ratio of 86%. Kendra paid Rs. 10.2 million as the bonus to its employees and Rs. 25.5 million as the corporate tax to the government. Company thus made the net profit of Rs. 76.4 million this year leading to the net profit margin ratio of 58.4%. On the Operations side, Kendra gave equally good performance through out the year. System ran smoothly without any major problems thus delivering a secured and error free services to its users. Apart from this, Kendra improved on its various technical parameters that led to increase in the quality of the service rendered.

Nonetheless there are still lots more desired from Kendra and lots more things to do in terms of delivering high quality service to match with international standards. Kendra is working very hard for the same and putting all its good efforts to achieve those standards. However Kendra alone can not do all these on its own and needs the support of its member institutions to reach to the milestone.

In conclusion, on behalf of the Board of Directors, I would like to appreciate the untiring efforts of the staffs of Kendra who, through their hard work and commitment, ensured that the Bureau provided excellent services to the users. I also would like to thank all our member institutions, Nepal Rastra Bank and other government agencies for their support extended to us all the time. Without their support we could not have come so far and achieved so much within such a short period of time.

TEJ BAHADUR BUDHATHOKI
Chairman



Foreword

BY CEO



We are very much pleased to inform you that the installation of new Commercial Bureau and Microfinance Bureau are on its way of completion very soon. Their operation will add another chapter in the evolution of the Credit Information Bureau Service in the country. This will change the way the data are collected from the users and the credit reports are generated. Both the new systems will be housed in new Data Center but will run independently of each other with separate access, credit report and tariff.

One of the biggest challenges in the operation of Credit Bureau System is the collection of relevant and quality data on a timely basis from its sources. Kendra's efforts have always been geared towards making its system not only robust and secured but also very user friendly in order to help users load the data, update the data and access the data easily without any technical difficulties. The new system will be equipped with inbuilt features that can collect all the relevant information in bulk directly from the users' core banking system interface in a predetermined input file format without any manual interventions. The collected information will be made to pass through various layers of sanity checks and validation cycles before loading into the database. Kendra targets to complete the collection of all the data within few months of system installation so that new system can be put into operation on time.

Kendra has taken the big challenge and initiative to install and operate the MF Bureau as well. In spite of the fact that the issues of the data quality, IT capability, tariff and the overall readiness of many microfinance institutions to join bureau still remain, Kendra expects that all MF institutions will be joining bureau sooner or later because of the increasing number of problems related with the multiple lending, credit delinquencies and borrower's over indebtedness in the microfinance sector. Joining the bureau will be necessary for them to restrain the growth of such problems.

"Kendra's efforts have always been geared towards making its system not only robust and secured but also very user friendly in order to help users load the data, update the data and access the data easily without any technical difficulties."



The year 069/070 remained relatively good for the company in terms of its operational and financial performance. The company achieved a growth of 31% in operating revenue and 35.1% growth in operating profit where as the expenses increased by only 11.8%. Income from Credit Reports was the predominant contributor towards the Bureau's operating revenue. The cost to income ratio decreased from 16.4% to 14% due to the prudent cost management initiatives of the Bureau. The post tax profits recorded for the year edged to Rs. 76.4 million, an increase of 35.6% over last year's Rs. 56.3 million. Kendra's online system worked very well without any service breakdowns during the period. The system availability was hundred percent and there were no any reported cases

of system inaccessibility, credit report errors, data inaccuracies, poor invoicing, poor customer service etc.

The incoming fiscal year will certainly be very challenging for us. The operation of the MF bureau will increase the scope of activities of Kendra and may bring more issues and problems at the initial stage of operation. Kendra intends to organize series of trainings, seminars and talk programs to educate the microfinance institutions about the importance of the bureau and how it is going to help them in making better lending decisions. The program will also focus on how to maintain their data quality and improve on the IT system in order to effectively interface with the bureau's system.

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. Their suggestions always keep us on toes to keep on improving and perform better. 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. As a matter of fact, it would not have been possible for us to implement the new projects without their active support and encouragement. At the end, I would like to thank all my colleagues who supported me all the way to take this company to new heights.

ANIL CHANDRA ADHIKARI
CEO

THE BOARD *of* DIRECTORS



KARJA SUCHANA KENDRA LIMITED



TEJ BAHADUR BUDHATHOKI
Chairman

Mr. Budhathoki, a veteran of banking business, is a former employee of Agriculture Development Bank Limited (ADBL) where he spent nearly three decades of his professional career working in various departments of the Bank. A graduate of BSC Agriculture from Institute of Agriculture and Animal Science, Rampur, Chitawan, he joined the Bank in 1982 as the loan officer and worked there for nearly 28 years before taking the retirement in 2010. Prior to joining the ADBL, he had a brief stint of two years (1980-1982) as the Agriculture Botanist in Department of Agriculture, Government of Nepal.

He rejoined the ADBL in 2011 as its CEO to give the new leadership to the bank. Mr. Budhathoki is currently engaged in modernizing the Bank by enhancing its corporate governance, employee's productivity, IT capability and research capabilities to make the bank more competitive in the banking and the finance sector of the country.

AJAY SHRESTHA
Director

A core Banker with more than 25 years of experience in the banking sector, Mr. Ajay Shrestha started his career from Nepal Grindlays Bank (erstwhile of Standard Chartered Bank Nepal Limited) in 1986 as an Assistant and rose to become Manager before he left the Bank in 2001 to join Bank of Kathmandu as its Chief Operating Officer, a position second to CEO. After his seven years of stint in Bank of Kathmandu, he joined NMB Bank in 2008 as its General Manager. After two years of service in NMB Bank, he was called back in Bank of Kathmandu to lead the Bank as its CEO.

A Commerce graduate from Tribhuvan University with an Executive MBA degree from Pokhara University, he has attended many in-house and external training programs conducted in Nepal and overseas. He has also conducted and delivered Presentations and Trainings in many national forums in the country. He also holds the post of Executive Committee member of Nepal Bankers Association with effective from November, 2013.

JYOTI PANDEY
Director

Mr. Pandey started his banking career from 1987 as a Credit Analyst in Nepal Industrial Development Corporation. Immediately thereafter, he joined Nepal Indoseuz Bank as Chief of International Banking and worked there for four years before joining Himalaya bank in 1992 as Chief of Marketing and Credit Department. He also worked as a Branch Manager of New Road Branch for a year. He later joined Nepal Investment Bank in 2002 in the post of Assistant General Manager and was later promoted to Deputy General Manager in 2004 and to General Manager in 2006.

As the General Manager of the Bank, he looked after the entire functioning of the Bank and met various operational targets as set by the management from time to time. After his six years of the successful stint as the General Manager, he was promoted to the post of Chief Executive Officer in the mid of 2012 and given further responsibility of steering the bank to the path of growth & prosperity.

A Commerce graduate from BESC College, Calcutta and MBA from Patna University, Mr. Pandey has attended many trainings and conferences conducted in Nepal and overseas. He was appointed as the member of the Board of Directors of Nepal Clearing House Limited in November, 2012 and holds the post till date.

PURNA BAHADUR KHATRI
Director

Mr. Purna Bahadur Khatri has been in Nepal Rastra Bank (Central Bank) for over 29 years and has wide experience in the areas of Financial System Stability, Price Stability, Monetary and Exchange Rate Policy, External Trade, Balance of Payment and Inflation. He spent considerable amount of time in the Regulation and Supervision Department and had a brief stint of 3 years as the Chief Manager of the Bank's regional office in Siddharthanagar. He currently holds the post of the Director in the Bank and Financial Institution Regulation Department of the Bank.

Mr. Khatri holds MA Degree in Economics and a MPA Degree in Development Administration, from the Tribhuvan University of Nepal. He has attended many training programs in Nepal and overseas and has visited many countries for seminars and workshops.



TULASI RAM GAUTAM

Director

Mr. Gautam, currently serving as the CEO of Machhapuchhre Bank, holds more than 30 years of experience in the banking and finance sector of the country. He started his professional career in 1982 from Nepal Bank Limited where he worked for 13 years in various departments under various capacities. He later joined Nepal Indosuez Bank Limited and worked there for seven years in various posts in credit, marketing, operations and other departments before moving to Nepal SBI Bank Limited in 2002. After working for nearly 10.5 years in the Bank as its Chief Credit Officer, he joined Machhapuchhre Bank Limited in October 2012 as its CEO.

He also represented in the Board of Director of Rural Microfinance Development Center (RMDC), Nepal and Western Rural Development Bank, Butwal in the past. He holds BA in Economics and MBA from Tribhuvan University.

RAJENDRA MAN SHAKYA

Director

Mr. Shakya, a commerce graduate from Tribhuvan University, has more than 35 years of experience in the banking and finance sector of the country. Mr. Shakya started his professional career from Nepal Bank Limited where he worked for 16 years in various branches & departments of the bank all across the country. He later joined National Finance Limited as its CEO and worked there for 15 years before joining CMB Finance Limited as its CEO. CMB Finance Limited was later merged with Butwal Finance Limited and Alpice Everest Finance Limited to be renamed as Synergy Finance Limited. He is currently serving as the CEO of the merged entity.

Mr. Shakya is the founding member of the Nepal Finance Companies Association and is currently serving as the Chairman of the Association. He also served the Association as its Treasurer and Secretary General in the past. An avid social worker, he has been associated with many social and welfare organizations and has contributed immensely in social causes. He has participated in various trainings, seminars in Nepal and overseas and has traveled extensively during his professional career.

BHUSAN SHUMSHERE RANA

Director

Mr. Rana is currently working as the CEO of Yeti Development Bank Limited which has been formed recently by merging two leading financial institutions of the country. Mr. Rana holds a Masters Degree in Business Administration and counts over twenty six years of experience in the insurance and banking sector of the country. He started his professional career in July 1988 by joining National Life & General Insurance Company Limited and worked there for seven years in various capacities before joining International Leasing and Finance Company Limited (ILFC) in August 1995 as its Senior Manager. He was promoted to Deputy General Manager in ILFC in 1999 and worked there till May 2002. He later joined Kumari Bank Limited in June 2002 as the Assistant General Manager and moved upwards to become Deputy General Manager in Oct. 2007 and Acting Chief Operating Officer in Jan 2009.

He worked in Kumari Bank for seven years before moving to Cottage and Small Industries Development Bank (CSID) as its CEO in July 2009. The CSID was renamed as Mankamana Development Bank after its takeover by new investors and was again renamed as Yeti Development Bank in July 2013 after its merger with two other financial institutions of the country.



REVIEW OF Last year operation

OPERATIONAL PERFORMANCE REVIEW

During the year under review, the focus in operations was to develop the plans of actions for the efficient and effective implementation of the new commercial and microfinance credit bureau systems and remodeling the present ICT systems to reflect the better efficiency in achieving the objectives of the bureau. Thus during the period Kendra was primarily engaged in the customization of new Application Software both for Commercial Bureau and MF Bureau and put all its efforts to complete the customization on time. Apart from the new system, Kendra put its efforts in maintaining the existing system at its best level and providing uninterrupted, secured and best quality service to its users.

1 Summary of the System Performance

To put in an encapsulated form, the major operational highlights of the year 069/070 were as follows:

- the service was provided uninterrupted through out the year. There were no service breakdowns reported during the period and system availability was 100 percent. All network equipments were configured in a failover mode in a 2 node cluster using appropriate protocols to provide redundancy and automatic fail-over. 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.
- the additional security mechanisms were put in place to make the system comply with all three levels of system security namely network security, application security & web security. The data security was maintained at the highest level and no cases of security breaches in data access, transmission, storage and information dissemination were reported. Best international practices were adhered to in system security. The physical security of the Data Center was given the highest priority and was monitored constantly to prevent any unauthorized access into the Data Center. Data Center was put in round the clock surveillance mode.
- the response cycle time (the time elapsed between system access and credit report generation) was maintained at 4secs and no delay was reported from the users.
- the bureau introduced a new data submission model which ensured a secure encrypted data file submission to the Bureau from member institutions.
- the validation mechanisms were

made stronger to check the sanity of the incoming data from the banks and financial institutions. The improved validation rules coupled with effective matching and merging techniques further enhanced the quality of the incoming data and the system's database.

- the searching logics delivered the correct identifications of the borrowers and no cases of incorrect identification were reported.
- the bureau's service was available to all the banks and financial institutions located all across the country. The service coverage was hundred percent.
- the data collected through FTP server were constantly monitored for its accuracy and efficiency. No errors were observed and the users were successful in sending large volumes of data to bureau without any difficulties. Submission of data files

through FTP server was found to be most secured, easy and convenient for the transmission of the data to the bureau.

- the bureau further improved on the guideline documents to make House Keeping system very effective. This included the daily schedules for restarting and shutting down of the servers, storing the processing logs, processed data files and rejected data files in specific folders in secured locations in the database server and purging of these data files on a periodic basis.
- the company's Help Desk remained very effective during the period in attending to and resolving the issues with respect to the services extended by the bureau. The new Help Desk tools were developed for service desk management and the trainings were given to the staffs to utilize the tools for delivering the services effectively.

- because of the further improvements made in the audit trail system in the year, all user activities and system processes were correctly captured by the system. The system was successful in maintaining an effective running log or journal of transactions relating to functions or processes thus helping to monitor the performance of system correctly.

- the further improvements in messaging and emailing component were made which brought huge efficiency in the dissemination of information and delivery of notices and announcements to the banks and financial institutions.

- the frequency of the interaction programs with the banks and financial institutions were increased to enhance the quality of the service rendered by the bureau.

2 Major Operational Achievements of the Year

Apart from improving the quality of existing system, KSKL was successful in completing all the pre-installation activities related with the implementation of the new credit bureau system. The activities included the finalization of functional specifications, system design, credit reports and MIS reports followed by the reconstruction of the Data Center, procurement of the Hardware & 3rd Party software and other logistics necessary for the implementation of the new Credit Bureau System.

The details of the activities are presented below:

- Kendra and Application Vendor worked together to finalize the customization of Application Software for new Commercial Bureau. Kendra made a Pilot Team comprising of the representatives from six leading banks and two developments banks and got them involved in the customization process. Kendra and the vendor also visited many banks and financial institutions to take stock of their Core Banking System and discussed how the interface can be best developed to transfer the data from the interface to the bureau's new system.
- Kendra & Application Vendor worked together with the Microfinance Institutions to develop the system speci-

fications for the MF bureau. A team comprising of the representatives from the microfinance associations were thoroughly involved since the beginning in finalizing the system specifications. The team was also involved in preparing the "Regulation" for the operation of the bureau.

- Some additional provisions were made in the existing data center. The area of the server room was extended to accommodate additional server racks, precision ACs and other accessories. A new terminal room and battery room was constructed. The new provisions in the Data Center included raised floor system, suspended ceiling, wall cladding, access control, thermal insulation, reliable

power solution (UPS), fire detection & alarm system, cooling system, environmental monitoring system, IP surveillance cameras and others.

- The Hardware & 3rd Party software are in a process of installation both at Primary & DR site.
- The bureau increased its interactions with the banks and financial institutions during the year and also increased its frequency of trainings to them to make them aware about the new system. The trainings focused on all the major functional modules of the new system such as security protocols, credit reports, collection & updating of data, information access, MIS reports etc.

3 New Credit Bureau System: Benefits to Kendra

- “Silver Blade” is highly advanced credit bureau software which has been developed by Dun & Bradstreet after many years of its experience in the credit bureau business as the manufacturer and operator of credit bureau systems. D&B has unparalleled knowledge and experience in handling and managing various forms of data/databases from different countries/sources/channels/languages. Silver Blade will provide quantum leap in performance as compared to the existing system and will be capable of processing large volumes of Commercial and Microfinance data into decisions ready reports and insights. It will have many features and will have best in class business process and Basel II expertise.
- The new system will be capable of providing services both to Microfinance Institutions (MFIs) as well as to Banks and Financial Institutions (BFIs) in a seamless manner. KSKL thus collecting the data from both the MFIs & BFIs will grow to become the largest databank and repository of credit information in the country. This will make bureau one of the most vital institutions in the banking and finance sector of the country.
- With the new system capable of collecting large volumes of data, there will be the parallel increase in the number of credit reports generated and their transactions leading to the quantum leap in the growth of revenue & profitability of the company. Various kinds of value added products can be generated from the system that will generate further revenue for the company.
- KSKL's deployment of new system gives more credence and confidence to the banks and financial institutions on the bureau in terms of the security and confidentiality of the data stored in the bureau, quality of the information maintained, correctness of the credit report generated and fairness in the sharing of information. This will help in getting more cooperation from them in collecting their both positive and negative data, developing the new products and using the credit reports extensively for their lending decisions.
- The proposed Credit Bureau System would typically be capable of sharing data across borders with other South Asian countries in a facilitated manner given the D&B's bureaus in India, Sri Lanka, Bhutan and Maldives. Technical Interface and communications among the bureaus will not be an issue because of the same D&B system being used in those countries as well. This will provide a great opportunity for Nepal to be in league with other SAARC nations and be a member of the SAARC Credit Bureau Association. The Association is going to be established very soon whose main purpose will be to share data of serious defaulters among the credit bureaus of SAARC nations.



4 Generation of Credit Reports

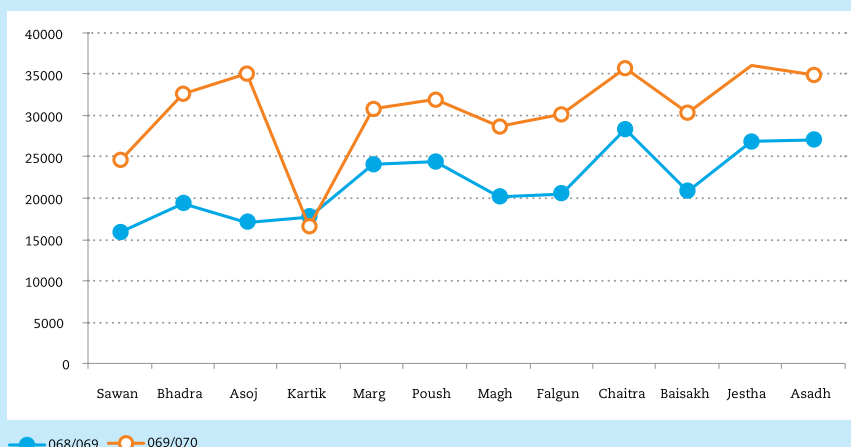
- The number of Credit Reports generated (Information Searches/Hits) increased by nearly 40% this year. The increase in numbers could be attributed to improving credit market in the country followed by effective supervision of the Central Bank in terms of whether lending agencies

have verified the credit reports of the borrowers before making any lending to them. Apart from this, the other factors such as improved access to service, quality of the credit report, affordable tariffs and discount offerings seem to have contributed in the increase.

Total "Hits"	Sawan	Bhadra	Asoj	Kartik	Mangsir	Poush	Magh	Falgun	Chaitra	Baisakh	Jestha	Ashad
068/069	15,885	19,378	16,986	17,686	24,159	24,411	20,192	20,430	28,358	20,797	26,835	27,121
069/070	24,647	32,749	35,091	16,553	30,839	32,043	28,668	30,138	35,769	30,398	36,131	35,022

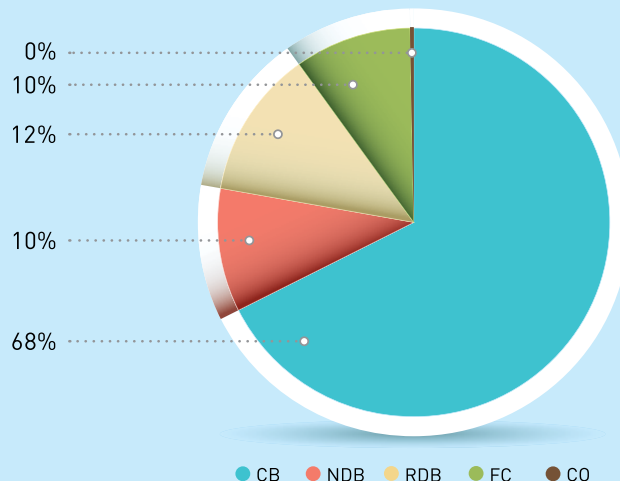


There was the drop in the number of Hits in the months of Asoj and Kartik because of many holidays during the period. Otherwise the monthly hits pattern shows the similar trends as that in year 068/069.



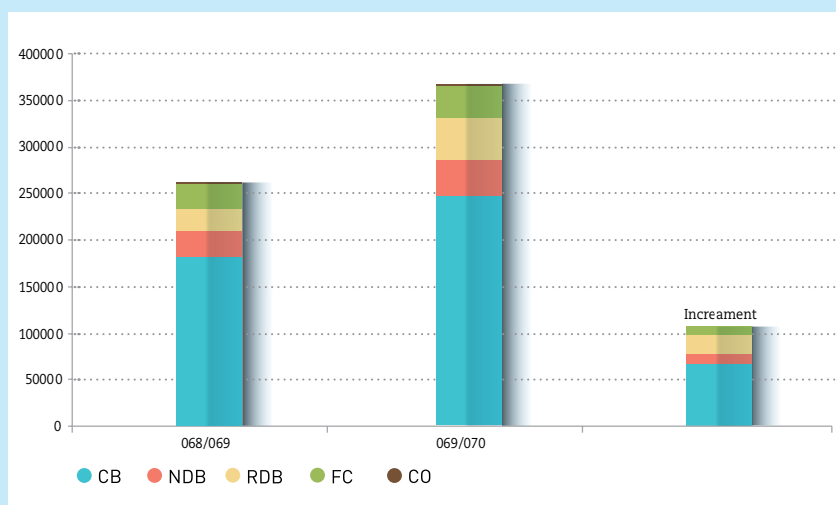
- Commercial Banks generated the highest number of Credit Reports (67.6%) followed by Regional Development Banks (12.2%), National Development Banks (10.2%) and Finance Companies (9.7%). Co-operatives and others were the lowest users of the service (0.30%).

Categories of Lending Institutions	Credit Reports 069/070	Percentage of the Total
Commercial Banks (CB)	248,661	67.6%
Development Banks/ National (NDB)	37,676	10.2%
Development Banks/ Regional (RDB)	45,054	12.2%
Finance Companies (FC)	35,564	9.7%
Co-operatives and others (CO)	1,093	0.30%
Total Searches	368,048	100%



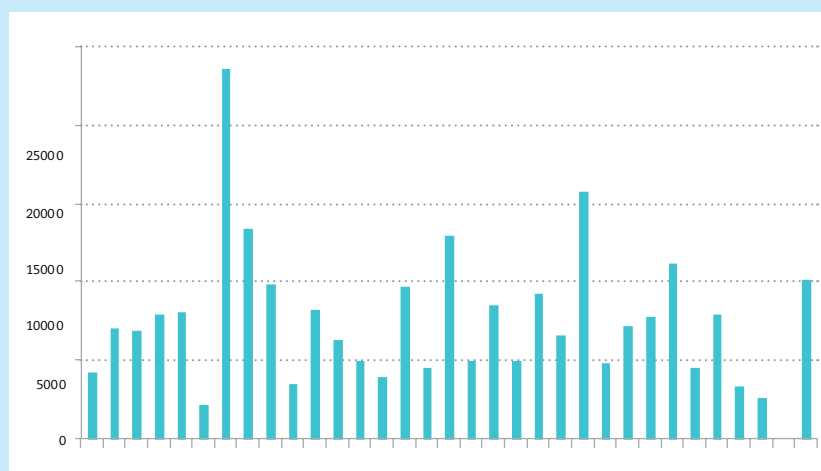
Categories of lending institutions	Number of Credit Reports		Increments	% Increments	% of the Total Increments
	068/069	069/070			
Commercial Banks (CB)	181,789	248,661	66,872	36.8%	63.2%
Development Banks/National (NDB)	28,045	37,676	9,631	34.3%	9.1%
Development Banks/Regional (RDB)	23,984	45,054	21,070	87.9%	19.9%
Finance Companies (FC)	26,239	35,564	9,325	35.5%	8.8%
Co-operatives and others (CO)	2,181	1,093	-1,088	(50%)	(1%)
Total Credit Reports	262,238	368,048	105,810	40.3%	100%

Commercial Banks had the largest increments in the number of credit reports generated followed by Regional Development banks, National Development Banks and Finance Companies. Commercial banks shared 63.2% of the total increments followed by RDB 19.9%, NDB 9.1% and FC 8.8%.



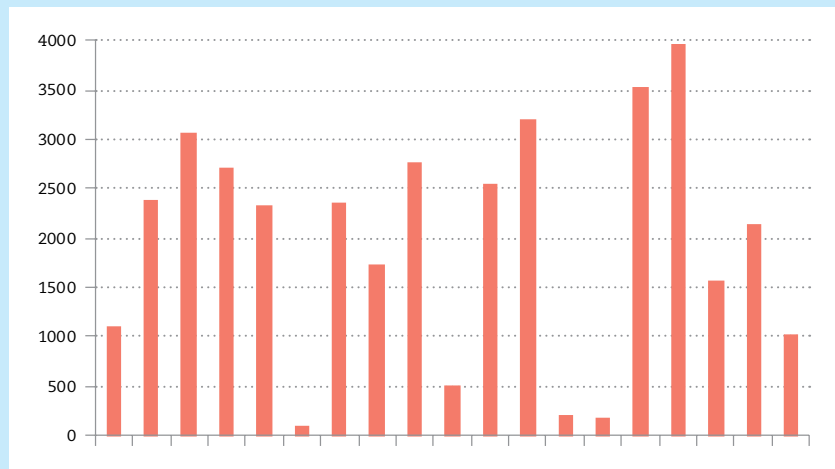
- If the generation of credit reports or Hits were any indications of the lending patterns of the banks & financial institutions, it showed some peculiar trends as some Development Banks generated more credit reports than some Commercial Banks. Some Finance companies were way ahead of some Commercial Banks and Development Banks in the number of credit reports generated.

The graph shows that the number of reports generated by the Commercial Banks varied between twenty five hundred to twenty four thousands reports. Majority of the banks generated the reports between five thousand to nine thousands reports where as few generated more than ten thousands reports and one bank generated as high as twenty four thousands reports. This gives the indication that there exists huge gap on the lending volumes of the banks with some banks doing brisk lending where as some doing only fairly.



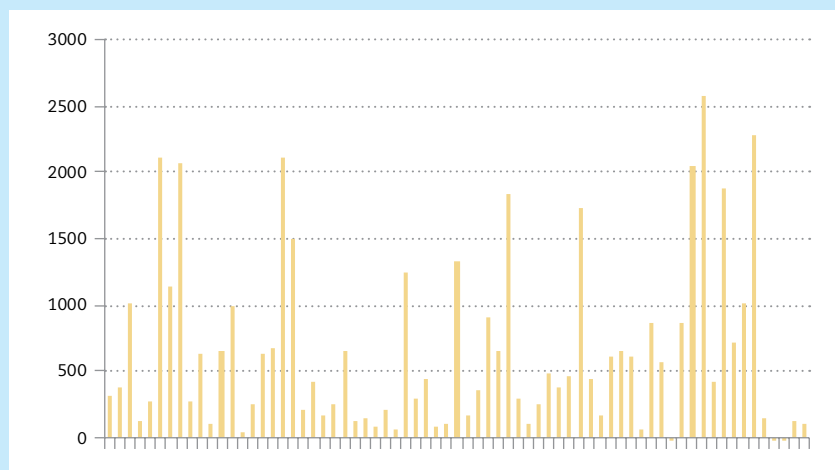
(Credit Reports generated by the Commercial Banks/ Total number of Banks 32)

The average number of reports generated by the National Development Banks were somewhere near two thousands reports. Some NDB generated as low as one hundred seventeen reports whereas some generated as high as four thousands reports.



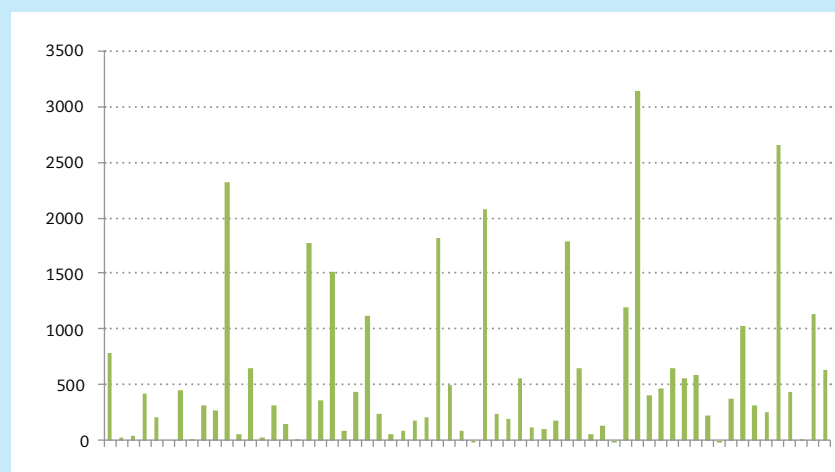
(Credit Reports generated by National Development Banks; Total number of NDB 19)

The Regional Development Banks fared poorly with average number of reports generated not exceeding five hundred. Some RDB generated as low as two reports where as some as high as two thousand six hundred reports.



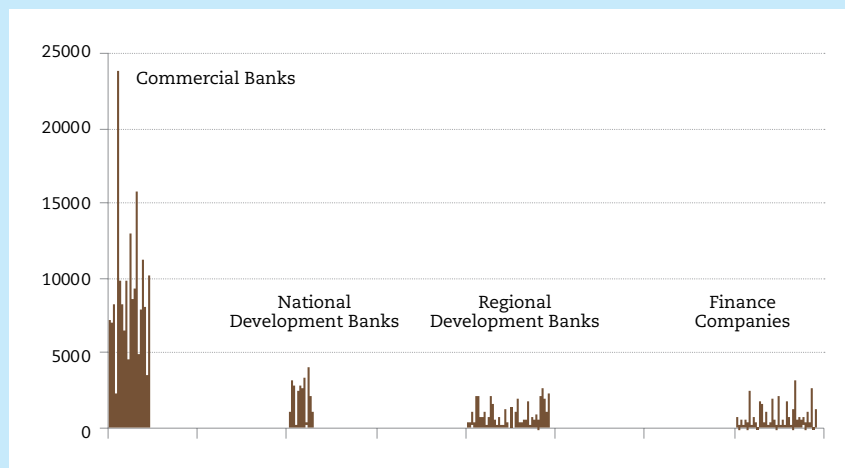
(Information Searching "Hits" by Regional Development Banks; Total number of RDB 71)

Some Finance Companies generated the reports as high as two thousands five hundred making them at par with many Commercial Banks and Development Banks.



(Information Searching "Hits" by Finance Companies; Total number of FC 64)

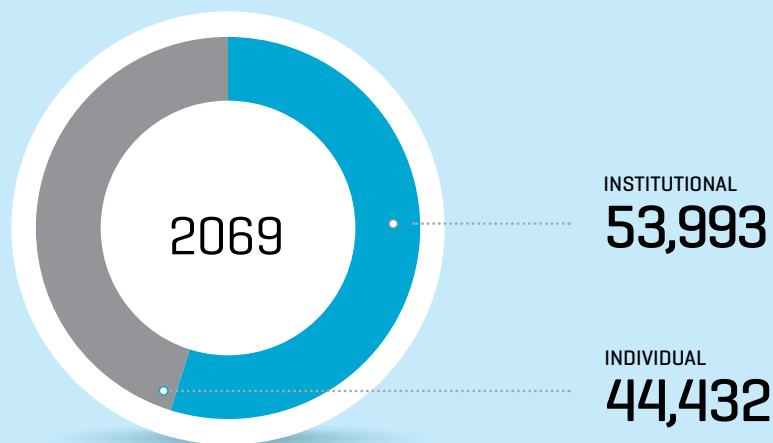
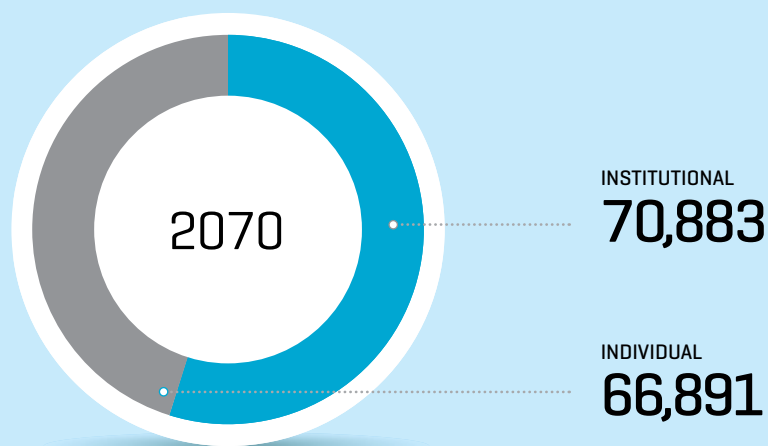
The graph encapsulates all the above graphs and compares the credit reports generated by all four categories of Banks and Financial Institutions.



(Comparison of number of Credit Reports generated by the Lending Agencies)

5 New Borrowers Records

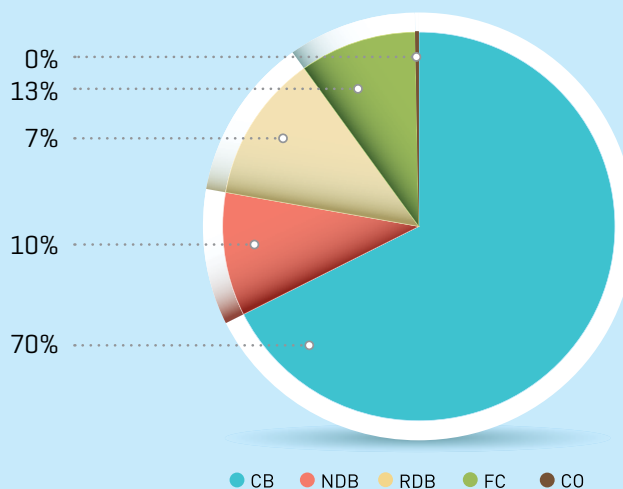
- Borrowers' records, which indicate the total number of borrowers who were extended the loans by the banks and financial institutions increased by 40% this year as compared to previous year's increment of 18%. The reason for this high increase was attributed to the new provision issued by the Nepal Rastra Bank that required all the banks and financial institutions to send their loan information of Rs. 1 million above facility to Kendra on mandatory basis.
- Total borrowers records include the records of institutional as well as individual borrowers. In the year 2069, the total numbers of institutional and individual borrowers registered in the bureau were 53,993 & 44,432 respectively where as they increased to 70,883 and 66,891 respectively in the year 2070. Thus there was the increment of nearly 59.5% in the individual borrowers and 23.8% in the institutional borrowers leading to total borrowers' records of 137,774 by the end of the year 069/070.



- 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

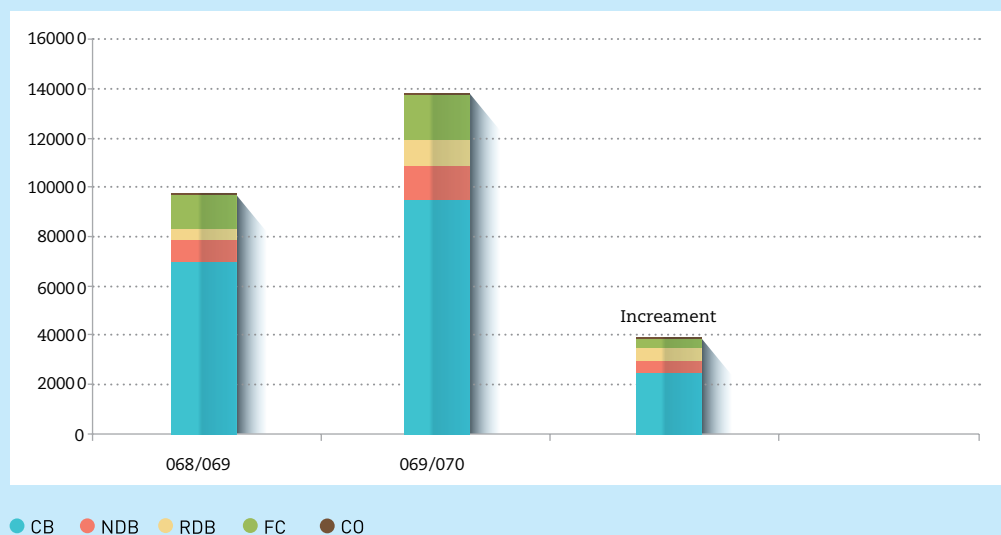
largest number of borrowers' records followed by Finance Companies and National & Regional Development Banks.

Categories of Lending Institutions	Number of Records	Percentage of the Total
Commercial Banks (CB)	95,230	69.12%
Development Banks/ National (NDB)	13,951	10.13%
Development Banks/ Regional (RDB)	10,274	7.46%
Finance Companies (FC)	18,172	13.19%
Co-operatives and others (CO)	147	0.10%
Total Searches	137,774	100%



In the year 069/070, the Commercial banks had the largest increments in the borrowers' records followed by Development Banks and Finance companies. Out of the total increments, commercial banks had the increment of 63% where as NDB, RDB and the Finance Companies had the increments of 12.3%, 15.9% and 9% respectively.

Categories of Lending Institutions	Number of Records 068/069	069/070	Total Increments	% Increment	% of Total Increments
Commercial Banks (CB)	70,496	95,230	24,734	35%	62.8%
Development Banks/National (NDB)	9,107	13,951	4,844	53.2%	12.3%
Development Banks/Regional (RDB)	4,034	10,274	6,240	155%	15.86%
Finance Companies (FC)	14,655	18,172	3,517	24%	9%
Co-operatives and others (CO)	133	147	14	10.5%	.04%
Total Borrowers Records	98,425	137,774	39,349	40%	100%



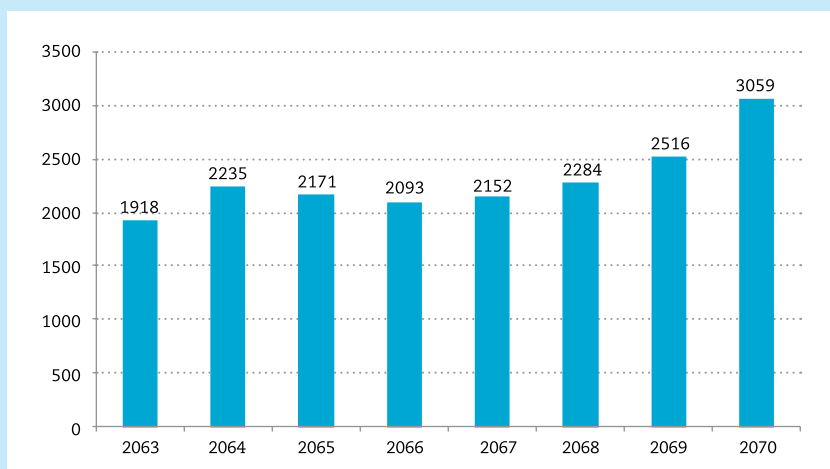
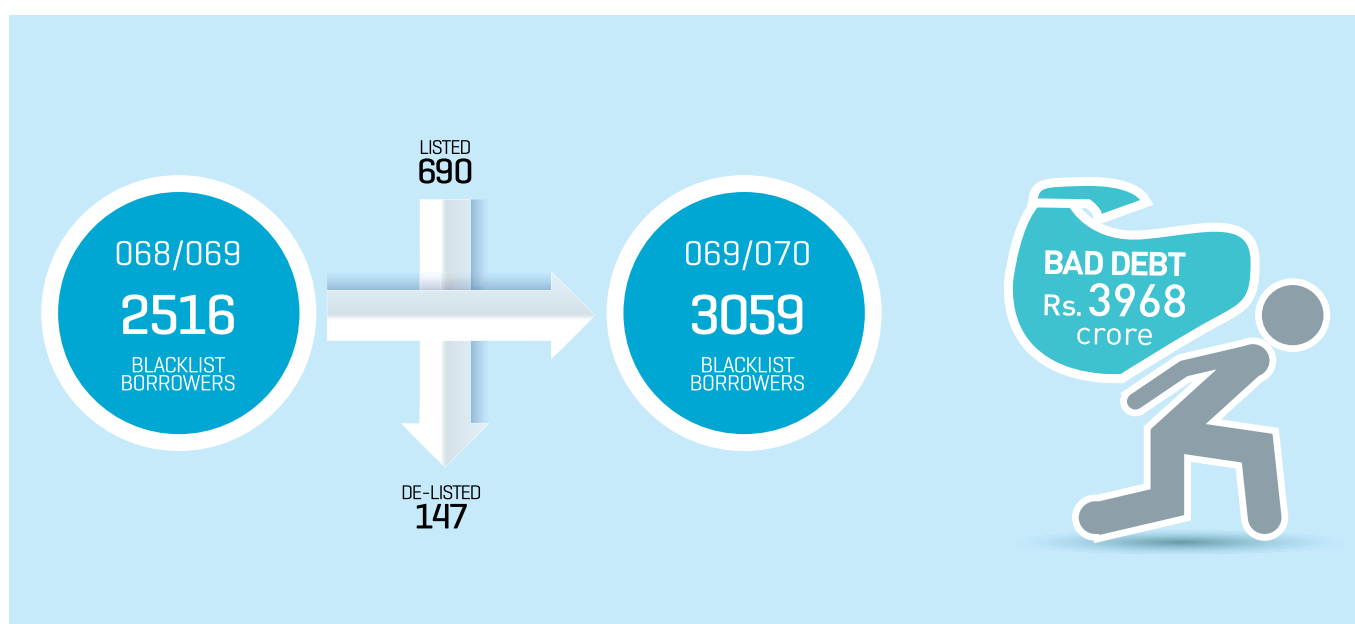
6 Blacklist Statistics

- The number of borrowers included in the Blacklist increased in an unprecedented manner by 95.5% this year. Total of 690 borrowers were included where as 147 borrowers were de-listed from blacklist this year. The increased number of default loans, Central's bank's new regulations regarding the

Blacklist provisions and its strict monitoring & supervision of the lending agencies on their default loans seem to have contributed in increasing the number of Blacklist borrowers drastically this year.

STATISTICS OF THE BLACKLISTED BORROWERS

	Till 062/063	063/064	064/065	065/066	066/067	067/068	068/069	069/070
Added in Blacklist	2,909	430	82	55	171	263	353	690
Removed from Blacklist	991	113	146	133	112	131	121	147
Total Borrowers in Blacklist at the end of fiscal year	1,918	2,235	2,171	2,093	2,152	2,284	2,516	3,059



- As per the statistics available with the Kendra, the total amount of the outstanding dues to be recovered from Blacklist Borrowers amounted to Rs. 3,259 crore by the end of fiscal year 068/069. Because of the addition and release of the blacklist borrowers in the year 069/070, the dues of Rs. 855 crore were added where as the dues of Rs. 146 crore were released in the year making the total outstanding bad debt by the end of fiscal year 069/070 to be Rs. 3,968 crore.

7 Corporate Governance

- Kendra adopts best governance practices and ensures accountability, fairness and transparency in the Kendra's relationship with all its stakeholders. The Governing body of the company is the Board of Directors who is entrusted with the responsibility of overseeing the company's operations on behalf of the shareholders and makes major policy decisions to effectively run and manage the company. Board of Directors is responsible for balancing and protecting the interests of, as well

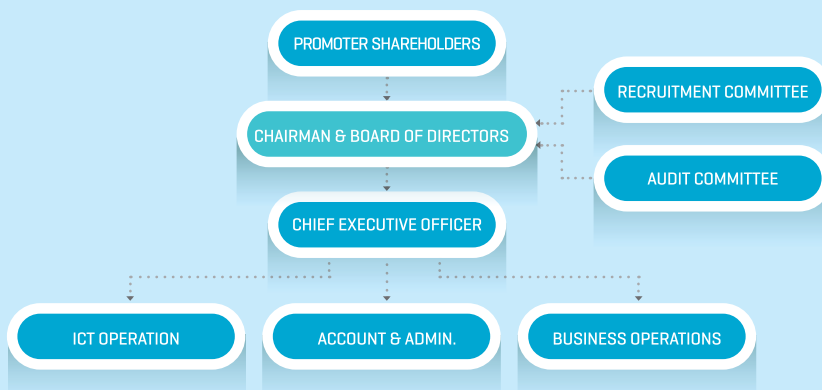
as to create value for, all stakeholders that include promoter shareholders, management, member institutions, government and community.

- The Board of Directors of Bureau have committed themselves to ensure that there is effective overseeing of the Bureau operations and to ensure that all such business affairs of the Bureau are conducted adhering to the highest standards of good governance, embracing established best practices. Compliance with all applicable legislations, regulations, standards and

codes has remained an essential characteristic of the company's corporate culture. 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, various guidelines from the Government of Nepal and other international credit bureau agencies devising policies on corporate governance.

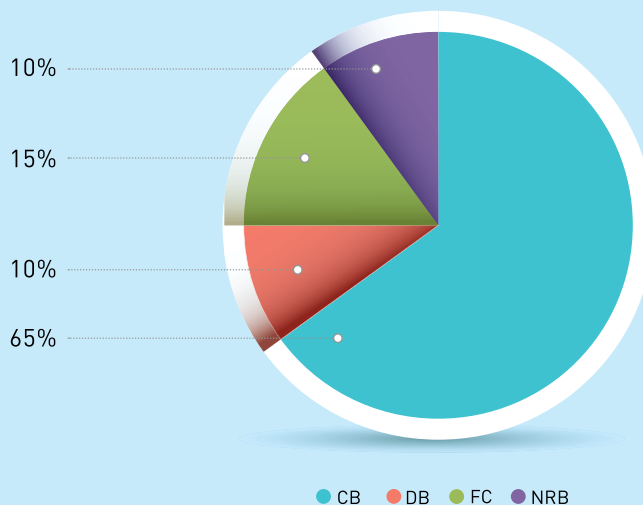
- Board appoints CEO for the management of the company and for implementing policies, guidelines, strategies approved by the Board. The CEO is supported by the various committees formed by the Board and chaired by its non executive directors.

- Board appoints Audit Committee, Recruitment Committee and the Internal Auditor. The Statutory Auditor is appointed by the decision of the shareholders through the Annual General Meeting of the company.



8 The Board & the Committees

- The Directors of the Board are elected from among the promoter shareholders from Annual General Meeting of the company in every four years. The Board is composed of seven members- four from Commercial Banks (CB), 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.



- The members of the Board possess the required expertise, skill and experience to effectively manage and direct the Bureau in order to maintain highest standards of good governance

and attain the organizational goals. The tenure of the Board of Director is for four years. In case of resignation or demise of any Board member during his/her period of incumbency as the

member of the Board, the Board has the right to select new member from among the promoter shareholders for the remaining period of his/her incumbency.

a) Changes in the Board of Directors

- There were few changes in the Board of Directors in the year 069/070. Mr. Min Bahadur Shrestha was replaced by Mr. Purna Bahadur Khatri with effective from 2069/11/3 and Mr. Ram Bahadur Khadka was replaced by Mr. Tej Bahadur Budhathoki with effective from 2069/11/8. Mr. Ram Bahadur Khadka resigned from his post where as Mr. Min

Bahadur Shrestha was replaced as per the letter issued by Nepal Rastra Bank (NRB).

- Mr. Kamal Prasad Gnawali, Director submitted his resignation from the Board member with effective from 2070/03/16. No replacement was made till the end of Asar, 2070.

- Mr. Siddhant Raj Pandey submitted his resignation from the Chairman of Board with effective from 2070/03/31. No replacement was made till the end of Asar, 2070.

b) Board Meeting 069/070

- There were altogether eight (8) Board meetings held under the Chairmanship of Siddhant Raj Pandey during the period under the review. The number of the attendances 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. Siddhant Raj Pandey Chairman	Ace Development Bank Ltd.	8	8	100%
2.	Mr. Ajay Shrestha Director	Bank of Kathmandu Ltd.	8	8	100%
3.	Mr. Jyoti Prakash Pandey Director	Nepal Investment Bank Ltd.	8	4	50%
4.	Mr. Kamal Prasad Gnawali Director	KIST Bank	6	3	50%
5.	Mr. Ram Bahadur Khadka Director	Agriculture Development Bank Limited (ADBL)	4	4	100%
	Tej Bahadur Budhathoki	ADBL (069/11/8 onwards)	4	4	100%
6.	Mr. Rajendra Man Shakya Director	Synergy Finance Ltd.	8	7	87.5%
7.	Dr. Min Bahadur Shrestha	Nepal Rastra Bank (NRB)	4	0	0%
	Purna Bahadur Khatri Director	NRB (069/11/3 onwards)	4	3	75%

In compliance with the accepted best practices, the notices and agendas for the Board meetings are circulated 4-5 days prior to a meeting, giving the Board members adequate time to scrutinize the same and be prepared for the meetings

c) Current Board Composition

- Board nominated two new members in the Board from among the promoter shareholders to fill up the posts that remained vacant after the resignation of Mr. Siddhant Raj Pandey and Mr. Kamal Prasad Gnawali.

Board also elected Mr. Tej Bahadur Budhathoki as the Chairman of the Board for the period till the end of the current tenure of the Board.

	Name	Representation from
1.	Mr. Tej Bahadur Budhathoki, Chairman	Agriculture Development Bank Limited
2.	Mr. Ajay Shrestha, Director	Bank of Kathmandu Ltd.
3.	Mr. Jyoti Prakash Pandey, Director	Nepal Investment Bank Ltd.
4.	Mr. Bhusan Rana, Director (New)	Yeti Development Bank Limited
5.	Mr. Tulasi Ram Gautam, Director (New)	Machhapuchhre Bank Limited
6.	Mr. Rajendra Man Shakya, Director	Synergy Finance Ltd.
7.	Purna Bahadur Khatri, Director	Nepal Rastra Bank

d) Board of Directors Disclosure

MR. TEJ BAHADUR BUDHATHOKI Chairman

Agriculture Development Bank

CEO

He has not been associated with any institutions other than Agriculture Development Bank.

MR. PURNA BAHADUR KHATRI Director

Nepal Rastra Bank

Director

He has not been associated with any institutions other than Nepal Rastra Bank.

MR. AJAY SHRESTHA Director

*Bank of Kathmandu
Beed-BOK Venture Limited
Nepal Bankers Association*

*CEO
Chairman
Executive Member*

MR. JYOTI PRAKASH PANDEY Director

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

*CEO
Chairman
Nepal Clearing House Limited*

MR. TULASI RAM GAUTAM

Director

Machhapuchchhre Bank Limited**CEO**

He has not been associated with any other institutions other than Machhapuchchhre Bank Limited.

MR. BHUSAN RANA

Director

Yeti Development Bank**CEO****Nepal Karate Maha Sangh****Vice President****MR. RAJENDRA MAN SHAKYA**

Director

Synergy Finance Limited**CEO****Nepal Finance Companies Association****President****FNCCI Commodities Council****Executive Member****Nepal Red Cross Society****Life Member & Advisor****Nepal Baudhha Parishad****Life Member****e) Audit Committee**

- Board forms the audit committee and appoints its members. Audit Committee comprises of three members and is headed by one member of the Board of Directors.
- The audit committee has a direct relationship with the Board as it assists the board in its general oversight of the company's financial reporting and disclosure process, internal controls, accounting policies & principles, regulatory compliance

and performs other oversight functions as requested by the Board. It oversees the performance of the internal audit functions and ensures open communication among management, internal auditors, external auditors, and audit committee on any matters that will have significant effect on the company's financial reporting. It performs its duties by maintaining effective working relationships with the board, management, internal and external auditors. It provides

suggestions, recommendations to the management and the auditors on various financial and accounting matters as deemed necessary.

- There were altogether four (4) 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	4	4	100%
2.	Ram Bahadur Khadka, Member	2	2	100%
	Kamal Gnawali, Member	2	1	50%
3.	Purna Chitra Pradhan, Member Secretary	4	4	100%

- Since Ram Bahadur Khadka, an audit committee member, resigned from the Board and the audit committee, he was replaced by Mr. Kamal Gnawali who also later resigned from the Board and audit committee on 2070/03/16.

f) Current Audit Committee

- Board appointed Mr. Tulasi Ram Gautam as the new member of the Audit Committee. Following are members of the audit committee.

Rajendra Man Shakya, Board member	Chairman
Tulasi Ram Gautam, Board member	Member
Purna Chitra Pradhan, Member Secretary	Member Secretary

g) 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.

h) Expenses Incurred on Committees

Committee		Number of Meetings	Expenses on Committees		
			Meeting Allowance	Other Expenses	Total
1.	Board Meetings	8	82,000	12,956	94,956
2.	Audit Committee Meetings	4	14,000	1,220	15,220

i) Disclosures

- Adopting accepted best practices, Kendra 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.

j) 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.

9 Management

- CEO is the highest ranking executive in the bureau and oversees the complete operation of the bureau. CEO has the specific responsibilities as entrusted by the Board of Directors and reports to the Board on a regular basis. CEO formulates policies and planning recommendations to the Board, implements those policies & plans after the Board's approval and manages physical and financial resources of the company. CEO is supported by the executives who report to him regularly on various issues.
- Being a small company, the organization structure is somewhat flat with fewer management levels. This structure empowers the employees and provides more autonomy to them and helps them to make their own decisions rather than adhering to the chain of commands. By encouraging autonomy and self-direction, flat structures attempt to tap into employees' creative talents and to solve problems by collaboration. It offers more opportunities for employees to excel while promoting the larger business vision of the bureau.
- The Kendra ensures that employees are well informed on matters concerning them and their job. Formal and informal channels are also employed in communication with employees with an appropriate two-way feedback mechanism.



Management Team dedicated for the purpose

10 Human resource

- We believe that successful organization cannot owe their success solely to market realities and sustainable competitive advantages. Actually, there is lot more. Successful companies are those that consider their human capital as their most important asset. The bureau also recognizes the importance of absorbing people with the required talent, aptitude and mind set to achieve the forecasted development and growth over the coming years. We focus on recruiting the best people, train them, develop them and motivate them by providing good working environment and treating each employee as the valuable resource of the company. Our committed and competent staffs

have always being our strength. Our emphasis has always been on quality in our journey towards excellence.

- We have maintained a small team of high caliber staffs. The recruitment is balanced and is always as per the work load requirements. No redundancy is allowed. Because of the complete automation of the credit bureau system and its operation, the bureau has only few but competent staffs in IT, Operations and other departments. All the staffs are trained in Nepal or overseas and have many years of experience in their respective fields. We are focused to invest in their continuous training and development, providing them with opportunities

for both personal and professional enhancement. The company's HR policy is guided by the company's "Karmachari Sewa Biniyamawali 2064" and is based on best international practices in human resource development and management.

- As per the Biniyamawali, the Kendra maintains a policy of giving fair consideration to the applications for employment to all the applicants with due regard to their abilities and aptitude. The Kendra's policy prohibits discrimination based on genders, caste & creed, religion etc. in the recruitment, training and career development of its employees.

11 Risk Factors Disclosures

TECHNOLOGICAL & INFORMATION MANAGEMENT RISK

- The Credit Bureau system which consists of various hardware equipment and software are always susceptible to external threats and exposed to various security risks. From the fear of forced access to Data Center hosting hardware infrastructures to unauthorized remote access of IT assets, the risks are many. Given the diversity of attack tools currently being used, there has been a drastic increase in the number of security vulnerabilities. The risks include—but not limited to—piracy of database and server contents, access, modification or destruction of data, disclosure and exposure of information to unauthorized individuals, hardware vandalism, software piracy, and network sabotage etc.
- The Bureau has in its possession a great deal of confidential information relating to the banks and their borrowers. While such confidential information is managed according to law and internal regulations specifically designed for that purpose, there is always the risk that information may leak due to unforeseen circum-

stances. Should such an event occur, there is a likelihood that borrowers' confidence and bank trust would deteriorate, resulting in a negative effect on the bureau's performance.

BUSINESS RISK

- The growth of Banking and Finance sector has been quite uneven and gone through many ups and downs in the last few years. They had to cope with multiple challenges - liquidity crisis, declining deposits, inflated interest rate, real state collapse, loan recovery problems and others. Economy or market down turns or poor state of the banking business adversely impacts the bureau's growth potential. Decreasing banking business leads to decline in credit information enquiries which lead to reduced revenue for the bureau. Uncertainties in the banking business make it difficult to forecast future levels of bureau's income and earning potentials.
- Bureau has developed the plans for the placements of value added products and services for the banking and finance sector based on certain assumptions of the banking sector growth and demand potentials. Given

the uncertainties looming large on the sector growth, products placements may be ill-timed or the market may not be ready to absorb the products incurring high cost to income ratio for the bureau.

OPERATIONAL RISK

- Because of the lack of any reliable instrument for correctly identifying the borrower, credit bureau is always exposed to the risks of incorrect borrower identification and profile matching. Coupled with this, many financial institutions still have poor and inadequate information about the borrowers which makes it further difficult for the bureau to correctly identify the borrowers. Wrong identification leads to wrong credit report which further leads to poor lending decisions by the lending agencies incurring huge losses to them. This may have adverse impact on the credibility of the bureau.
- Credit Bureau operation is a very specialized field of activity primarily focused on IT and Operations. Being an IT driven company, it needs to have a very strong IT & Operations workforce who are skilled, talented and have expertise on the system. Such

people are very limited in number and very hard to find by in the job market. Recruiting the talented people and training them to make them expert on the system takes time and incurs cost. Once trained, bureau runs the risk of losing them in such a fiercely competitive market of IT. Under such conditions, bureau may face the risk of HR crunch to man its operations.

- Irregular & unreliable commercial power supply and long load shedding hours in the country may pose serious problem for the bureau to provide uninterrupted credit bureau services to the users. Bureau may risk of losing the confidence of the users if it fails to provide reliable and uninterrupted service to them as required.

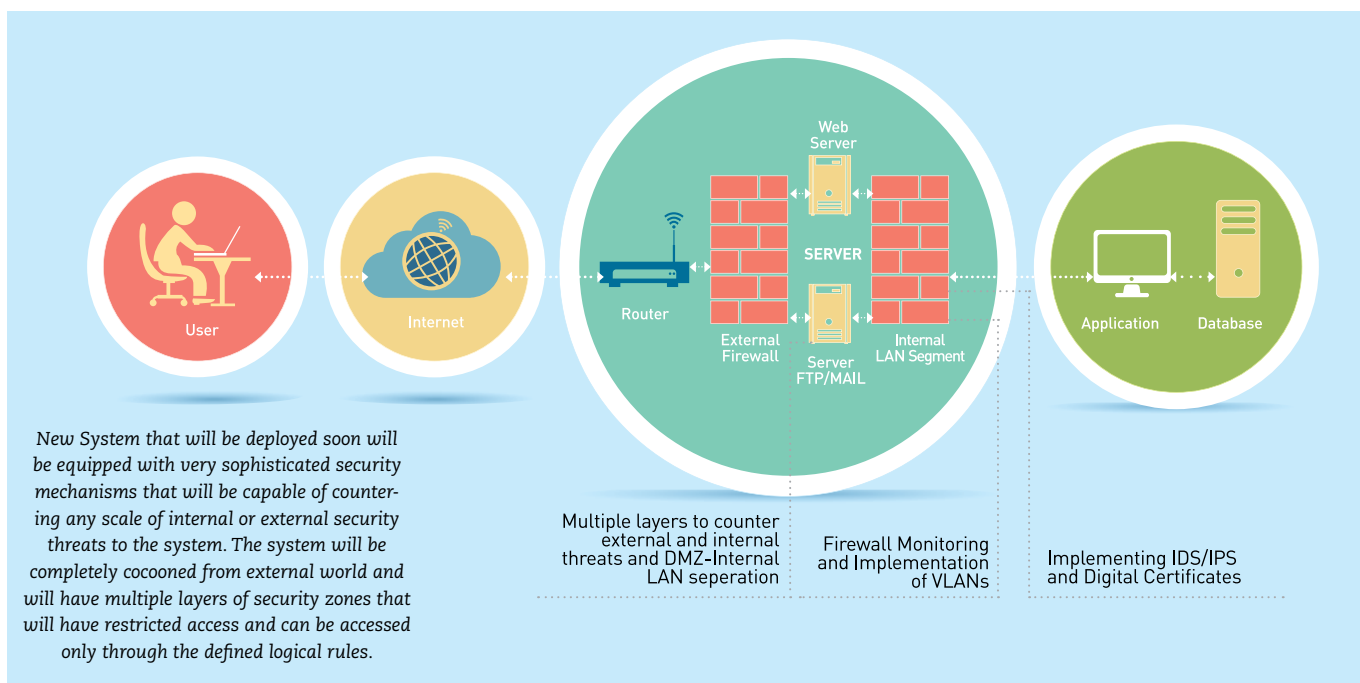
FINANCIAL RISK

- Trade and Other Payables are the main financial liabilities of the company. Bureau has capability and sufficient funds in the form of financial assets, receivables, cash and bank balance, short term deposits and investment incomes to pay back the payables.
- Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It is a risk that future proceeds will have to be re-invested at a lower rate. Interest rate risk may not pose serious problem for the bureau since interest income is not the main income and has only marginal effect on bureau's total income.

- Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Since the customers of the Bureau are all banks & financial institutions, it is exposed to minimum credit risk.
- All the costs related with the implementation of the new commercial bureau and MF bureau is borne by the Grant received from the Asian Development Bank with no financial and commercial pre-conditions attached with it for its repayment. Thus there are no any financial risks involved for the company in this transaction.

12 Risk Management

- The Bureau has employed 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 mechanisms and safety systems. Unauthorized admission in Data Center is strictly prohibited.



- Bureau ensures that IT staffs are fully aware with the information confidentiality policy and follow them strictly. Only those staffs “who need to know” are provided with access privileges which will be revoked in a timely

manner when no longer warranted. 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.

- In order to prevent the risk of service breakdowns, Bureau has housed its Disaster Recovery Site in National Information Technology Center in Singh Durbar which will be brought into operation once Primary Site shuts

down due to technical failure or any other Force Majeure reasons. All the primary site equipments have been arranged in failover mode.

- All our Data Center equipments and infrastructures including our staffs have been safeguarded with adequate insurance coverage.
- Although the Bureau carefully monitors the impacts of economic changes in the banking sector, it can do least to avoid business risks which are culminated from the factors external to the Bureau. Though the number of "Information Hits" generated by the banks and financial institutions remained quite uneven during the period of the review because of sector specific issues, the bureau maintained its revenue growth on an even level by increasing the 'Hits" through the expansion of the service coverage.
- In order to eliminate the risk of wrong identification, Bureau has developed a very effective algorithm based on borrower's personal identification information and three generation information. Data quality of the borrowers is maintained at highest level so that the algorithm functions properly and gives the correct Hits.

So far the algorithm has given the hundred percent correct hits of the borrowers.

- Bureau tries to retain the talented workforce by providing them the best working environment where they get the opportunities to learn and grow, can utilize their talent and skill and get a sense of being a part of team which is geared to develop the system that contributes in a meaningful way for the development of credit market in the country. Apart from this, the Bureau motivates its employees by providing them the trainings,

attractive remuneration packages, incentive schemes and other benefits based on their performance and contribution made to the company.

- Bureau has installed high capacity UPS systems and Batteries in failover mode along with two sets of power generators to provide reliable services to its users. Bureau has designed the system assuming power outages of long duration and has taken all the preventive measures to keep the system active even in the worst possible scenario.



ISSUES & PROBLEMS AFFECTING THE SERVICE OF THE BUREAU

DATA QUALITY/REPORTING & UPDATES:

The effectiveness of the credit information bureau largely depends on the quality of data stored in it. In order to make the credit report more inclusive, informative & reliable, the collection of correct and current data from the source is necessary. In spite of the mandatory requirement as per the NRB Directive and regular reminders and follow ups by the Kendra, many banks and financial institutions still fail to send the data on a periodic basis. Collection of both primary (initial data) and secondary data (periodic updates) has remained a problem.

COLLECTION THRESHOLD: Kendra is always of the view that collection threshold should not exist since it eliminates the information of all the SME lending which constitute major portion of banks' lending portfolio. Such practice and policy restrains the growth of credit market, increases the probability of multiple lending, prevents the credit report from being more inclusive and disregards the best international practices in credit bureau operation. Apart from this, this practice delays the data maturity process and sets back the schedule for the development of value added products and services. Implementing such policy is quite detrimental to the growth of the bureau, credit market and the economy of the country as a whole.

SYSTEM MISMATCH AND IT INCOMPATIBILITY:

Because of the large volumes of data to be uploaded to the bureau on a regular and timely basis, there is the need that banks and financial institutions upgrade their IT Systems accordingly in order to have good interface with the bureau's system. Since most of data required by the bureau has to be extracted from the Core Banking System (CBS) of the banks which differ widely across the banks, many financial institutions are still finding difficulties in developing the required interface to facilitate the transfer of the data to the bureau. Lack of this is going to affect the timely collection of the data from the lending institutions.

CREDIT REPORTING CELL: NRB Directive Clause 17(6) has made it mandatory for all the banks and financial institutions to set up a dedicated "credit bureau cell" which will work together with the bureau for the system related issues, data updates, data transfer, credit report generation, information searching, blacklist cases and various other issues related with the credit bureau operation. Many lending agencies have failed to set up the cell so far which has affected the effective coordination between the bureau and the banks.

NRB UNIFIED DIRECTIVE 2070,

CLAUSE 17(6): कर्जा सूचना इकाई : इजाजतपत्रप्राप्त संस्थाहरूले केन्द्रीय रूपमा कर्जा सूचना इकाई गठन गरी केन्द्र तथा अन्य निकायमा पठाउनु पर्ने कर्जासूचना सम्बन्धी सम्पूर्ण कार्यहरू सो इकाईबाट मात्र गर्नु/गराउनु पर्नेछ । केन्द्रसँग गरिने सम्पूर्ण कार्यको लागि इकाईका जनशक्तिलाई तोक्नु पर्नेछ र सोको जानकारी सम्बन्धित इजाजतपत्रप्राप्त संस्थाले केन्द्रलाई उपलब्ध गराउनु पर्नेछ । साथै, तो किएको इकाईले इजाजतपत्रप्राप्त संस्था र केन्द्रबीच हुने पत्राचारको प्रमाणित अभिलेख अद्यावधिक गरी राख्नु पर्नेछ ।

REGULATORY PROVISIONS: Kendra seeks some strong regulatory provisions in the NRB Directive regarding the penalties to be imposed on those banks and financial institutions who fail to submit the regular updates to Bureau on schedule as stipulated in the NRB Directive. Though the Clause 19(1) of the existing Directive has some reference about it, the Clause is not categorical about the types of penalties to be imposed in case of delay submissions.

CORRECTIVE MEASURES TO BE IMPLEMENTED

- Banks and Financial Institutions must make necessary upgrades in their IT system that will help them to pull all the data required by the bureau from their core banking system and transfer them to the bureau. The type of data required will be as per the Input File Format of the bureau which has been discussed and agreed upon between the bureau and all the banks and financial institutions during the system development stage. Failure to do so will prevent them from connecting to the bureau's system.
- Apart from some needed amendments in Clause (2) of the NRB Directive 12/070 to wipe out collection threshold, Banks and Financial Institutions should themselves take the initiative and come forward in sharing the data of their borrowers irrespective of any revisions in the NRB Directive in this regard.
- The issue related with the Reporting & Updates can be addressed through the regulatory provisions by imposing strong punitive actions against the banks and financial institutions who fail to submit the data on the periodic basis to the bureau as stipulated in the NRB Directive. Some amendments in the NRB Directive 12/070 Clause 19 (1) needs to be made.
- Banks and financial institutions must be made to comply with NRB Directive 12/070 in its entirety. Poor compliance has led to the various problems related with the data accuracy, collection, sharing and others. Some strict compliance instructions by the regulator to the lending agencies are required in this regard to help solve the problem.

CHALLENGES & STRATEGIES VIS. A VIS. NEW SYSTEM OPERATION

Challenge 1

- Improving the quality of Data has remained one of the major challenges for Kendra. Looking at the quality of data available with many banks & financial institutions and their poor means of data keeping, the process of validation seems to be very cumbersome and may take many cycles to complete. This may delay the whole project schedule and commencement of the new system. At the same time it will delay data maturity process.

It should be reminded that Kendra does not own the data contributed by the lenders; data ownership is retained by the lenders with the Kendra purely managing the data sharing process. The responsibility for the data accuracy remains with the lender and not with the Kendra, for the Kendra can not alter the information contributed by the lenders.

STRATEGY: Kendra will work together with the banks and financial institutions to ensure that they will review, revise, edit, correct and complete all the data fields of their borrowers as per the Input File Format of the bureau. Kendra will share the existing data related with the borrowers from its Master Record Files to the banks to help them in correcting their information accordingly. Kendra will employ very efficient data polling, loading and validation engines that will shorten the validation cycles. The tailored interface software called e-date has also been made available by the vendor in case users intend to purchase tailored solution that will save their time in developing the interface.

Challenge 2

- As mentioned in the Risk Factors disclosure column, Information Systems Security is also one of the most pressing challenges confronting Kendra. Kendra is expected to collect and manage millions of highly sensitive data; specific security measures need to be in place to avoid unauthorized access to the bureau databases as well as ensuring that credit information is used in full compliancy with the bureau's code of conduct and the local data protection legislations. Bureau needs to be more cautious and alert in maintaining information secure, avoiding unauthorized access, preventing intrusions, stopping secret information disclosures etc.

STRATEGY: The Bureau will employ highest tiers of security protocols to circumvent any kinds of cyber attacks. The Bureau will have very robust system architecture and network design with various layers of protection devices to trace and nullify unauthorized access. The system will meet and comply with all the international benchmarks in system security.

Challenge 3

- The operation of Microfinance Bureau will pose a huge challenge for the Bureau. Many microfinance 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. The success of the MF bureau will also depend on the tariff since high tariff may discourage many MF institutions from joining the bureau. Low tariff may make the operation of the MF bureau unsustainable. Challenge exists in developing a reasonable balance between low tariffs and bureau's operation costs.

Apart from this, the legal environment for the operation of the microfinance credit bureau is still not available in the country. Without the appropriate legislation and regulation to enable the sharing of the data and information, a microfinance credit bureau is for all practical purposes ineffective.

STRATEGY: Thus Kendra has maintained its strategic focus on five major elements namely i) appropriate technology platform ii) supportive legal & regulatory framework iii) affordable tariff and pricing iv) awareness building and v) information sharing based on the principle of reciprocity.

Technology: The implementation of the Silver Blade will address many issues related with technology. The system is capable of collecting and maintaining large volumes of data received from the microfinance institutions and providing adequate level of service to them as required.

Regulation: For the efficient run of microfinance bureau, a separate law should be passed and enacted. But since drafting of such Act and its promulgation is a time consuming process, the immediate legal roadblocks for MFCIB can be removed by drafting a separate Regulation/Directive for MFCIB or incorporating some additional provisions on the existing NRB Directive applicable for KSKL. Kendra with the assistance of the Microfinance Associations has already prepared the preliminary Regulation Draft to be submitted to NRB. The draft is expected to be approved before the implementation of the service.

Tariff: Kendra has set up a committee comprising of the representatives from Microfinance Associations, International Finance Corporation and Kendra to work upon the tariff structure that will sustain the operation of the bureau and at the same

time be acceptable to all the microfinance institutions. The involvement of Microfinance Associations in setting up the tariff is the key element for the successful implementation of the MF Bureau service.

Awareness: Kendra plans to initiate a General Awareness program which will educate all the microfinance institutions about the bureau's values and benefits. It will be a continuing education program which may take few years before all the stakeholders realize its benefits and join the bureau.

Principle of Reciprocity: This is a very effective tool to encourage and compel the MFIs to join the bureau if they want to have the access of the credit report from the bureau. Only those institutions that share their information with the bureau will be entitled to have access of the bureau's information.

Since there are large numbers of microfinance institutions in the country with varying levels of strength, capability, and readiness to join the bureau, the bureau intends to focus the microfinance institutions on a phase-wise basis (top-down approach) with all the microfinance development banks and financial intermediaries regulated by Nepal Rastra Bank in the first phase followed by others in the later phases as mentioned below:

Phase I (Year 1)	All Microfinance Development Banks, Savings & Credit Co-operatives & NGOs as regulated by NRB. (Top Tier)
Phase II (Year 2)	All micro-credit institutions located in Kathmandu Valley.
Phase III (Year 3)	All micro-credit institutions located in Regional Centers and Towns
Phase IV (Year 4&5)	All micro-credit institutions across the country. (Complete Coverage)

Presently, microfinance services are provided by Microfinance Institutions (MFIs) working as regulated MFDBs, FINGOs, Savings and Credit Co-operatives (SACCOs) and Small Farmers Co-operatives Limited (SFCL). While the first two are regulated by NRB, SACCOs and SFCL are governed by Co-operative laws.

Based on available data on the borrowers served, the top 20 MFIs (among sixty major MFIs) cover 89.4% of the borrowers, 96% of the total disbursement and 93% of the outstanding loans. Nirdhan Utthan Bank Ltd is the largest MFI with maximum borrowers followed by Chhimek Bikas Bank Ltd and Swabalamban Biaks Bank Limited as second and third largest respectively. The Government RDB has 25% of the total borrowers of the top twenty MFIs, while the share of the private MFDBs is 42%, of FINGOs 26% and of Co-operatives 7%.

Thus, the Bureau will be capable of collecting large portion of borrowers' information available in the sector by focusing only on the top tier institutions regulated by NRB. And most of the top tier MFIs has relatively good data quality, MIS capability, skilled staffs and resources to upgrade their system and join the bureau. The bureau assumes that collecting the data from the top tier institutions will not pose so much of problems to the bureau.

MF BUREAU SERVICE IMPLEMENTATION

Establish the MF Credit Information Bureau by the mid of 2014 (July 2014)

- KSKL will design, procure, install and operate the MF Credit Bureau (ADB Grant)

Legal and Regulatory Framework Ready by the mid of 2014 (MOF/NRB)

- requirement for mandatory participation of MFIs in the Bureau.
- include issues pertaining to credit reporting, data protection, consumer protection, and privacy & secrecy provisions.
- Provisions for strong & effective Regulation

PUSH

Education and Awareness Building (Phase I- Phase IV)

- focused campaign to increase awareness among the various tiers of microfinance institutions on the following areas:
 - i. benefits of participation in MF Credit Bureau
 - ii. benefits of maintaining quality data
 - iii. benefits of sharing both positive and negative data
 - iv. Online Service and MIS compatibility

PULL

Tariff

- the tariff structure will be finalized before the implementation of the service i.e. July 2014

PULL

Principle of Reciprocity

- provide data = access to data.

PUSH

ACTION PLANS FOR THE YEAR 070/071

- New Commercial Credit Bureau System (Silver Blade) will be put into operation in the year 070/071. The existing credit bureau system will be replaced by new system and the service will be provided through it. The major pre-commencement activities such as verification, validation of the data and its migration from the existing system to the new system will be completed prior to the operation of the new system. Disaster Recovery Site will also be equipped with the new system and put into warm recovery mode.
- The Kendra intends to collect all the data available with the banks and financial institutions in the year 070/071. The bureau will work with them to improve on the connectivity, data quality, data uploads or other issues related with the operation of the bureau.
- Kendra will increase the frequency of the interaction programs with the users of the service. Kendra has planned to organize advanced “system based” trainings to the IT and Credit officers of the financial institutions in the near future. Kendra

will also continue its user awareness programs country-wise facilitating credit officers and other staff of lending institutions to better understand the credit reports and other MIS reports generated by the new system for their lending decisions.

- Kendra will start providing the services to the microfinance institutions as well. The Microfinance Credit Bureau will be put into operation in parallel to the commercial bureau. But it will operate independently of commercial bureau and will have separate access, tariff, data structures and credit report. In its first year of operation, Kendra will focus on the microfinance institutions regulated by the Nepal Rastra Bank.
- Regulatory Framework for MF Bureau operations is also expected to be approved by the MOF/NRB in the year 070/071. Kendra will work together with Microfinance Associations and Nepal Rastra Bank to make the Regulation ready before the implementation of MF Bureau service.
- One of the major challenges in IT driven companies is to keep the IT staffs always equipped with new

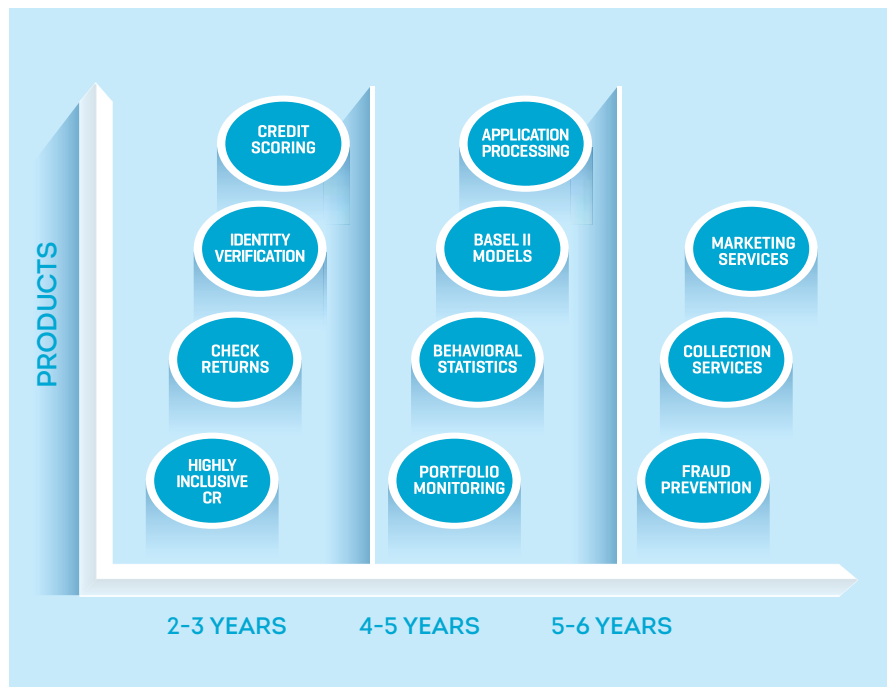
skill-sets and knowledge to keep pace with the rapidly changing systems and technology. Every day new problems emerge in the IT systems that are exposed to internet and other external systems. Thus the regular trainings to the IT staffs are necessary to cope up with such external threats.

The capacity building of the staffs has always remained a major focus area of the company. Kendra has extensive plans to train its IT and Operations staffs in various areas of credit bureau operations and management in 070/071. Apart from the system based training, they will be sent to attend the seminar and talk programs overseas that will help them to learn about the best international practices in credit bureau operation.

- Secured Transaction Registry Project is still at tenderhooks because of some legal bottlenecks in the Act that has prevented the bureau from implementing the system. Kendra will work with Ministry of Finance to find ways to solve the legal bottlenecks and allow Kendra to undertake the project.

LONG TERM BUSINESS FOCUS AND ACTION PLANS

- Organize the Business and its Processes around a strong technology base. Transform the bureau into a nimble and focused ICT operational Organization.
- Enhance the scope of operation by collecting information from all other sources 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.
- Focus on R&D and Innovate and Implement new products and services on a timely basis that are highly desired by the lending institutions. Work closely with them to work on their product requirements and add value in their credit risk assessments process.



- Bureau will focus on pulling out highly inclusive credit information report followed by Check returns, Identity Verification and Credit Scoring within 3 years of the implementation of the new bureau system. Bureau expects to bring the maturity in the database within the period paving the way for the placement of advanced value added products in the later years as shown above in the Chart.
- Gain domain expertise and introduce best international practices in system security, data quality and service quality. Establish Kendra in league with other credit bureau operators of the region in terms of service standards.
- Work on to set up strategic alliance with the leading international service provider to derive benefits from their experience, expertise, connections, networking and resources.

GROWTH POTENTIAL AND FUTURE PROSPECTS OF THE CREDIT INFORMATION BUREAU IN THE COUNTRY

- Access to finance is an essential component to economic development and job creation. Despite the tremendous need, a large proportion of the Nepal's population does not have access to credit. It is largely hindered by the lack of sufficient information on the ability of a potential borrower to repay his or her debt and the lack of supporting financial infrastructure to make such information available.
- It is recognized globally that a matured and developed financial sector must have efficient and effective financial systems to manage credit risks in order to sustain the financial needs of the government, industry and consumers. The increased competition in finance and banking sector usually leads to a number of unforeseen difficulties along with increased problems of borrowers over-indebtedness, reduced loan repayment incentives and growing arrears of financial institutions. Weakening performance of lending institutions in a competitive market is due in part to the absence of information sharing in these markets because growing numbers of financial institutions increase the level of asymmetric information among them. The goal of the credit information bureau is to ease this fundamental problem of asymmetric information among lenders.
- The Credit information bureau plays a crucial role toward improving credit market performance and acts as the information brokers that increase the transparency of credit markets. The practical consequence is a better risk management, which enables banks and other financial institutions to increase their lending volume and extend credit to underserved segments of the population. The core purpose of the bureau is to facilitate information sharing by building transparent, reliable and dynamic information network for the benefit of the credit industry. Optimal and logical use of this information network fuels business growth while boosting credit penetration and macro development of the country.
- With the help of information sharing, banks and financial Institutions can make better lending decisions, use risk-based pricing methods more effectively, manage credit lines, collect debt more successfully and reduce fraud. They can also benefit operationally through increased automation leading to lower costs and more consistent decisions. More reliable and confident decisions can be made based on robust data and objective analytics at every stage of customer life cycle. This results in improved process efficiencies, faster turn around times and more efficient risk management. Because of the overall level of consumer's indebtedness that can be calculated, it is easier to determine the probability of default and the potential loss, both aspects that helps in adherence with Basel II.
- Credit information makes credit cycle more cost effective, which could eventually translate into borrowings at better terms for consumers. Without objective credit information, lenders set prices according to average risk levels or use subjective, less precise methods of evaluation. This results in products that are excessively expensive for low-risk consumers and unfairly inexpensive for high-risk consumers. By making the costs of extending credit lower, credit information enables lenders to extend credit to many extra customers, and at overall lower costs. This means that millions of Nepali borrowers can now benefit with lenders increasingly adopting the credit information as a crucial parameter in their credit decision-making process.
- Credit Bureau will also play an important role in supporting the prudential supervision and risk monitoring function of Central Bank. Data from credit bureaus that would be useful for prudential supervision, include but is not be limited to: borrower type and identification data, credit information data, current risk classifications and collateral and guarantee information, all of which would enable supervisors to model the probability of default of different borrowers and calculate and monitor potential loss given defaults of the various creditors.
- As discussed above briefly, the impacts of the credit information bureau are immense and multidimensional. Given the country's poor standing related with the access to finance, low credit penetration, high default rates, the credit bureau can contribute immensely to address the above problems. Against this backdrop, it has a huge potential to grow in the future and can revolutionize the growth of credit market in the country by providing access to credit to millions of Nepali borrowers.

IMPACTS OF INTERNATIONAL TRENDS IN CREDIT BUREAU DEVELOPMENT IN NEPAL

- Last decade saw tremendous growth of credit bureaus in Asia, Africa and other parts of the world. Between 1990 and 2011, the number of credit bureaus in the world almost tripled. In Asia many markets turned toward private sector reporting after the financial crisis in the late 1990s. The financial crisis led to an urgent call for credit information sharing among financial institutions in many countries in the Asia-Pacific region. After the crisis, several local and foreign-based credit bureaus were created, with the countries' central banks being the key drivers. New developments in credit reporting are underway in Central Asia and other parts of Asia. From the early 1990s to the late 2000s, a significant number of credit bureaus emerged in Eastern Europe. Over the past few years, the Middle East and North African region has been growing interest in credit reporting, with credit bureaus established in Morocco and Egypt, and new developments taking place in North African countries. There are also many new developments in Sub-Saharan Africa, with the launch of the credit bureaus in Ghana, Uganda, Kenya, Rwanda, Botswana and other countries.
- The reasons for this unprecedented growth can be attributed to high growth of retail credit in emerging markets, move towards more responsible lending following various consumer loan crises, increased awareness of credit reporting, falling start up costs for credit bureaus with decreasing costs of database

management software and growing competition in banking and finance sector. The recent 2007–2008 financial crisis, has given greater impetus for broad reform efforts at the national level as authorities in developed and emerging markets realize the need for strengthening and improving financial infrastructure, including credit reporting systems. Many reformed oriented governments are supporting the development of credit reporting services in conjunction with the broader reforms for greater access to finance and promotion of responsible lending practices. According to the World Bank report, approximately 134 countries out of 183 countries surveyed had either a credit bureau or credit registry at the end of 2012.

- In our SAARC region, the countries like India, Pakistan Sri Lanka, Maldives & Bhutan have already established the credit bureaus systems manufactured by world's leading vendors. All these countries have been strongly supported by their governments who have helped them develop the strong regulatory framework for their credit bureau operations. Many credit bureaus have their own Statutory Act which has empowered them with all the rights and responsibilities to operate the service effectively.
- The establishment of new commercial bureau and microfinance bureau will put Nepal in a same league as that of other SAARC countries in terms of quality of system and service.

But we still lag behind in having a strong regulatory framework that addresses the issues such as rights and responsibilities of borrowers and lenders, collection of data from 3rd party sources, penalties for no or late data submissions or poor quality of submissions etc. Unless the Kendra is empowered with the required legal provisions, it can not be strong and effective in delivering its services.

- As per the “Doing Business” report, the credit information index of Nepal which measures the rules and practices affecting the coverage, scope, accessibility of credit information available through the credit bureau is only 3 as compared to 5 of other SAARC countries (in scale of 0 to 6). This low index is because of the high collection threshold, lack of borrower's right to access the credit report and no provision for collecting the data from utilities and other 3rd party sources. Thus there is the need to address these three issues on an immediate basis to increase the credit information index and be at par with the other bureaus of the region.
- Since the discussions to set up the SAARC Credit Bureau is still going on, the new system will enable Kendra to have smooth interface and integration with the SAARC Central Credit Bureau System that will be designed in spoke & wheel architecture and will be located in any of the SAARC countries.

BUREAU'S RELATIONS WITH ITS STAKEHOLDERS

- Kendra has always maintained good relations with its stakeholders and aims to improve its relations with them all the time. Kendra holds a regular forum to brief the member banks and financial institutions on operations of the bureau and holds briefing sessions to update them about the new developments and state of the business. It regularly imparts training on the credit bureau technology and service to make them capable of using the service efficiently and effectively.
- Kendra maintains an effective communication with its shareholders which enables them to understand the bureau's business, financial condition, and operating performance and trends. Apart from our annual reports and accounts, we maintain a rich website (with suggestion

boxes) that provides information on wide range of issues for all stakeholders. The Kendra is closely associated with Nepal Bankers Association, Nepal Development Banks Association, Nepal Finance Companies Association, Microfinance Development Banks Association, Ministry of Finance and other government agencies and has maintained good relations with all of them.

CORPORATE SOCIAL RESPONSIBILITY

- In spite of being a small company with small turnover and profit, Kendra is equally concerned about social and environment issues and has integrated them in its business operations. In the period under review, Kendra donated computers, computer tables, office tables, printers and other accessories to the Sagarmatha Pragya Prasthan (Gurukul) located in Sonapur, Lahan. Many children from the poor and lower cast families are admitted and educated in the Gurukul where they get the access of the good education free of cost.
- 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. We have turned our company virtually into a paperless organization with bare minimum consumption of paper through automating all our operating activities and using energy efficient equipment thus saving time, cost and clean environment.



Mr. Omkar Lal Shrestha of Kendra handing over the keys of Computer Room to Mr. Panch Lal Mahato of Gurukul

FINANCIAL INDICATORS

Statement of Financial Position	069/070	068/069
CAPITAL & LIABILITIES		
Share Capital	103,408,000	86,172,600
Reserve & Surplus	133,501,593	82,995,407
Loan Funds		
Trade & Other Payables	6,614,082	7,599,791
Provisions	10,187,650	7,546,701
Total Liabilities	253,711,326	184,314,499
ASSETS		
Cash & Bank Balance	16,730,510	18,654,419
Investments	217,498,976	147,117,786
Prepaid, Advances, Loans and Deposits	2,749,039	2,061,117
Trade & Other Receivables	9,252,582	7,920,713
Fixed Assets	6,557,550	7,882,744
Deferred Tax Assets	922,688	677,720
Total Assets	253,711,326	184,314,499

Income Statement	069/070	068/069
INCOME		
Service Charge	112,271,008	82,933,858
Interest	18,375,895	15,444,374
Registration Charge	4,000	4,000
Other Income	50,000	1,191,137
Total	130,700,903	99,573,369
EXPENDITURE		
Operating Expenses	16,422,452	13,580,873
Non Operating Expenses	374,749	226,812
Depreciation	1,839,552	2,751,976
Provision for Bonus	10,187,650	7,546,701
Profit before Tax (PBT)	101,876,500	75,467,007
Provision for Taxation	25,517,655	19,168,612
Current Tax Expenses	25,762,603	18,980,230
Deferred Tax Expenses	(244,948)	188,382
Net Profit Transferred to Accumulated Profit	76,358,846	56,298,396

FINANCIAL PERFORMANCE REVIEW

- Paid up share capital was increased to Rs. 103,408,000 as the Company issued 20% bonus share to its shareholders as per the decision reached by the 8th Annual General Meeting of its shareholders held on 20th Poush, 2069. Reserve & Surplus which included the capital reserve, general reserve, accumulated profit and deferred tax reserve increased to Rs. 133,501,593. Company transferred 20% of the net profit amounting to Rs. 15,271,769 to General Reserve this year. Company has the Capital Reserve base of Rs. 7,299,257 which has remain unchanged. With the creation of taxable temporary differences on assets, deferred tax reserve of Rs. 922,668 has been created.

Particulars	069/070	068/069	Increase	% Increase
CAPITAL & LIABILITIES				
Paid up Share Capital	103,408,000	86,172,600	17,235,400	20%
Reserve & Surplus	133,501,593	82,995,407	50,506,186	61%
Total	236,909,593	169,168,007	67,741,586	40%

- Company's fixed assets include software applications, hardware, office equipments, furniture, vehicles and assets under construction or work in progress. The fixed assets of the company are stated at cost less accumulated depreciation. The assets worth Rs. 514,355 were added during the period on the opening written down value of Rs. 7,882,748 giving rise to the current years' depreciation of Rs. 1,839,552 and fixed asset less depreciation of Rs. 6,557,550.
- Investments in the form of interest bearing long term and short term deposits at different banks and financial institutions amounted to

Rs. 217,498,976 in 069/070 as compared to Rs. 147,117,786 in 068/069. Investments were made in various categories of financial institutions that included commercial banks, development banks and finance companies. In spite of the lower interest rates prevailing during the period, the company maintained a balanced portfolio of short term and long term investments giving rise to the average rate of return of 9.5% on portfolio.

Company, in the year 2011 (068/069), made the investments of Rs. 1 million in ICRA Nepal which is the subsidiary of ICRA Limited (ICRA) of India

and is the first credit rating agency in the country. It was incorporated on November 11, 2011 and granted license by the Securities Board of Nepal (SEBON) on October 3, 2012. Company holds 5% stake in ICRA Nepal.

Gratuity Fund of the staffs has been invested in Citizens Investments Trust which has been increased by 57% this year because of the increase in base salary of the staffs.

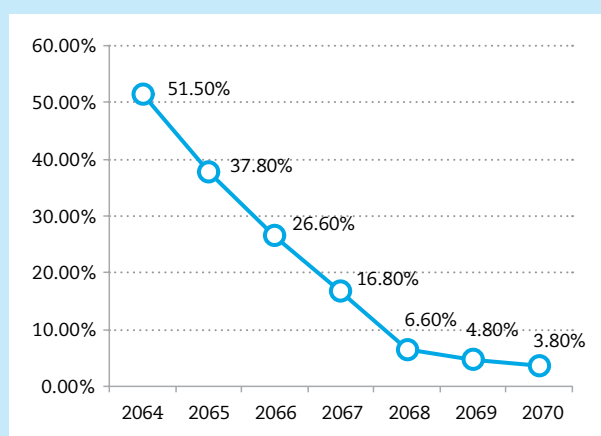
- Trade and Account Receivable which includes Service Charge Receivable and Interest Accrued have increased by 6.2% and 27.7% respectively in the year 069/070.

Particulars	069/070	068/069	Increase	% Increase
TRADE & ACCOUNT RECEIVABLES				
Service Charge	4,250,910	4,003,328	247,582	6.2%
Interest Accrued	5,001,672	3,917,385	1,084,287	27.7%

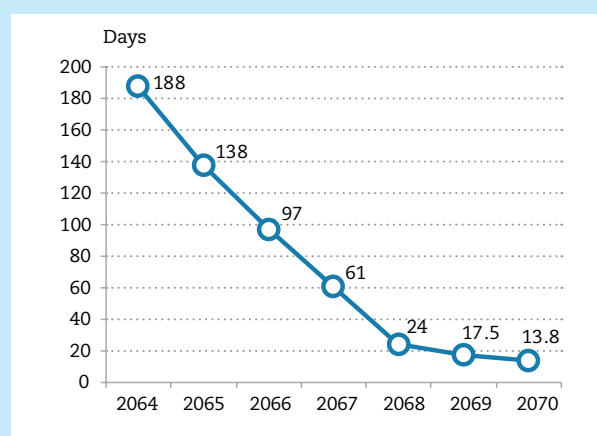
The service charge receivable against the total invoice bills decreased from 4.8% in 068/069 to 3.8% in 069/070. As a matter of fact, company has been making remarkable progress in service charge receivable which has been decreasing each year since last many years because of the company's tight credit policy and effective bill collection mechanisms. Average Collection Period of the Invoice Bills has been reduced accordingly from 188 days in 2064 to 13.8 days 2067.

	065/066	066/067	067/068	068/69	069/070
Total Invoice	29,554,400	42,167,870	64,378,968	8,2933,858	112,271,008
Service Charge Receivable	7,850,600	7,083,868	4,265,269	4,003,328	4,250,910
% Receivable	26.6%	16.8%	6.6%	4.8%	3.8%

ACCOUNT RECEIVABLE



AVERAGE COLLECTION PERIOD

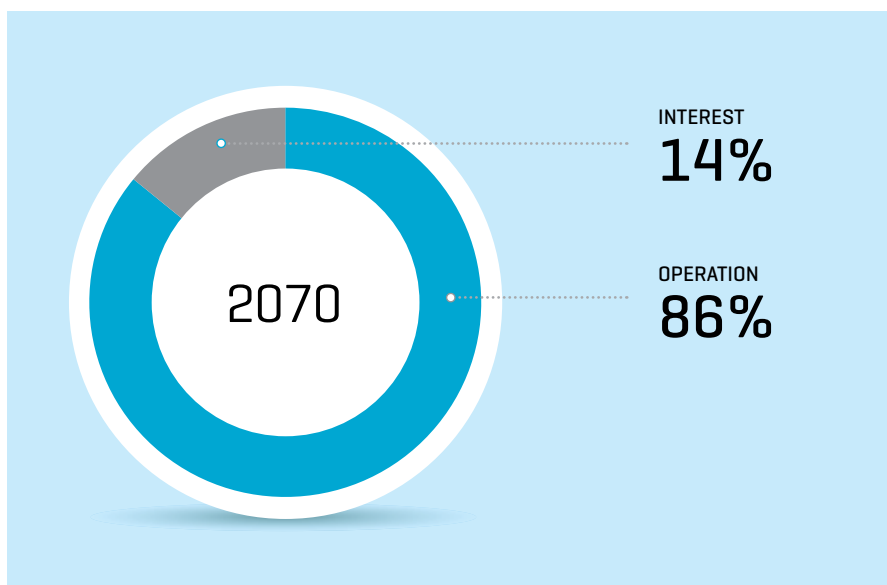


- Company is very focused on not keeping any cash in idle and investing it as soon as possible. Company maintains two accounts; one is the deposit account for collecting its revenue from banks and financial institutions and other operating account to maintain certain level of cash for its regular operating expenses. Company ensures that all the monthly payments of its invoice bills received from banks and financial institutions are immediately invested. Only some portion of cash required for regular expenses are maintained in Operations Account. Deposit Account has been reduced by 65% whereas Operating Account has been reduced by 18% this year.
- Prepaid, Advances, Loans and Deposits increased by 33.4% because of the increment of Advance Tax deposit by Rs. 858,112. Loans and Advances have been reduced by 62% because of the settlement of loans by many staffs this year. Similarly, there have been corresponding decrements in Trade and Other Payables and Provisions.

Particulars	069/070	068/069	Increase	% Increase
Prepaid, Advances, Loans & Deposits	2,749,039	2,061,117	687,922	33.4%
Trade & Other Payables	6,614,082	7,599,791	(985,709)	(13%)
Provisions	10,187,650	16,163,961	(5,976,311)	(37%)

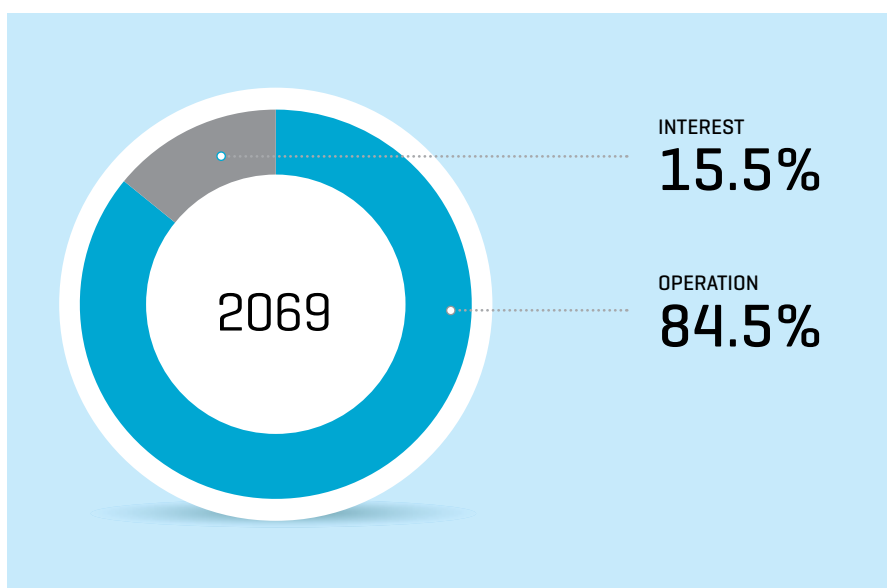
- Turnover of the company increased by 31.3% mainly due to the increase in service charges and interest income. The revenue from the service charge, the core revenue generating activity of the company, increased by 35.4% where as the interest income from the investments increased by 19% leading to the increase in operating revenue by 31.3%. There were only four new members registered in the bureau during the period resulting in the revenue of Rs. 4,000 from the registration charge. Other income of Rs. 50,000 was from the sale of the tender bid documents called for the procurement of MF Bureau system.

S. No.	Particulars	069/070	068/069	Changes	
INCOME					
1	Service Charge	112,271,008	82,933,858	29,337,150	35.4%
2	Interest	18,375,895	15,444,374	2,931,521	19%
3	Registration Charge	4,000	4,000	0	
4	Other Income	50,000	1,191,137	(1,141,137)	(96%)
Total		130,700,903	99,573,369	31,127,534	31.3%



The revenue from the Service Charge & others contributed 86% where as the revenue from Interest contributed 14% to the total revenue of the company.

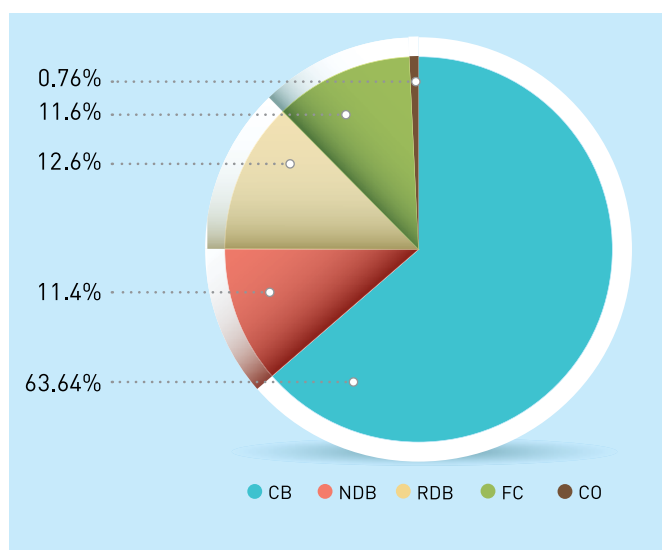
The revenue from the service charge increased because of the increase in number of credit reports generated which went up by 40% this year. The amount of investments in deposit accounts of various banks and financial institutions increased by 48% leading to the increase in interest income by 19%. But the average rate of return on the investments declined to 9.4% this year as compared to 12% in 068/069 because of lower interest rates prevailing during the period. The company has opened 64 fixed deposit accounts in 29 different financial institutions.



- The income from the commercial banks contributed maximum 63.64% to the service charge revenue followed by the incomes from the regional development banks 12.6% and the finance companies 11.6%.

S. No.	Names	Revenue Generated	% of the Total
1.	Commercial Banks (CB)	71,452,126	63.64%
2.	National Development Banks (NDB)	12,777,853	11.4%
3.	Regional Development Banks (RDB)	14,133,030	12.6%
4.	Finance Companies (FC)	13,050,574	11.6%
5.	Co-operatives & Others (CO)	857,425	0.76%
Total		112,271,008	100%

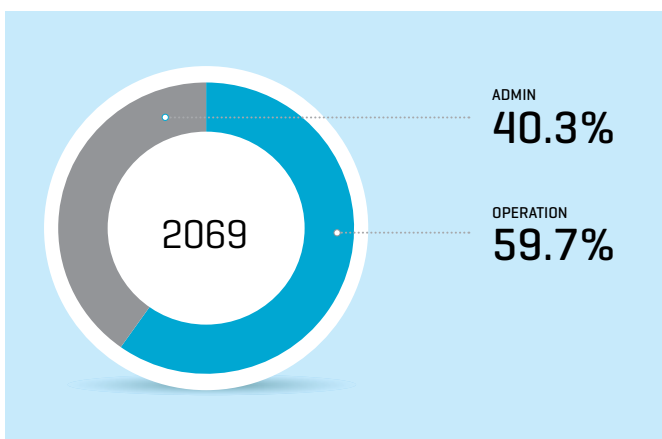
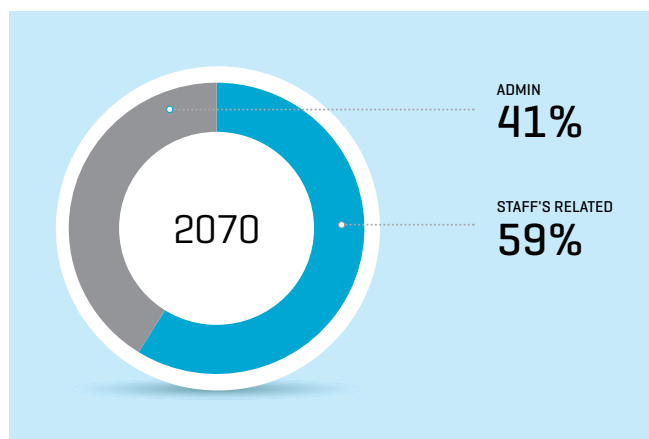
“Co-operatives and Others” include the service charges from co-operative (Rs. 406,050) and from the individual borrowers (Rs. 451,375) who request for their blacklist report from the company for their personal use.



- The total operating expense increased by nearly 21% mainly due to the payment of Rs. 1.5 million to International Finance Corporation (IFC). The major expense item was Salary and Allowance which increased by 19% where as the administrative expenses increased by 23.8% giving rise to

the total increment of Rs. 2,841,579 in operating expenses. Without the IFC expense, the administrative expense was quite under control and decreased by 4%. The average expense utilization was 83.4% of the budgeted amount and no expense component exceeded the budgeted figure.

S. No.	Particulars	069/070	068/069	Changes	
...EXPENDITURE					
1	Operating Expenses	16,422,452	13,580,873	2,841,579	21%
1a.	Salary, Allowance and other Staff related Expenses	9,655,010	8,113,893	1,541,117	19%
1b.	Administrative Expenses	6,767,442	5,466,980	1,300,462	23.8%
	Administrative Expenses without the Payment to IFC	5,246,442	5,466,980	(220,538)	(4%)



- The company incurred the non-operating expense of Rs. 374,749 from the exchange loss of Rs. 299,474 from the refund of the bid security and the further loss of Rs. 75,275 from the write off of the service charges of two member financial institutions who ceased their operations. (Mercantile Finance Company Limited & Madhyamanchal Gramin Bikas Bank Limited).

S. No.	Particulars	069/070	068/069	Changes	
...EXPENDITURE					
2.	Non Operating Expenses	374,749	226,812	147,937	53.3%
2a.	Waive off of Loan and Advance	-	226,812	(226,812)	(100%)
2b.	Exchange Loss	299,474	-	299,474	100%
2c.	Write Off	75,275	-	75,275	100%

- The depreciation expenses decreased by 33% as compared to previous year. The new assets worth Rs. 514,355 were added in the previous year's written down value of Rs. 7,882,744. Some assets which were many years old, non-usable and with total book value of Rs. 179,122 were disposed off.

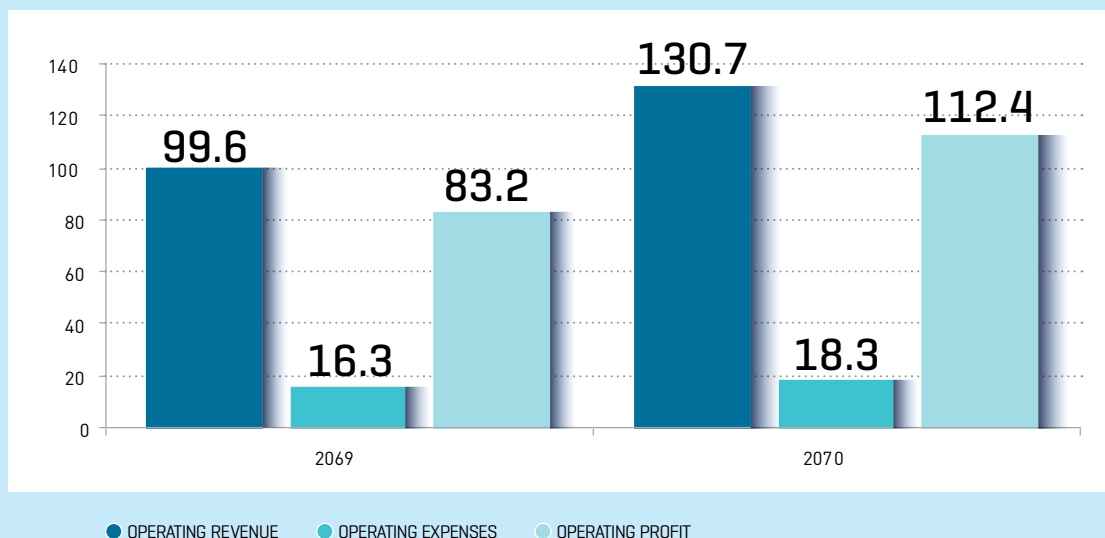
S. No.	Particulars	069/070	068/069	Changes	
...EXPENDITURE					
3.	Depreciation on Fixed Assets	1,839,552	2,751,976	(912,424)	(33%)

The fixed assets of the company are stated at cost less accumulated depreciation. Depreciation is charged using following rates and methods.

Nature of Assets	Depreciation Rate	Method of calculation
Building	5%	Written Down Value (WDV)
Computers, Furniture & Fixtures and Office Equipment	25%	WDV
Vehicles	20%	WDV
Plant and Machinery	15%	WDV
Other Intangible Assets	20%	STL (Straight Line)

- Company increased its Operating Profit by Rs. 29.2 million i.e. 35% to Rs. 112.4 million from the previous year's figure of Rs. 83.2 million.

Particulars	069/070	068/069	Changes	
Operating Revenue	130,700,903	99,573,369	31,127,534	31.3%
Operating Expenses including Depreciation	18,262,004	16,332,849	1,929,155	11.8%
Operating Profit	112,438,899	83,240,520	29,198,379	35%



- 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. Because of the increase in operating profit, the bonus amount increased by 35% from Rs. 7,546,007 in 068/069 to Rs. 10,187,650 in 069/070.

S. No.	Particulars	069/ 070	068/069	Changes	
...EXPENDITURE					
4.	Provision for Bonus	1,0187,650	7,546,007	2,641,643	35%

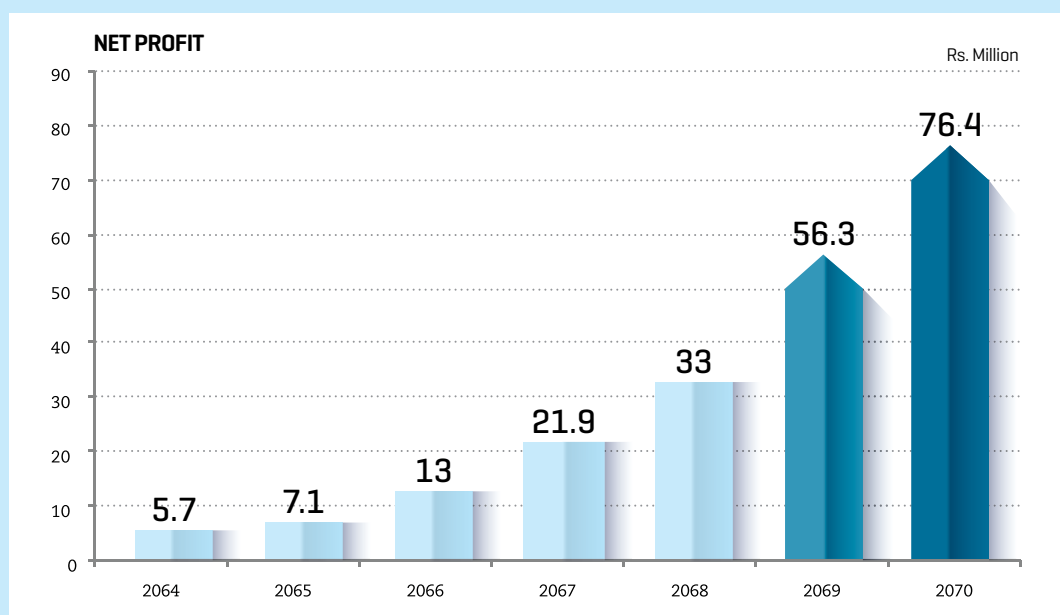
- The company made the pretax profit of Rs. 101,876,500 this year. The provision for Income Tax as per Income Tax Act 2058 for the year amounted to Rs. 25,762,603 which was adjusted against the total tax deposit of Rs. 27,543,943 made during the year. Thus the excess tax deposit of Rs. 1,781,341 was shown as Advance Tax in financial statements.

S. No.	Particulars	069/070	068/069	Changes	
.... EXPENDITURE					
5.	Provision for Taxation (with Deferred Tax)	25,517,655	19,168,612	6,349,043	33%
5a.	Current Tax Expenses	25,762,603	18,980,230		
5b.	Deferred Tax Expenses	(244,948)	188,382		
Net Profit		76,358,846	56,298,396	20,060,450	35.6%

- Taxable temporary difference of Rs.3,690,672 on assets resulted in the deferred tax asset of Rs.922,668 this year whereas it was NRs. 677,720 last year. The increase in deferred tax assets of Rs.244,948 during the year has been adjusted in the Balance Sheet and incorporated in the Income Statement accordingly.

Particulars	Deductible Temporary Differences (NRs.)	Taxable Temporary Differences (NRs.)	Net (NRs.)
Fixed Assets	183,049	-	183,049
Retirement Fund (CIT)	1,598,976	-	1,598,976
Leave Fund	1,908,647	-	1,908,647
Total Temporary Difference	3,690,672	-	3,690,672
Deferred Tax Assets (Liability)	922,668	-	922,668

- The company made the net profit of Rs. 76,358,846 this year which is an increment of 35.6% from previous year's profit.



INTERNAL CONTROL SYSTEM

- Kendra's internal control system is very effective and is aimed at achieving following goals; safeguard company's assets; ensure the reliability and integrity of financial information; ensure compliance; promote efficient and effective operations; and accomplish the goals and objectives of the company.

Kendra's framework for internal control system consists of regular monitoring and reviewing of activities; regularly communicating updates of policies and procedures to the staffs through emails, staff meetings; and periodically assessing risks to protect company's assets.

- In order to guarantee adequacy and effectiveness of operation of the Internal Control System, 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 renowned Chartered Accounting firm BRS Neupane & Co., an independent correspondent firm to Deloitte

Touche Tohmatsu, having its principle office in Kumari Marg, Naxal. The annual audit at the end of fiscal year is done by the company's statutory auditor M/s CSC and Co. which is one of the largest firms of accounting and consulting in Nepal and is associated with internationally renowned firm "Price Waterhouse Coopers".

- The audit committee comprises of highly competent team of professionals who have many years of experience in banking and finance sector of the country. The members of the Audit Committee regularly have formal and informal discussions with internal auditors in connection with the results of reviews undertaken by them and seek clarifications from them on any areas of reviews. The members of the internal audit have direct access to management and the audit committee and regularly bring many pertinent issues or problems for the discussions with them.

REPORT OF THE AUDIT COMMITTEE

During the period under review, the Audit Committee fulfilled all its duties and responsibilities generally outlined in Company Act 2064 and the company's Aarthik Prashashan Biniyamawali 2064. The audit committee met four times during the year to discharge its duties and responsibilities.

The Committee reviewed the Financial Reporting System in place to ensure the reliability of information to the stakeholders and strict adherence & compliance to the Accounting policies and Nepal Accounting Standards. The Committee regularly examined the quarterly financial statements of the Bureau before submitting to the Board and major decisions taken by the Bureau to ensure the strength of the Internal Control System in place. The Bureau's high risk areas were regularly reviewed by the Committee to avoid/minimize business risks. Specially, the committee among other actions:

- reviewed and discussed with management and the internal auditor Kendra's quarterly earnings, consolidated financial statements, and any related periodic reports.
- reviewed with management, the internal auditor, and the independent auditor management's assessment of the effectiveness of the Kendra's internal control over financial reporting
- reviewed with the independent auditor, management, and the internal auditor, as appropriate, the audit scopes and plans of both the independent auditor and internal auditor.
- inquired about significant risks, reviewed Kendra's policies for risk assessment and risk management, and assessed the steps management has taken to control these risks, and

After the review of the financial statements for the year ended Asar 31, 2070, 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 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.

COMMENTS & OBSERVATION OF THE BOARD ON THE AUDIT COMMITTEE'S 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 presented in the Audit Report submitted by the Audit Committee. 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 risks, performance, its position and prospects. Board thus approved the consolidated financial statement of the company and gave its approval for its inclusion into the Annual Report 069/070 to be presented to the shareholders in the forthcoming 9th 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 maintaining the account books correct and transparent and introducing the best practices in internal control system and risk management.

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 070/071. Board will propose the name of Statutory Auditor in the Annual General Meeting for its ratification.

STATEMENT OF THE VALUE ADDED AND ITS DISTRIBUTION

CONTRIBUTION TO THE NATIONAL EXCHEQUER AND TO THE ECONOMY

The company paid Rs. 25,762,603 as the corporate tax to the Government of Nepal in the year 069/070. Kendra also helped to collect Rs. 146 crores from the serious defaulters (from blacklist borrowers) in the year thus helping the banks and financial institutions reduce their non performing loans.

SHAREHOLDERS AS DIVIDEND

Company has been disbursing dividends to its shareholders since last many years. In the fiscal year 068/069, Company disbursed 10% cash dividend and 20% bonus share to its shareholders. This year also Board proposes to disburse 15% cash dividend to its shareholders from the earnings of fiscal year 069/070.

EMPLOYEES SALARY

The total expense incurred by the company in the form of salary, allowance and other facilities to the staffs amounted

to Rs. 9,655,010. CEO was paid the total remuneration package of Rs. 3,150,000 and the remaining staffs were paid Rs. 6,505,010. CEO is also provided with vehicle and all its operating costs.

EMPLOYEES BONUS

Company has allocated Rs. 10,187,650 as the provision for bonus for the year 069/070 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. 76,358,846 to its Accumulated Profit account from the earnings of the fiscal year 069/070.

ADDITIONAL DETAILS

LITIGATION CASES

Out of the five court cases carried forward from the year 068/069, seven new cases were registered and 2 cases were settled by the court during the period. Thus there were only four cases pending at the end of fiscal year 068/069 which will be carried forward in the year 069/070.

NUMBER OF REGISTERED MEMBERS

Categories of Financial Institutions	Registered Members Till 069/070	Registered Members Till 068/069
Commercial Banks	32	32
National Development Banks	19	19
Regional Development Banks	71	70
Finance Companies	64	66
Others (Rural Development Banks, Microfinance Institutions)	04	04
Total Registered Numbers	190	191

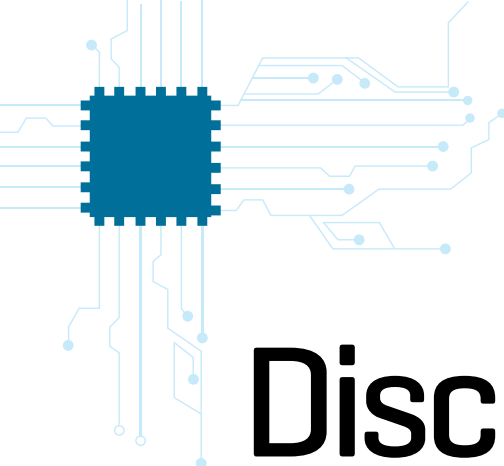
There were few mergers of the development banks and finance companies in the year 069/070 which brought down the number of member institutions from 191 to 190. Three finance institutions namely Alpico Everest Finance, Butwal Finance and CMB Finance merged into one to become Synergy Finance Ltd.

In the regional development banks level, Arniko Development Bank & Soorya Development Bank merged to become Arniko Development Bank, Shine Development Bank & Resunga

Development Bank merged to become Shine Development Bank where as Professional Development Bank and Diyalo Development Bank merged to become Professional Diyalo Development Bank. Thus the number of member institutions reduced by five because of mergers where as four new members were registered during the period making the total number of institutions to be 190.

PROPOSAL FOR THE ISSUE OF CASH DIVIDEND

As per the decision reached by the 76th 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 069/070. This will incur the total cash out flow of Rs. 15,511,200 from the company's reserves..



Disclosure of Information

AS PER COMPANY'S ACT

- a. Review of the transactions of the previous year: *Disclosed in the Board of Directors Report.*
- b. Impacts, if any, caused on the transactions of the company from national and international situation: *No material impact observed in the business*
- c. Achievements in the current year as at the date of report and opinions of the board of directors on matters to be done in the future: *Disclosed in the Board of Directors Report*
- d. Industrial or professional relations of the company: *Disclosed in the Board of Directors Report*
- e. Alterations in the board of directors and the reasons therefore: *Disclosed in the Board of Directors Report*
- f. Major things affecting the transactions: *Detailed in the Board of Director's Report*
- g. If there are any remarks in the audit report, the comments of the board of directors on such remarks: *None*
- h. Amount recommended for payment by way of dividend: *Disclosed in the Board of Directors Report*
- i. In the event of forfeiture of shares, details regarding the number of forfeited shares, face value of such shares, total amount received by the company for such shares prior to the forfeiture thereof, proceeds of sale of such shares after the forfeiture thereof, and refund of amount, if any, made for such forfeited shares; *The company has not forfeited any shares*
- j. Major transactions completed by the company and its subsidiary company in the financial year and any material changes taken place in the transactions of the company during that period: *Disclosed in the Board of Directors Report; No subsidiary*
- k. Disclosures made by the substantial shareholders of the company to the company in the financial year: *None*
- l. Details of shareholding taken by the directors and officers of the company in the year and, in the event of their involvement in share transaction of the company, details of information received by the company from them in that respect: *None*
- m. Details of disclosures made about the personal interest of any director and his/her close relative in any agreements related with the company during the year: *None*
- n. In the event that the company has bought its own shares (buy-back), the reasons for such buy-back number and face value of such shares, and amount paid by the company for such buy-back: *None*
- o. Whether there is an internal control system in place or not; and details of such system, if it is in place: *Disclosed in the Board of Directors Report*
- p. Details of total management expenses during the financial year: *Disclosed in the Board of Directors Report*
- q. Name-list of the members of audit committee, remuneration, allowances and facilities received by them,

details of the functions performed by that committee, and details of suggestions, if any, made by that committee: *Disclosed in the Board of Directors Report*

- r. Amount, if any, outstanding and payable to the company by any director, managing director ,chief executive, substantial shareholder or his/her close relative or by any firm company, corporate body in which he/she is involved: *None*
- s. Amount of remuneration, allowances and faculties paid to the director,

managing director, chief executive and officer: *Disclosed in the Board of Directors Report*

- t. Amount of dividends remaining unclaimed by the shareholders: *None*
- u. Details of sale and purchase of properties pursuant to Section 141 of Company Act: *None*
- v. Details of transactions carried on between the associated companies

pursuant to Section 175 of the Company Act: *None*

- w. Any other matters required to be set out in the report of board of directors under this Act and the prevailing law: *None*



STATEMENT OF

Director's Responsibility

The provisions of the Company Act 2006 requires Board to ensure that the Bureau keeps proper books of accounts of all the transactions and prepare financial statements that give a true and fair view of the state of the affairs of the Bureau and of the profit and loss for the year. The Directors are also required to ensure that the financial statements have been prepared and presented in accordance with the Nepal Accounting Standards and Company Act 2006.

They are also responsible for taking reasonable measures to safeguard the assets of the Bureau, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors confirm that to the best of their knowledge and belief, all taxes and levies payable by the Bureau and all contributions and taxes payable on behalf of and in respect of the employees of the Bureau have been paid or provided for as at the reporting date.

The Directors are of the view that, these financial statements have been prepared under the generally accepted accounting principles and in accordance with the Nepal Accounting Standards as laid down by the Institute of Chartered Accountants of Nepal (ICAN).

The Directors endeavor to ensure that the Bureau maintains sufficient records to be able to disclose with reasonable accuracy, the financial position of the Bureau and to be able to ensure that the financial statements of the Bureau meet with the requirements of the Nepal Accounting Standards and the Nepal Auditing Standards.

The Directors have reasonable expectation, after making enquiries and following a review of the Bureau's budget for the ensuing year including cash flows and borrowing facilities, that the Bureau has adequate resources to continue its operational existence for the foreseeable future, and therefore have continued to adopt the going concern basis in preparing the Accounts.

Messrs. CSC & Co., Chartered Accountants, the statutory auditor of the Bureau have examined the financial statements made available by the Board of Directors together with all relevant financial records, related data, minutes of the Directors meeting and express their opinion in their report included herewith in this report.

By Order of the Board
Karja Suchana Kendra Limited (Bureau)

Company Secretary



Annual Report of the Board of Directors

ON THE AFFAIRS OF THE KENDRA

The Directors are pleased to submit their report together with the Audited Accounts of the Kendra for the year ended 31st Asar, 2070, to be presented at the 9th Annual General Meeting of the Kendra.

REVIEW OF THE YEAR

The Chairman's review on *page 28* describes the affairs of the Bureau and mentions important events that occurred during the year, and up to the date of this report. This report together with the audited financial statements reflects the state of the affairs of the Kendra.

PRINCIPAL ACTIVITIES / CORE BUSINESS

The main activity of the Kendra is the business of collection and collation of trade, credit and financial information on borrowers and prospective borrowers of lending institutions.

FINANCIAL STATEMENTS

The financial statements prepared in compliance with the requirements of Clause 109 of the Company Act are given on *page 77 to 86* in this annual report.

INDEPENDENT AUDITOR'S REPORT

The Auditor's Report on the financial statements is given on *page 75* in this report.

ACCOUNTING POLICIES

The Accounting Policies adopted in preparation of the financial statements is given on *pages 87 to 88*. There were no changes in Accounting Policies adopted by the Kendra during the year under review.

FINANCIAL RESULTS/PROFIT AND APPROPRIATIONS

The Income Statement is set out on *page 78*

PROPERTY, PLANT & EQUIPMENT

Information relating to movement in Property, Plant & Equipment during the year is disclosed in financial statement on *page 83*

INVESTMENTS

Details of long-term Investments held by the Company are given in financial statements on *page 84*

DIRECTORS' RESPONSIBILITIES

The Statement of the Directors' Responsibilities is given on *page 68* of this report.

DIVIDEND

The Board of Directors declared the cash dividend of 15% for the financial year ended 31st Asar, 2070

RESERVES

The Reserves and Accumulated Profits as at 31st Asar, 2070 amount to Rs. 133,501,593 as against Rs. 82,995,407 as at 31st Asar, 2069. The breakup and the movement are shown in the Statement of Changes in Equity in the financial statements.

STATED CAPITAL

The share capital of the Kendra is Rs. 103,408,000 as at 31st Asar, 2070. The details are given in financial statement on *page 82*

POST BALANCE SHEET EVENTS

There were no material events occurring after the Balance Sheet date that require adjustments, or disclosure in the Financial Statements.

STATUTORY PAYMENTS

The declaration relating to Statutory Payments is made in the Statement of Directors' Responsibilities on **page 68**

BOARD COMMITTEES

Audit Committee

The Report of the Audit Committee is given on **page 40**

RECRUITMENT COMMITTEE

The report of the recruitment committee is given on **page 41**

FINANCIAL HIGHLIGHTS

The earnings per share, net assets per share are given in Financial Highlights on **page 8** of this Annual Report.

DIRECTORS

The Directors of the Bureau and their brief profiles are given on **page 26** in this report. During the year under review the Board met on eight occasions.

AUDITOR

The resolution to appoint the new Statutory Auditor, Messrs. M.B. Shrestha & Company Chartered Accountants, who have expressed their willingness to work for Kendra, will be proposed at the Annual General Meeting.

As far as the Directors are aware, the Auditors do not have any relationship or interest in the Bureau. The Audit Committee reviews the appointment of

the Auditors, its effectiveness and its relationship with the Bureau including the level of audit and non-audit fees paid to the Auditor. Details on the work of the Audit Committee are set out under Audit committee report.

NOTICE OF MEETING

The Annual Shareholders meeting of the Karja Suchana Kendra Limited will be held at Hotel del' Annapurna, Kathmandu on Poush 26, 2070 at 11 AM.

For and on behalf of the Board.

.....
Company Secretary

LIST OF PROMOTER SHAREHOLDERS AND THEIR SHARES

S. No.	Name of Banks and Financial Institutions	Total Shares
1	Nepal Rastra Bank	103,680
COMMERCIAL BANKS		
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	13,724
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	Kist Bank	8,208
Total Commercial Banks		692,719

S. No.	Name of Banks and Financial Institutions	Total Shares
DEVELOPMENT BANKS		
1	N.I.D.C. Development Bank	11,664
2	Nepal Development Bank	11,664
3	Yeti Development Bank	32,470
4	Ace Development Bank	31,600
5	Kailash Bikas Bank	2,800
6	Business Universal Development Bank	8,126
7	Vibor Bikas Bank	1,050
8	Apex Bikas Bank	2,800
Total Development Banks		102,174

FINANCE COMPANIES		
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	Peoples Finance	2,800
6	Himalaya Finance & Savings	1,050
7	United Finance	2,800
8	Union Finance	2,800
9	Srijana Finance	4,549
10	Kathmandu Finance	7,984
11	Prudential Finance	2,800
12	Nepal Housing & Merchant Finance	1,050
13	Paschimanchal Finance Company	2,800
14	Samjhana Finance	2,800
15	Goodwill Finance	6,134
16	Shree Investment & Finance	8,916

S. No.	Name of Banks and Financial Institutions	Total Shares
17	Siddhartha Finance	13,168
18	International Leasing & Finance Company	3,590
19	Mahalaxmi Finance	2,800
20	Progressive Finance	2,800
21	General Finance	2,800
22	Nava Durga Finance	2,800
23	Central Finance	2,800
24	Premier Finance	2,800
25	Multipurpose Saving Co-operative	2,800
26	Synergy Finance	20,632
27	Om Finance	1,050
28	World Merchant Banking & Finance	2,800
29	Capital Merchant Banking & Finance	1,050
30	Crystal Finance	2,800
31	Ghuweshwori Merchant Banking & Finance	2,800
32	Patan Finance	1,050
33	Lalitpur Finance	2,800
34	Nepal Finance	4,385
35	Lumbini Finance & Leasing	1,050
Total Finance Companies		135,507

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To the Shareholders of Karja Suchana Kendra Limited

Financial statements and management's responsibility

We have audited the accompanying financial statements of Karja Suchana Kendra Limited which comprise the balance sheet as of July 15, 2013 (Ashadh 31, 2070) and the income statement, statement of changes in equity and cash flow statement for the year then ended and significant accounting policies and other explanatory notes. These financial statements are the responsibility of the company's management.

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 Nepal Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Report on the requirements of Company Act 2063

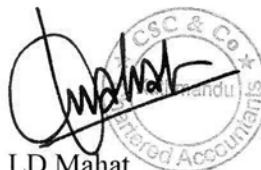
We have obtained satisfactory information and explanations asked for, which to the best of our knowledge and belief were necessary for the purpose of our audit. The Balance Sheet, the Income Statement and Cash Flow Statement have been prepared in accordance with the provisions of Company Act 2063 and conform to the books of accounts of the company and the books of accounts and records are properly maintained in accordance with the prevailing laws.

During the course of our audit, we did not come across the cases where the Board of Directors or the representative or any employee of the company has acted deliberately contrary to the provisions of the law or caused loss or damage to the company or misappropriated funds of the company, nor have we been informed of any such case by the management.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of July 15, 2013 (Ashadh 31, 2070), and its financial performance and cash flows for the year then ended in accordance with Nepal Accounting Standards and Company Act 2063.

Date: 23 Mangsir, 2070
Place: Kathmandu



LD Mahat
Partner
CSC & Co.
Chartered Accountants

Balance Sheet

As on Ashad 31, 2070 (Corresponding to July 15, 2013)

Particulars	Schedule	Current Year (NRs.)	Previous Year (NRs.)
CAPITAL AND LIABILITIES			
Share Capital			
Paid up Share Capital	1	103,408,000	86,172,600
Reserve and Surplus			
Reserve Fund and Accumulated Profit	2	117,990,388	74,378,147
Loan Funds			
Secured Loans	3	-	-
Total		221,398,388	160,550,747
ASSETS			
Fixed Assets less Depreciation	4	6,557,550	7,882,744
Investments	5	217,498,976	147,117,786
Current Assets (A)			
Trade and Other Receivable	6	9,252,582	7,920,713
Cash and Bank Balances	7	16,730,510	18,654,419
Pre-paid, Advances, Loans and Deposits	8	2,749,039	2,061,117
Total (A)		28,732,131	28,636,249
Current Liabilities and Provisions (B)			
Trade and Other Payables	9	6,614,082	7,599,791
Provisions	10	25,698,850	16,163,961
Total (B)		32,312,932	23,763,752
Net Current Assets (A - B)		(3,580,801)	4,872,497
Deferred Tax Assets		922,663	677,720
Total		221,398,388	160,550,747

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 Officer

Tej Bahadur Budhathoki
Chairman

Ajay Shrestha
Director

CA L. D. Mahat
Partner
CSC & Co.
Chartered Accountants

Jyoti Prakash Pandey
Director

Tulasi Ram Gautam
Director

Purna Bahadur Khatri
Director

Bhusan Rana
Director

Rajendra Man Shakya
Director

Date: Mangsir 23, 2070
Place: Kathmandu, Nepal

Income Statement

For the period from Shrawan 01, 2069 to Ashad 31, 2070
(Corresponding period from July 16, 2012 to July 15, 2013)

Particulars	Schedule	Current Year (NRs.)	Previous Year (NRs.)
A. INCOME :			
1. Service Charge		112,271,008	82,933,858
2. Interest		18,375,895	15,444,374
3. Registration Charge		4,000	4,000
4. Other Income		50,000	1,191,137
Total		130,700,903	99,573,369
B. EXPENDITURE :			
1. Operating Expenses	11	16,422,452	13,580,873
2. Non Operating Expenses	12	374,749	226,812
3. Depreciation on Fixed Assets	4	1,839,552	2,751,976
4. Provision for Bonus		10,187,650	7,546,701
Profit before Tax (PBT)		101,876,500	75,467,008
5. Provision for Taxation (with Deferred Tax)		25,517,659	19,168,612
5.1 Current Tax Expenses		25,762,603	18,980,230
5.2 Deferred Tax Expenses		(244,943)	188,382
6. Net Profit Transferred to Accumulated Profit		76,358,841	56,298,396
Total		130,700,903	99,573,369

All Schedules form an integral parts of this Financial Statements.

As per our report of even date

Anil Chandra Adhikari
Chief Executive Officer

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Director

Bhusan Rana
Director

Rajendra Man Shakya
Director

Date: Mangsir 23, 2070
Place: Kathmandu, Nepal

Profit and Loss Appropriation Account

For the period from Shrawan 01, 2069 to Ashad 31, 2070
(Corresponding period from July 16, 2012 to July 15, 2013)

Particulars	Current Year (NRs.)	Previous Year (NRs.)
INCOME :		
1 Accumulated Profit up to the Last Year	21,073,903	1,699,465
2 Current Period's Profit	76,358,841	56,298,396
Total	97,432,744	57,997,860
EXPENSES :		
1 Accumulated Loss up to the Last Year	-	-
2 Current Year's Loss	-	-
3 General Reserve	15,271,768	11,259,679
4 Provision for Previous Year Taxation	-	-
5 Capital Reserve	-	-
6 Dividend	-	-
6 Proposed Cash Dividend	15,511,200	8,617,260
7 Bonus Share	-	-
8 Deferred Tax	244,943	(188,382)
9 Proposed Bonus Share	-	17,235,400
Total	31,027,911	36,923,957
	66,404,833	21,073,903

As per our report of even date

Anil Chandra Adhikari
Chief Executive Officer

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Director

Purna Bahadur Khatri
Director

Bhusan Rana
Director

Rajendra Man Shakya
Director

Date: Mangsir 23, 2070
Place: Kathmandu, Nepal

Cash Flow Statement

For the period from Shrawan 01, 2069 to Ashad 31, 2070
(Corresponding period from July 16, 2012 to July 15, 2013)

Particulars	Current Year (NRs.)	Previous Year (NRs.)
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit as per P&L A/C	76,358,841	56,298,396
Adjustments:		
Interest Income	(18,375,895)	(15,444,374)
Depreciation	1,839,552	2,751,976
Operating Profit before Working Capital changes	59,822,498	43,605,998
Change in Working Capital		
Increase/(Decrease) in Provision	9,289,945	(3,169,288)
Increase/(Decrease) in Trade and Other Payables	(985,709)	720,692
(Increase)/Decrease in Advances, Loans & Deposits	(687,922)	(481,846)
(Increase)/Decrease in Trade & Other Receivables	(1,331,869)	823,494
Total (A)	66,106,943	41,499,051
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(514,357)	(746,842)
Sale of Fixed Assets		
Investments	(70,381,190)	(33,026,982)
Interest Income	18,375,895	15,444,374
Total (B)	(52,519,652)	(18,329,450)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Issue of Share Capital (except Bonus Share)	-	480
Proposed Dividend	(15,511,200)	(8,541,950)
Total (C)	(15,511,200)	(8,541,470)
Net Cash Increase/Decrease (A+B+C)	(1,923,909)	14,628,130
Add: Opening Cash & Bank Balance	18,654,419	4,026,288
Closing Cash & Bank Balance	16,730,510	18,654,419

As per our report of even date

Anil Chandra Adhikari
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Purna Bahadur Khatri
Director

Bhusan Rana
Director

Rajendra Man Shakya
Director

Date: Mangsir 23, 2070
Place: Kathmandu, Nepal

Statement of Changes in Equity

For the period from Shrawan 01, 2069 to Ashad 31, 2070
(Corresponding period from July 16, 2012 to July 15, 2013)

Particulars	(Amount in NRs.)					
	Share Capital	Accumulated Profit/Loss	General Reserve	Capital Reserve	Deferred tax Reserve	Proposed Bonus Share
Opening Balance	86,172,600	21,073,903	28,091,867	7,299,257	677,720	17,235,400
Adjustments						
Current Year's Net Profit	-	76,358,841	-	-	-	-
General Reserve	-	(15,271,768)	15,271,768	-	-	-
Right Share	-	-	-	-	-	-
Issue of Bonus Share	17,235,400	-	-	-	-	(17,235,400)
Proposed Cash Dividend		(15,511,200)				
Deferred Tax Income	-	(244,943)			244,943	
Issue of Undistributed Share	-					
Proposed Bonus Share	-	-	-	-	-	-
Closing Balance	103,408,000	66,404,833	43,363,635	7,299,257	922,663	-
						221,398,388

As per our report of even date

Anil Chandra Adhikari
Chief Executive Officer

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Director

Bhusan Rana
Director

Rajendra Man Shakya
Director

Date: Mangsir 23, 2070
Place: Kathmandu, Nepal

Schedules to Balance Sheet

As at Ashad, 2070

SHARE CAPITAL

Schedule - 1

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Authorised Share Capital		
(15,00,000 Ordinary Share of Rs. 100 each)	150,000,000	100,000,000
Issued Share Capital		
(1,034,080 Ordinary Shares of Rs. 100 each)	103,408,000	100,000,000
Paid-up Share Capital		
861,726 Ordinary Shares of NRs. 100 each	86,172,600	71,810,100
172,354 Bonus Shares of NRs. 100 each	17,235,400	14,362,500
Total	103,408,000	86,172,600

RESERVE & SURPLUS

Schedule - 2

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Capital Reserve	7,299,257	7,299,257
General Reserve	43,363,635	28,091,867
Accumulated Profit	66,404,833	21,073,903
Deferred Tax Reserve	922,663	677,720
Proposed Bonus Share	-	17,235,400
Total	117,990,388	74,378,147

SECURED LOANS

Schedule - 3

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Loan from Banks	-	-

Fixed Assets and Depreciation

For the period from Shrawan 01, 2069 to Ashad 31, 2070

			Cost Price		Depreciation				Written Down Value			Schedule - 4	
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%	949,427	-	-	949,427	88,392	43,051.78	-	131,444	817,984	861,036	
B	Computers, Furniture & Fixtures and Office Equipment	25%	9,557,474	508,155	-	10,065,629	6,400,768	973,120.73	-	7,373,889	2,691,739	3,156,706	
C	Vehicle	20%	5,021,229	6,200	-	5,027,429	2,478,682	509,324.65	-	2,988,007	2,039,422	2,542,547	
D	Plant and Machinery	15%	1,263,080	-	-	1,263,080	441,762	123,197.67	-	564,960	698,120	821,318	
E	Other Intangible As-sets	20%	3,650,374	-	-	3,650,374	3,149,235	190,856.74	-	3,340,092	310,285	501,142	
Balance of Current Year			20,441,584	514,355	-	20,955,939	12,558,839	1,839,552	-	14,398,391	6,557,550	7,882,744	

Schedules to Balance Sheet

As at Ashad, 2070

INVESTMENTS

Schedule - 5

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Investments		
Fixed Deposit at Different Bank and Financial Institution	214,900,000	145,100,000
Citizen Investment Trust	1,598,976	1,017,786
ICRA Nepal	1,000,000	1,000,000
Total	217,498,976	147,117,786

TRADE AND OTHER RECEIVABLE

Schedule - 6

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Receivables		
Service Charge	4,250,910	4,003,328
Interest Accrued	5,001,672	3,917,385
Total	9,252,582	7,920,713

CASH AND BANK BALANCE

Schedule - 7

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Cash in Hand	-	10
Cheque in Hand	7,812,925	-
Nepal Rastra Bank	52,468	30,108
Bank of Kathmandu	4,702,195	13,334,404
Nabil Bank	4,105,613	5,017,545
Nabil Bank (Leave Deposit)	9,604	42,413
Civil Bank Ltd. - Current A/C	47,704	229,939
Total	16,730,510	18,654,419

PRE-PAID, ADVANCES, LOANS AND DEPOSITS

Schedule - 8

Particulars	Current Year (NRs.)	Previous Year (NRs.)
National Life Insurance (Loan Deposit)	374,039	-
Nepal Telecommunication	-	23,060
Staff Loan and Advances	292,757	770,689
Advance Tax	1,781,341	923,229
Others	300,902	344,138
Total	2,749,039	2,061,117

Schedules to Balance Sheet

As at Ashad, 2070

TRADE AND OTHER PAYABLES

Schedule - 9

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Auditors Fee	176,469	160,426
Telephone Charge (Payable)	5,957	9,589
Others Payable	2,813,090	919,297
Advance Received of Service Charges	60,477	35,636
Gratuity Fund /Retirement Fund (CIT)	1,598,976	1,017,786
Leave Fund	1,908,647	1,601,043
TDS Payable	-	-
Deposit of Bid Bond	-	3,651,648
NLG Insurance Payable	-	-
Bonus Payable	50,466	50,466
Dividend Payable		153,900
Total	6,614,082	7,599,791

PROVISIONS

Schedule - 10

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Provision for Income Tax	-	-
Provision for Bonus	10,187,650	7,546,701
Provision for Cash Dividend	15,511,200	8,617,260
Total	25,698,850	16,163,961

Schedules to Income Statement

for the period from Shrawan, 2069 to Ashad, 2070

OPERATING EXPENSES

A. STAFF RELATED EXPENSES

Schedule - 11

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Salary & Allowances	9,583,675	8,029,813
Uniform Expenses	71,335	84,080
Sub - Total A	9,655,010	8,113,893

B. ADMINISTRATIVE EXPENSES

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Printing And Stationery Expenses	128,555	149,860
Fuel Expenses	202,998	155,739
Postal Charge	5,435	2,649
Repair And Maintenance		
(i) Repair Expenses	129,338	168,459
(ii) Maintenance Expenses	239,223	236,896
Meeting Expenses	196,223	134,970
Telephone Charge	79,976	119,545
Training Expenses	44,846	143,755
Traveling Expenses	370,084	659,061
Insurance Expenses	90,378	89,841
Auditor Expenses	199,425	221,778
Books And Periodicals	8,225	6,845
Electricity, Drinking Water and Others	543,534	433,112
Legal Expenses	70,180	144,170
Web Charge	480,985	408,890
Paper and Publication	37,782	146,492
Office Rent	1,811,280	1,540,300
Miscellaneous Expenses	143,612	149,526
Agm Expenses	271,043	378,517
Business Expenses	100,000	100,000
Festival and Ceremony Expenses	73,984	37,076
IFC Expense	1,521,000	-
Furniture and Equipment Expense	19,334	39,500
Sub - Total B	6,767,442	5,466,980
Total Operating Expenses (A + B)	16,422,452	13,580,873

NON OPERATING EXPENSESE

Schedule - 12

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Waive Off Loan and Advance	-	226,812
Exchange Loss	299,474	-
Write Off	75,275	-
Total	374,749	226,812

Significant Accounting Policies and Notes to Account

for the period ended on 31 Ashad, 2070

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.

4. Basis of Accounting

Income and Expenses have been accounted for on Accrual basis.

5. Fixed Assets and Depreciation

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

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. 25,517,659. 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 2064/65. The details of deferred tax assets and liabilities for the year 069/070 are as follows:-

Particulars	Deductible Temporary Differences (NRs.)	Taxable Temporary Differences (NRs.)	Net (NRs.)
Fixed Assets	183,030	-	183,030
Retirement Fund (CIT)	1,598,976	-	1,598,976
Leave Fund	1,908,647	-	1,908,647
Total Temporary Difference	3,690,654	-	3,690,654
Deferred Tax Assets (Liability)	922,663	-	922,663

The Deferred Tax Asset arising due to the temporary difference amounts to NRs. 922,663 this year whereas it was NRs. 677,720 in previous year. The increase in Deferred Tax Assets by NRs. 244,943 during the year has been added to the previous years' balance of the Deferred Tax Assets in the Balance Sheet and incorporated as the Deferred Tax Expense 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. 15,271,768 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 76th Board Meeting dated December 08, 2013 to disburse 15% Cash Dividend to its existing shareholders subject to the approval from the forthcoming 9th Annual General Meeting of the Company. Cash dividend amounting to NRs. 15,511,200 has been adjusted in the provision account of the financial statements.

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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