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Karja Suchana Kendra Limited

…………..Aiming to establish itself as one window solution provider for various kinds of credit risk assessment solutions to banks and financial institutions of the country by building a largest repository of credit information and adopting best technologies, application system and service standards.

Brief about

Karja Suchana Kendra Limited
(Credit Information Bureau)

Karja Suchana Kendra 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, Nepal Government, Credit Institutions and other players in the banking and financial sector of the country. The answer took shape when Karja Suchana Kendra 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.

Kendra's operation was initially guided by the NRB directive which was insufficient. Many litigation cases followed against Kendra 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 Kendra and gave a legal framework for its operation through Nepal Rastra Bank Act 2002, Section 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 and got registered as the Company in September, 2004 under the Company Act 1997 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 fifteen years.
- Initially many litigation cases against it challenged its existence & legality for Blacklisting & disclosure of information.
- NRB, through Section 88 of the NRB Act, 2002 gave the legal framework for CIB Operation.
- Registered as a Company in 2004 as per Company Act 1997 and started its operation from May 2005

Legal & Regulatory Framework

- Operates through Provisions made in Section 88, NRB Act 2002.
- Pursuant to Section 88(2) and exercising the power granted under Section 110(2) of NRB Act 2002, "*Nepal Rastra Bank Credit Information Bylaws 2003*" were issued.
- Pursuant to Section 88, NRB Act 2002 and exercising the power granted under NRB Act Section 79 and Credit Information Bylaws 2003(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 NRs1million 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 *NRs1million or above facility*.
- Mandates the bureau to *inspect and supervise* the member Banks & Financial institutions to check their credit reporting to the bureau.
- *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.

Shareholding Structure

- Shareholding structure as per the Articles of Association of the company:

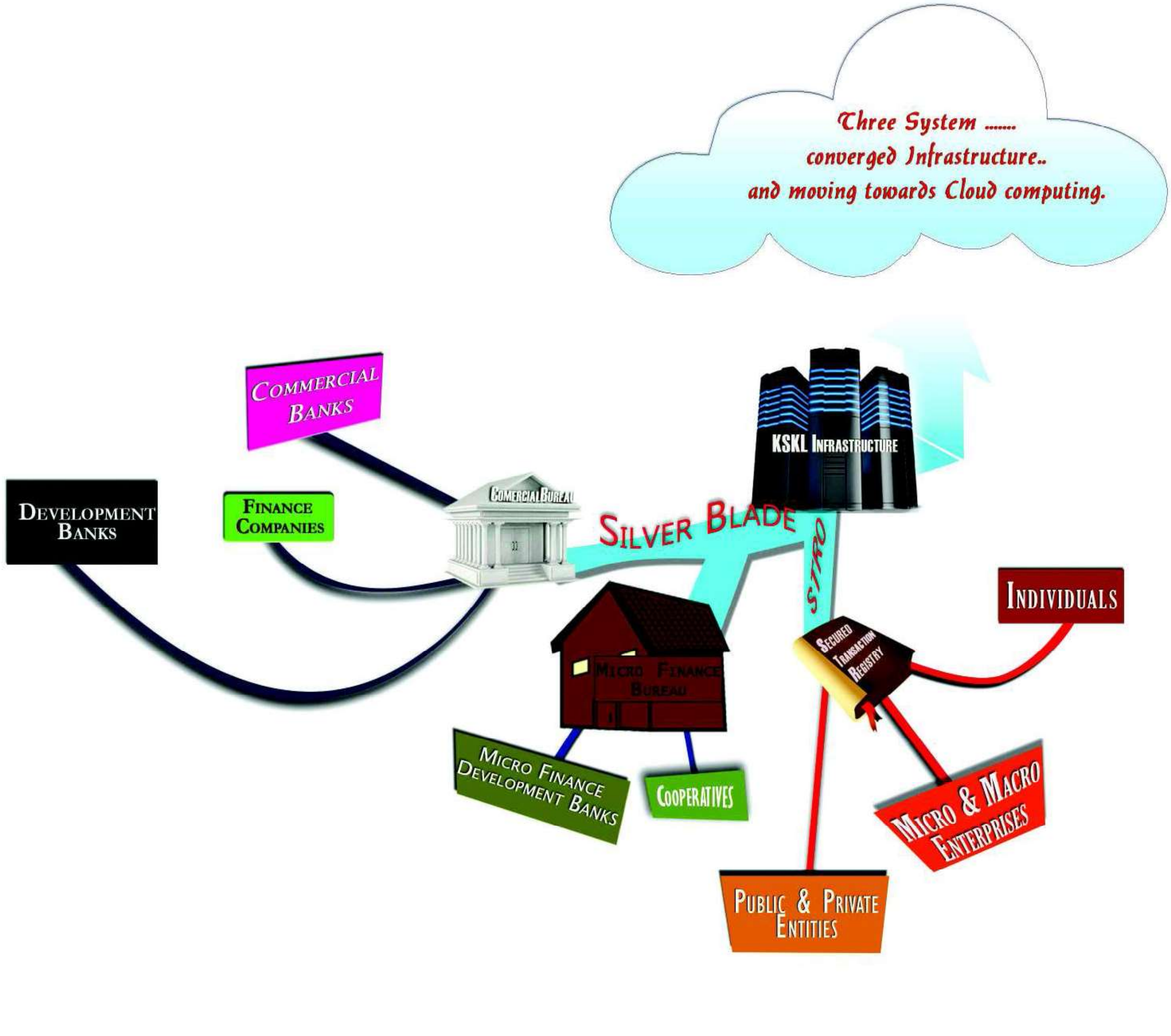
  Commercial Banks: 65%; Development Banks: 10%; Finance Companies: 15% and Nepal Rastra Bank: 10%.

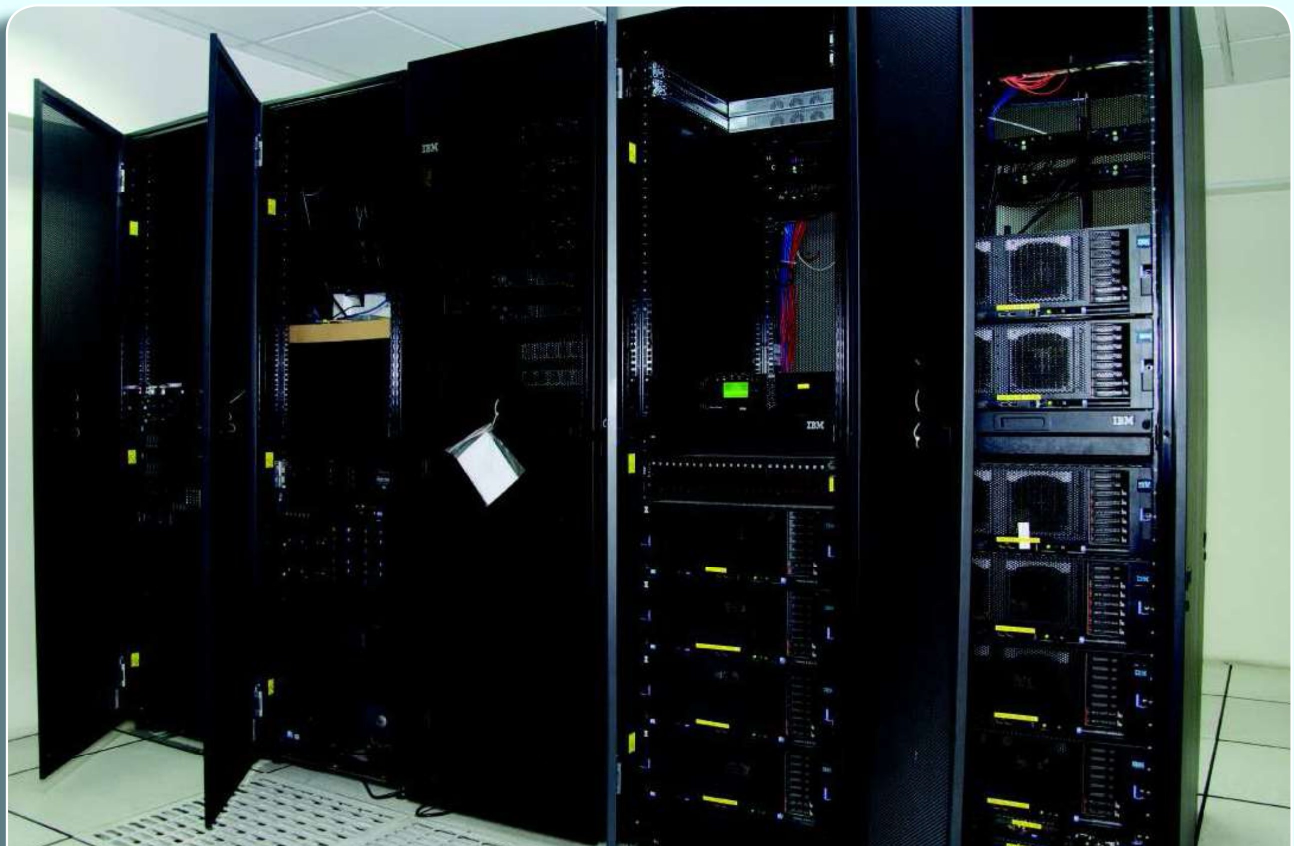
  Promoter Shareholders: 51; (Commercial Banks: 23; Development Banks: 6; Finance Companies: 22)

  Member Institutions: 109; (Commercial Banks: 28; National Development Banks: 15; Regional Development Banks: 29; Finance Companies: 30; Microfinance Development Banks & Cooperatives: 7)

  (Note: Above shareholding structure has been changed at present because of mergers of financial institutions since last few years. There also have been changes in the number of promoter shareholders and member institutions because of mergers).

CIB Family


Three System ....
converged Infrastructure..
and moving towards Cloud computing.
Commercial Banks
Development Banks
Finance Companies
Comercial Bureau
Silver Blade
KSKL Infrastructure
STRO
Micro Finance Bureau
Secured Transaction Registry
Individuals
Micro Finance Development Banks
Cooperatives
Micro & Macro Enterprises
Public & Private Entities



State of the Art Data Center

Core IT Team: Always Alert & Focused

Our Dream

... we nurture a dream of making this company a world class Credit Information Bureau in terms of Products, Services and Standards.

Our Inspiration

... the trust and confidence of BFIs and all the stakeholders on us.

Vision

... to be a change agent and a major catalyst in the development of country's credit market and a vehicle to modify the culture and behavior of the credit borrowers of the country.

Mission

- Enhance the functionality and stability of country's financial system by helping the member banks and financial institutions to make the informed, objective and faster credit decisions.
- Maintain a high quality data bank by adopting highest standards of technical infrastructure and security mechanisms thus measuring up to the international standard of excellence in credit information reporting.
- Enhance the credibility in operations by adopting a moral and ethical data handling standards and protecting every borrower's credit profiles.
- Consistently offer innovative solutions in credit information reporting by being responsive towards the market demands and changing customer needs.

Objectives

- Build an information bank by collecting & collating trade, credit and financial information of borrowers of lending institutions and disseminating those information to them, upon request, to facilitate them on their lending decisions
- Focus on information accuracy and integrity and implement best practices and standards in information sharing. Make the information delivery service fast, secured and error free.
- Make Bureau a highly organized and efficient institution with best supporting platform that is capable of meeting the increasing information needs of the banks and financial institutions
- Promote and encourage the culture of building "Reputation Collateral" among the existing and prospective borrowers.

Ethical Principles

- Neutrality & Non discrimination to its Users
- Accuracy, Currency and Completeness of the Information
- Security and Confidentiality of the Data
- Principle of Reciprocity in data sharing
- Efficient and Fair Dispute Handling

The Bureau Will

- Improve Access to Credit
- Empower Lender to make more informed lending decisions
- Supplement credit growth without increasing risk exposures of lenders
- Reduce cost 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 instability.
- Create a healthy credit culture

Key Success Factors

- Government & Central Bank support to enforce basic regulations for the bureau
- Enabling legislation to regulate information sharing and create rights and obligations for all parties
- Clear Mission and Strong Management
- Appropriate technology infrastructure to compile and deliver credit reports
- Comprehensive positive and negative information database
- Members commitment to use and contribute to the bureau
- Timely data submission and update
- Presence of a unique identification number for each individual and business to improve search accuracy

Message
FROM THE CHAIRMAN

Last year was a very eventful and landmark year for CIBL (The Bureau). The launch of three services (new Commercial Bureau/Silverblade, Micro Finance Bureau & Secured Transaction Registry) has helped the Bureau enter a new era and establish itself as a major institution in the financial sector of the country.

Credit Bureaus are essential institutions in the financial landscape that facilitate improved access to finance and serve as an indispensable medium for financial institutions to support their lending business. Credit reports help lenders pierce the “fog of uncertainty” surrounding loan applicants. The availability of credit information reduces challenges of adverse selection and asymmetric information between borrowers and lenders. CIBL, over the last many years, has helped member banks and financial institutions make more objective lending decisions and reduce their portfolio risk, transaction costs and expand their lending business.

In order to further strengthen its technology platform, the company launched a highly secure, reliable and advanced system called Silverblade that is expected to enhance the Bureau’s capacity and performance to meet the growing demand for credit information services and deploy new products in the coming years. The system provides comprehensive credit reporting with both positive and negative information that facilitates lenders to have a more balanced assessment of borrowers’ total credit profiles. Going beyond the traditional scope of the product portfolio and services, the new system is capable of offering value added products like credit scoring, alerts, fraud prevention and portfolio analysis to members whilst making it possible to expand services to a wider customer base including SMEs, insurance providers, retailers and trade creditors, which we plan to roll out in future.

The newly introduced MF Bureau will be using the same Silverblade platform and application system to provide the service to microfinance institutions. The use of the same platform helps to optimize operating costs making it economically viable for the Bureau’s long term sustenance and growth. The launch of the MF Bureau service is going to provide much needed support to microfinance institutions to curb multiple borrowing and over-indebtedness widely prevalent in the microfinance sector currently and increase the scale and depth of outreach and access to finance in the country. MFIs that are connected to the Bureau can reduce their operational costs and can have a comparative advantage in the market, i.e., they can better fine-tune their lending rates, offer more products, increase their market share, and achieve greater financial self-sufficiency.

Similarly, the Secured Transaction Registry (STR) service that was long awaited was also launched this year. The Registry service will further help diversify the credit market of the country by allowing people, firms and companies to extend credit against the security of movable assets by establishing priority charge on those assets. The STR service can have a strong impact on SME finance by building greater transparency in the financial system, enhancing the rights of creditors and debtors and thus giving financial institutions greater confidence to lend against the movable assets of SMEs.

CIBL will thus be operating three systems in parallel providing services to three market segments and collecting credit data from all borrowers in the formal financial sector making it the largest repository of credit data in the country.

The economic environment prevalent during 2016/17 presented both opportunities and challenges. While the demand for credit reports was significantly high in previous years, given the rapid expansion of credit, the demand for credit reports moderated last year as several banks and financial institutions faced severe liquidity crunch in the latter half of the year. In spite of this, the issuance of the credit report increased by 12.8% from 0.74Mn to 0.84Mn in 2016/17. Similarly, the number of borrowers’ records increased by 23.8% from 0.36Mn to 0.45Mn in 2016/17 due to collection of a large number of borrowers’ records from state owned banks.

The launch of STR service led to the registration of 33,180 notices in the Registry that included both new (4%) as well as prior transaction (96%) notices. The Microfinance Bureau also saw the registration of 0.17Mn membership files and generation of nearly 5000 membership reports during the period. Since both the services were launched late in the year, the number of registrations is not high as yet.

The Bureau adopted Nepal Financial Reporting Standards (NFRS) from this year to prepare the financial statements and disclose the books of accounts of the company. Operating Revenue increased from Rs. 228Mn in 2015/16 to Rs. 262.4Mn in 2016/17, whereas Operating Expenses increased by only 7.6% from Rs.46.4Mn in 2015/16 to Rs.49.9Mn in 2016/17 leading to an increase in Net Profit by 16.2% to Rs.144Mn. Though the rate of growth in revenue from core service (sale of credit reports) decreased, it was compensated by a high interest income and revenue from STR service. Since the MF bureau is on a pilot run, no revenue was earned from its operations. With a view to strengthening the capital base of the company enabling it to make future capital investments in line with its plan to evolve into a fully IT-enabled full-fledged apex credit bureau of an international standard and also acquire its own premises, I am pleased to announce that the Board has proposed issuance of bonus shares of 50% (1 share for every 2 shares held) in addition to a cash dividend of Rs. 25 per share (25%) for FY 2016-17 (2073/74).

The Bureau expects to face a lot of new challenges in the coming years to make these three systems run smoothly. The collection and quality of data are still major concerns for the Bureau without which the Silverblade and MF Bureau systems cannot deliver the desired services. Bringing all the microfinance institutions to join the Bureau is another challenge. Making the STR service penetrate the target market segments and have it used by people, firms and companies is a huge challenge. Nonetheless, CIBL has developed the required strategies and action plans to address these issues and make these services run smoothly.

Meanwhile, I would like to thank all our member institutions, Nepal Rastra Bank, Ministry of Finance and other government agencies for their continued support, without which, we could not have reached the position we are in today. I would also like to take this opportunity to thank the Board Directors who have given their valuable time despite their busy schedules in providing necessary guidance to CIBL during the year. I would also like to thank former Board Directors Mr. Ajay Shrestha and Mr. Krishna Prasad Lamichhane for their valuable contributions during their tenor.

On behalf of the Board, I would also like to thank the Management and staff members for their dedication, perseverance and hard work that has helped this company to grow further each year.

Lastly, I look forward to your continued feedback, cooperation, guidance and support in helping make CIBL a truly professionally run world-class institution in the long run.

Thank you.

Sashin Joshi
Chairman

Foreword
BY CEO

Year 073/074 ended on a high note and remained very fruitful for the company.

We were successful in making significant progress against our strategic objectives over the past year. Our strategy of diversifying and building out specialized business in vertical markets has indicated to show the strong results. The successful launch of the Secured Transaction Registry, Microfinance Bureau and highly advanced Commercial Bureau service has added new leaf in bureau's operation and helped it to emerge as one of the most important institutions in the financial sector of the country.

Silverblade system with its robust, modular and flexible architecture is one of the highly advanced application system that provides secured and reliable services with the capacity to pullout various kinds of value added products and services to its users. Supply of both positive and negative information is a unique and major advantage that new Silverblade system will provide to its users. Access to both positive and negative information gives member institutions a more complete picture of a client's financial commitments so they can make more informed decisions about extending credit. This will in turn reduce the default rate in the financial sector and also influence the reduction in the percentage of nonperforming loans.

Movable assets rather than land or building often account for most of the capital stock of private firms and comprise an especially large share of micro, small and medium size enterprises of the country. The Secured Transaction Registry system provides security to lenders to lend the money against these collaterals owned by the borrowers by creating the security interests on them and empowering them to foreclose on or repossess the collateral in the event of borrowers' default. The system also establishes clear priority rules to resolve conflicting claims among secured creditors when a debtor defaults whether in bankruptcy procedure or not.

In the existing microfinance market of the country, over-indebtedness and non payment of loans has reduced portfolio quality and muted benefits of micro lending. Against this backdrop, the microfinance bureau brings important benefits to the sector such as increased access to finance, increased potential scale and depth of outreach, improved portfolio management and diminished credit risk, reduced risk of client over indebtedness, improved culture of repayment and increased compliance with Basel I and II. The bureau will be crucial to the healthy development of the microfinance industry and also a critical link to bridging the informal and formal financial sector of the country.

Thus with the three major financial infrastructures running in parallel and contributing its services to both upstream and downstream of vertical markets of the financial sector of the country, the bureau's contribution to the financial sector cannot be overemphasized. It will play a huge role in facilitating financial inclusion by making way for people to move up in pyramid and enter the main stream credit market, in turn augmenting growth opportunities for entire economy.

Our operational and financial performance remained quite satisfactory this year as well. In spite of poor growth in credit reports generation this year, the company managed to achieve a growth of 14.6% in operating revenue and 16.6% growth in operating profit (PBT). The banking sector went through some bad phase of liquidity crunch during the period which affected the demand of the credit reports thus reducing the revenue from its sales. But this was compensated by the new stream of revenue generated from the STR service and some additional revenue from the 'interest income". The STR system generated the total revenue of 16.7million within two months of the launch of the service. However, the revenue was allocated for five years as per the provisions of the Act. The interest income was higher this year because of higher yield at the deposit accounts of the banks and financial institutions. Since the microfinance bureau was put on a pilot run, no revenue was recorded for the period.

The operating expense (including depreciation) increased by only 7.6% this year. As in previous year, the Annual Maintenance Cost occupied nearly 81% of the total operating expenses. The bonus and tax expenses increased by 16.6% to Rs.19.3Mn and by 18% to 48.9Mn respectively as compared to previous year leading to the increase in Net Income by 16.2% to Rs.144Mn.

On the Operation side, since the Silverblade system was launched only at the year end, the bureau had to keep its legacy system running at the best level. The legacy system delivered a highly secured and reliable service to its member institutions all throughout the year. All the service benchmarks were reviewed on a regular basis and ensured that major performance parameters such as security and confidentiality of data, data quality, response cycle time, validation errors, match & merge errors, credit report errors were all checked, verified and closed on schedule. The internal control system was also reviewed regularly. The control system was effective in identifying risks, detecting and preventing frauds and safeguarding the company's properties both tangible and intangible. Because of strict performance measures applied all across the operation, no incidents of system outage, system inaccessibility, security breaches, data inaccuracies, wrong identifications, credit report errors were observed during the period.

The bureau made few changes on the STR system as per the new Regulation promulgated by Ministry of Finance. There were no issues reported post launch period and system delivered its performance as expected. The launch of the new commercial bureau (Silverblade) and MF bureau met with few technical hiccups post launch period which were resolved immediately.

The number of credit reports generated by commercial credit bureau increased by 12.8% to 0.84Mn reports where as borrowers' records increased by 23.8% to 0.45Mn records. Similarly the total number of membership records registered in MF bureau system totaled to 170,908 records where as the number of membership reports generated totaled to 5,526 reports. The STR system recorded a registration of 33,180 notices till the year end that included both the prior transaction notices and new notices. The total number of searches made by the users was 11,039 searches till the year end.

During the period, the bureau focused equally well on imparting necessary trainings to the users on all three systems to enhance their skills and knowledge and make them familiar with the new systems. The trainings were organized on a regular basis all throughout the year and were provided to all member institutions.

The bureau expects to face many new challenges in the incoming year 074/075. Though all three systems have been launched and are in operation, a lot of efforts are still needed to make their operations successful and establish them on a firm footing. The successful implementation of MF bureau service requires concerted efforts from all the stakeholders (Central Bank, MF associations and the Bureau) to bring all the microfinance institutions to join the bureau. The strong regulatory provisions, accessibility and affordability of the service, education and trainings, technical support are the few areas that need to be looked into in order to make MF institutions to join the bureau. Similarly successful implementation of Secured Transaction Registry service requires a lot of awareness programs to be conducted all across the country in order to make people aware about the system and its benefits. Until and unless the service reaches to the target market segments (private lenders, micro, small and medium size enterprises), its benefits can not be derived and the purpose of introducing this service will be defeated.

The successful operation of Silverblade system is no less a challenge for the bureau. Without collection of quality data at regular intervals, its full potential in delivering high quality reports and services cannot be realized.

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

REPORT OF THE BOARD OF DIRECTORS
PRESENTED BY THE CHAIRMAN
AT 13th ANNUAL GENERAL MEETING

Dear Shareholders,

On behalf of the Board of Directors of the company, I would like to welcome you all to this 13th Annual General Meeting of Karja Suchana Kendra Limited (Credit Information Bureau or bureau in short).

Please let me have this opportunity to take over this floor to brief you about the operational and financial performance of the company in the year 073/074, its operational activities, accomplishments and various other issues related with the delivery of credit bureau services and registry services to the member institutions and other users of the country.

The Balance Sheet, Profit & Loss Account and Cash Flow Statement for the Fiscal Year 073/074 and report of the Board of Directors are hereby presented to you for the required discussions and approval.

REVIEW OF LAST YEAR OPERATION
OPERATIONAL PERFORMANCE REVIEW

During the period under review, the bureau remained very much preoccupied with the collection of the data from the member institutions and to launch both new commercial bureau and microfinance bureau services. The bureau was also engaged in preparing the STR Regulation draft with Ministry of Finance and to launch the STR service. Apart from this, the bureau was equally focused on maintaining the existing legacy system at its best level and providing uninterrupted, secured and best quality service to its users. After lot of efforts, the bureau was successful in launching all three systems near the end of the fiscal year.

1. Summary of the operational activities

To put in an encapsulated form, the major operational highlights of the year 073/074 were as follows:

- The bureau launched the Secured Transaction Registry service that went on live at the last quarter of the fiscal year. The launch was very smooth and bureau encountered no problems of any kinds during pre and post launch periods. The service was opened for the registration of both new and prior transaction notices; however as per the new regulation, only three months was allowed for prior transaction registrations. The number of notices registered during the period was unexpectedly low and did not reach even close to 20% of our earlier projections. The system remained very stable during the period and delivered the best performance without any interruptions or errors.

- Prior to the implementation of STR service, the bureau worked together with the Ministry of Finance to prepare and release STR Regulation. The draft was initially prepared by the bureau and was submitted to MOF for the further actions. A team led by MOF and comprising the members from bureau and various other ministries was formed to discuss and deliberate on the draft and make required changes on it to comply with the provisions of the STR Act. The Regulation was finally approved by the MOF and the Cabinet and was published on Nepal Gazette on 17th Magh, 2073 thus paving the way for the launch of the STR service.

- The bureau launched the Silverblade system very near to the close of the fiscal year. The system met with various operational and technical issues post launch which was gradually addressed and resolved. The users were given the option of visiting the legacy system in order to cross verify the data contained in Silverblade report with that of legacy report and ensure that there were no any missing data in the new report. Since the Silverblade system contained only 70% of the legacy data during the launch period, there were most likely chances that some borrowers' information were missing in the new report. The legacy system provided much relief to the member institutions to cross verify their data and ensure about the borrowers' credit credentials. The legacy system will be provided on the system for the cross verifications till all the remaining data are captured by Silverblade system.

- The bureau also launched the microfinance bureau service together with the Silverblade service. Though the service went through some technical and operational hiccups in early stages of the operation, it came on a full swing shortly thereafter when all the issues were resolved. Because of the poor readiness level of many microfinance institutions to join the bureau, the bureau initially focused on only 27 institutions to collect the data and launch the service. Though collecting the data and sanitizing them was not an easy task, bureau put all its efforts to complete them on time and launch the service.

- Data Collection always remained a big challenge for the bureau. However, this year was very fruitful in terms of collecting the data from the member institutions. Bureau implemented various strategies to make the member institutions submit their data by the end of third quarter. Bureau's focus was on three nationalized banks that, in spite of having more than 60% of the borrowers' data of the banking sector, were very slow in submitting their data to the bureau. After the consistent follow ups during the year, there was the massive inflow of the data from these three institutions that helped the bureau to reach to a respectable volume of data in the Silverblade system to launch its service.

- Bureau put equal efforts in ensuring that all the incoming data met with set quality standards. Since data quality is critical to the Silverblade system, it worked with member institutions to have all the information filled in the new IFF, especially the important mandatory fields that were essential to identify the borrowers and generate the credit report. The bureau also updated and customized the validation rules in the new system to bring more efficiency in data sanitization process and enhance the data quality.

- Since the Silverblade system was put on service late in the year, the bureau had to maintain its legacy service at its best level during the whole period. The service was provided uninterrupted throughout the year and no service breakdowns were reported. All the hardware and software installed in the Primary and DR site were regularly monitored and Databases and Servers were routinely checked in real time to ensure that all of them were operating perfectly. The bureau maintained the system logs which captured any changes in events such as configuration updates, errors, bugs, system crashes, security breaches, security profile changes etc. Every activity performed by the user was logged into the database.

- Since the data security always remained the prime concern of the bureau, it ensured that Data Center was provided with both Physical as well as Virtual Security. The security measures were reviewed on a regular basis that included both logical (authorization, authentication, encryption and passwords) as well as physical (restricted access and locks on server, storage and networking cabinets) security of the data. It was made sure that application, databases, file systems and operating systems were secured to prevent unauthorized or disruptive access to the stored data.

- The upkeep of Data Center is critical to its uninterrupted uptime. The bureau maintained high "House Keeping" standards during the period that avoided contaminations and helped in having a safe and clean environment for the infrastructure equipments to perform efficiently inside the Data Center. Unauthorized access was strictly prohibited. It was regularly checked whether the floor slabs were properly sealed, insulation

and or ceiling slab were non-flaking, floor was cleaned with damp mop, air conditioner filters were changed regularly etc. It was ensured that data center was free from zinc whiskers, ferrous metal, metal shavings and other destructive contaminants. Data related house keeping was done on a regular basis that included records deletion, updates, add-ons, storing logs and data files in specific folders, setting changes etc. Meticulous documentation of domain credentials was done regularly in order to track inconsistencies that hindered agility.

- The bureau's Help Desk remained very efficient and effective in providing high quality customer services to its clients and resolving the technical issues and other incidents. The Help Desk acted as a single point of contact for IT support and used tracking solution for all incoming incidents. It automated issues tracking, routing & email notifications and passed incident ownership for escalation if higher level of supports were required. The Desk adopted a multi tired approach to resolve the service issues with highly trained and experienced staffs manning the Desk. The constant feedbacks from the member institutions about the critical issues and their valuable suggestions helped bureau to gradually improve its services and increase its operational efficiency thus enabling it to meet its strategic goals.

- The bureau maintained the response cycle time of less than 4secs during the period. The searching logic gave the stable performance through out the year with 100% correct identification of the borrowers. No instances of misidentification of borrowers or incorrect overlaps of loan profiles were reported during the period. Similarly, the data transmission through both the offline and online systems were continuously monitored to ensure the fast and efficient upload of the data from the member institutions to the bureau system.

- The performance of the system was regularly monitored on a daily basis to ensure that the existing "system capacity" was enough to withstand the maximum load (number of concurrent users) during the peak period and there were no deterioration in services because of congestion or high traffic. Some banks and financial institutions were granted additional "Users" to facilitate them to have more access points to access the system.

- The billing system was quite reliable and no discrepancies were observed on the invoice bills during the period. The collection system was made more efficient and effective with the account receivable decreasing further as compared to previous year.

2. Statistics of the Credit Reports

The number of credit reports generated (Hits/number of searches) by the system increased by only 12.8% this year. The liquidity crunch in the banking sector at the later half of the year starting from the month of Magh affected the generation of the credit reports which decreased each month till the year end as compared to previous year 072/073.

The table below shows the month wise subscriptions of the credit reports by the member institutions during the period.

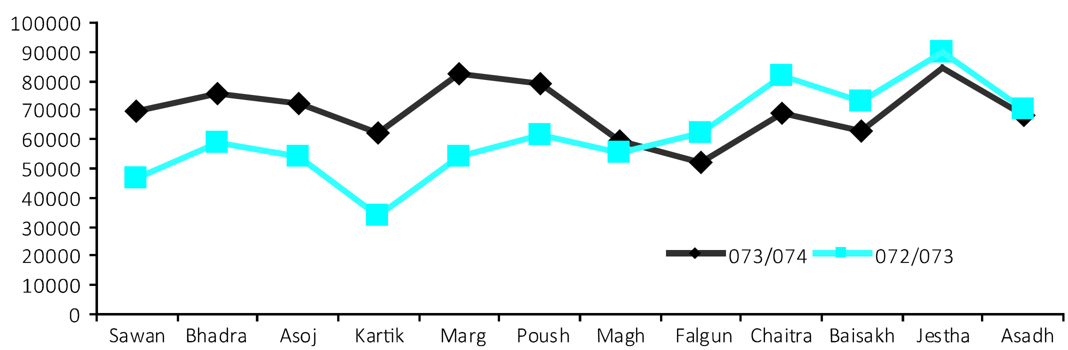
Total "Hits"	Sawan	Bhadra	Asoj	Kartik	Mngsir	Poush	Magh	Falgun	Chaitra	Baisakh	Jesth	Asar
073/074	69793	75673	72587	62033	82391	78928	59245	51987	69111	62617	84316	68496
072/073	46622	58843	53908	33984	54264	61763	55284	62324	82012	72819	90159	70320

Total Searches 073/074

837,177

Total Searches 072/073

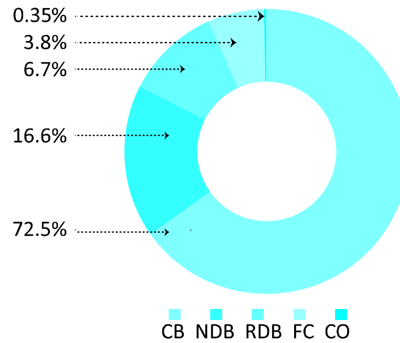
742,302



As can be seen from the above table and graph, there were large increments in number of credit reports generated in the first six months of the year which plummeted in the month of Magh and decreased for the rest of the year as compared to the year 072/073, though the pattern of the graph remained same in both the years. The huge incremental gap in the first six months of the year which was largest as compared to previous years helped to maintain the average growth of 12.8% in the report generation. The average monthly generation of credit reports increased from 61,858 in 072/073 to 69,765 in 073/074 leading to average month wise increment of 7,907 reports.

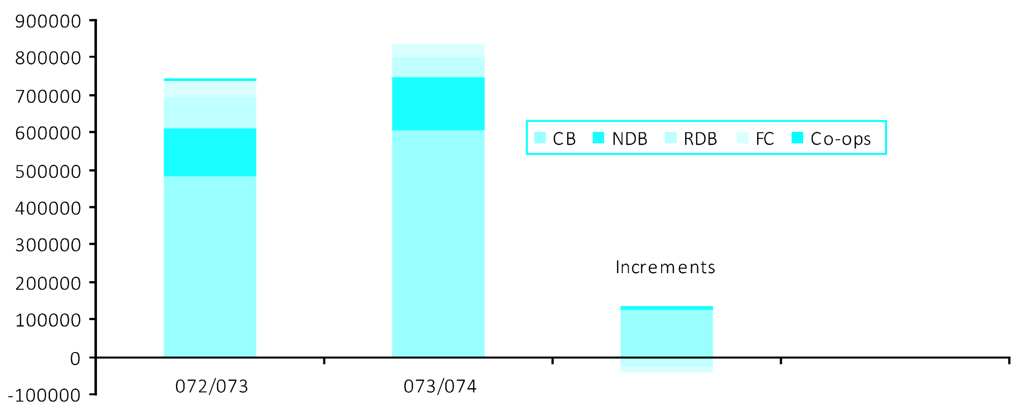
The Commercial Banks generated highest number of credit reports followed by National Development Banks, Regional Development Banks and Finance Companies. Co-operatives and others were the lowest users of the service and generated least number of reports. The Commercial Banks generated nearly 72.5% of the total Credit Reports where as National Development Banks, Regional Development Banks and Finance Companies generated 16.6%, 6.7% and 3.8% respectively. Co-operatives and others generated only 0.35% of the total.

Categories of lending institutions	Credit Reports 073/074	Percentage of the Total
Commercial Banks (CB)	607,388	72.5%
Development Banks/National (NDB)	139,016	16.6%
Development Banks/Regional (RDB)	56,309	6.7%
Finance Companies (FC)	31,522	3.8%
Co-operatives and others (CO)	2,942	.35%
Total Credit Reports	**837,177**	**100%**



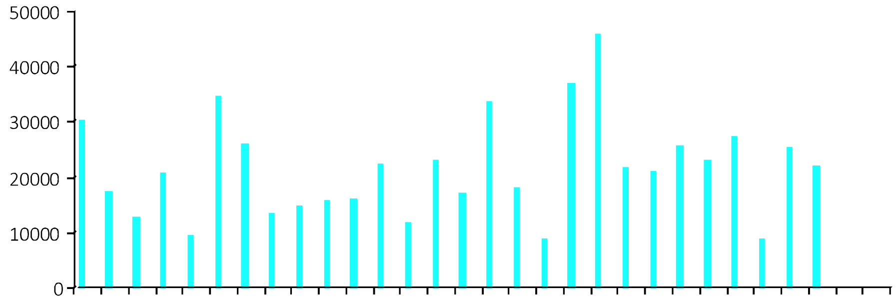
Categories of lending institutions	Number of Credit Reports 073/074	Number of Credit Reports 072/073	Increments	% Increments	% of the Total Increments
Commercial Banks (CB)	607,388	481,512	125,876	26%	132.6%
Development Banks/National (NDB)	139,016	130,400	8,616	6.6%	9%
Development Banks/Regional (RDB)	56,309	81,586	-25,277	-31%	-26.6%
Finance Companies (FC)	31,522	45,979	-14,457	-31.4%	-15.2%
Co-operatives and others (CO)	2,942	2,825	117	4.1%	.23%
Total Credit Reports	**837,177**	**742,302**	**94,875**	**12.8%**	**100%**

The number of credit reports generated by CBs, NDBs and Co-operatives increased by 26% (+125,876), 6.6% (+8,616) and 4.1% (117) respectively where as the reports generated by RDBs and FCs decreased by 31% (-25,777) and 31.4% (-14, 457) respectively as compared to 072/073. Similarly, out of the total increments, the commercial banks occupied the largest share (+132.6%) followed by NDB (+9%).



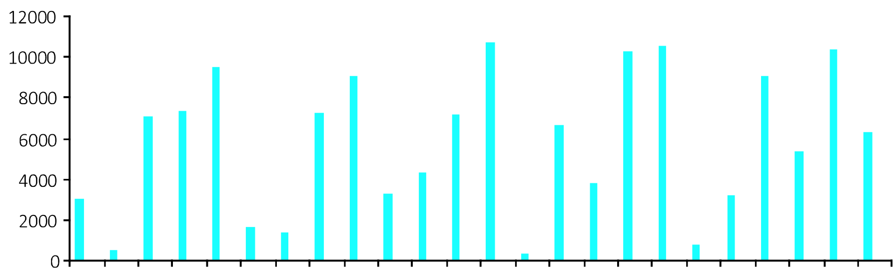
Many NDBs merged with each other or with CBs where as many RDBs and FCs merged either with NDBs or with CBs reducing their numbers and the number of searches and credit reports generated by them.

It was observed that credit reports generated by different types of lending institutions varied quite widely. Some CBs performed poorly in comparison to some NDBs where as some RDBs performed quite well in comparison to some NDBs. Similarly some FCs performed better both in comparison to some NDBs and RDBs. The Hits of all types of lending institutions were examined and plotted. If "Hits" patterns are any indication of the lending volumes and business of the financial institutions, it shows very interesting patterns as shown and discussed below.



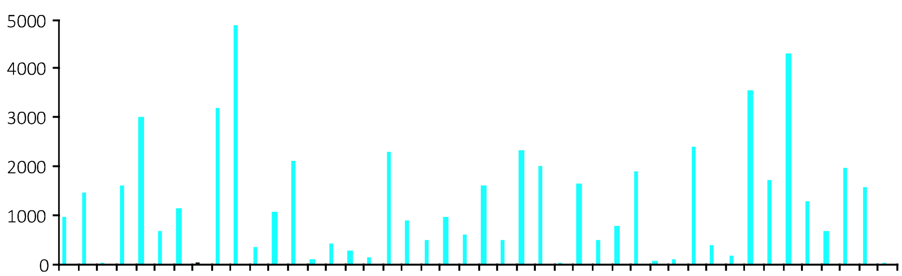
(Credit Reports generated by the Commercial Banks/ Total number of Banks 28)

The graph shows that the number of credit reports (Hits) generated by the commercial banks varied widely between nine thousand credit reports to forty thousand credit reports. There were sixteen banks that generated more than twenty thousand reports where as nine banks generated between ten thousand to twenty thousand reports and three banks generated less than ten thousand reports. The average number of reports generated by CBs in the year was 21,692 reports.



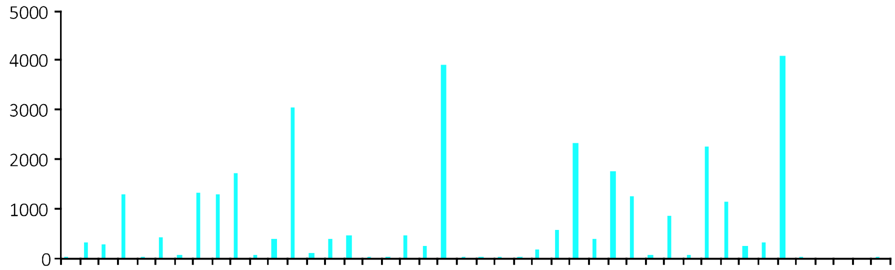
(Credit Reports generated by National Development Banks; Total number of NDB 24)

Among the NDBs, the generation of credit reports also varied quite widely between four hundred reports to ten thousands plus reports. There were four NDBs that generated more than ten thousand reports, nine NDBs generated between six thousands to ten thousands reports, six NDBs generated between two thousands to six thousands reports where as five NDBs generated less than two thousands reports. As can be seen, there were few NDBs that generated more reports than some CBs. The average number of credit reports generated by the NDBs was 5,792 reports.



(Credit Reports generated by Regional Development Banks; Total number of RDB 44)

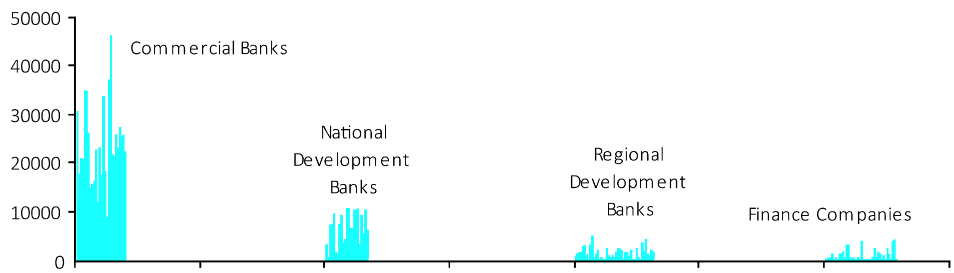
The distribution of credit reports in case of RDBs was even more uneven. Some RDBs generated more than four thousand reports where as some could not reach even three figure mark. Five RDBs generated more than three thousand reports where as sixteen RDBs generated between one thousand to three thousand reports. Twenty three RDBs made less than one thousand reports. The average number of credit reports generated by the RDBs was 1,280 reports.



(Credit Reports generated by Finance Companies; Total number of FC 39)

Some Finance companies generated as high as four thousands reports where as some could not cross over even two digits. Twelve FCs generated more than one thousand reports out of which one crossed over four thousand and two other crossed over three thousand reports. All remaining twenty seven FCs generated below one thousand reports. The average number of credit reports generated by the FCs was 788 reports.

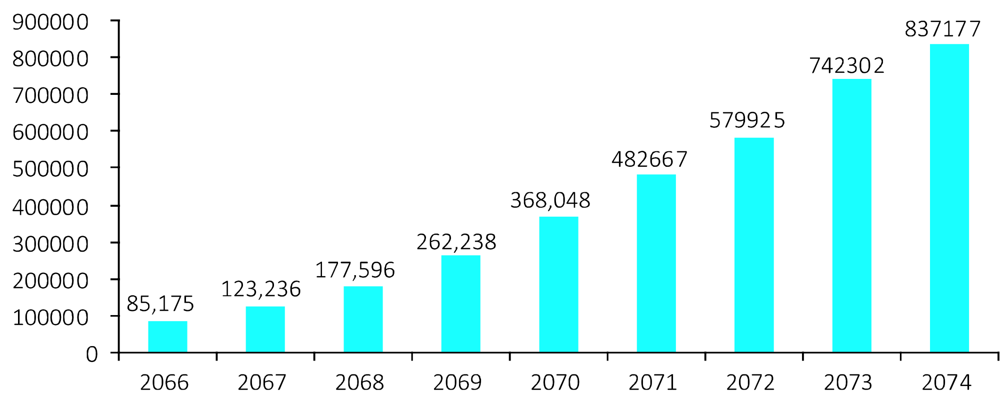
The graph below encapsulates all the above graphs and compares the credit reports generated by all four categories of banks and financial institutions.



The above graph shows that there is wide variation in credit report generation among the same as well as different categories of financial institutions. As can be seen, CBs have much higher credit report average than other categories of financial institutions which have dismal showing. The CBs occupies maximum share of credit reports generated followed by NDBs, RDBs and FCs respectively.

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

	073/074	072/073	071/072	070/071	069/070	068/069	067/068	066/067
Total Queries/ "Hits"	837,177	742,302	579.925	482,667	368,048	262,238	177,596	123,236
Yearly Increments	94,875	162,377	97,258	114,619	105,810	84,642	54,360	38,061

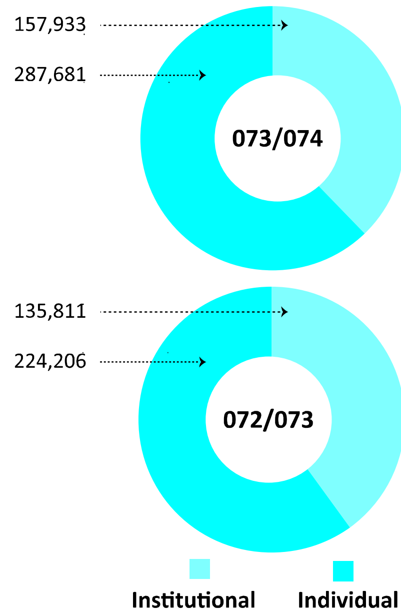


(Annual increment of the Credit Report Generation)

3. Statistics of the Borrowers' Records

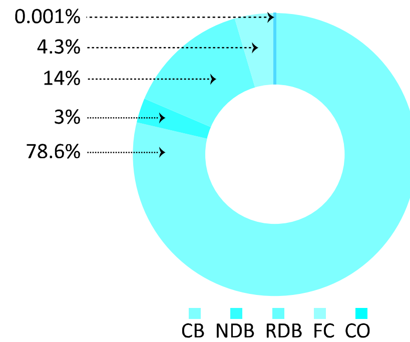
The borrowers' records which indicate the total number of records of the borrowers who were extended the loans of Rs.1 million and above facilities by the banks and financial institutions increased by 23.7% from 0.36Mn records in the year 072/073 to 0.45Mn records in the year 073/074. The year saw the surge in borrowers' records because of the collection of large number of records from the three state owned banks.

Total borrower records included both individual as well as institutional records. Till the year end 072/073, the total numbers of individual and institutional records registered in bureau were 224,206 records and 135,811 records respectively which increased to 287,681 records (individual) and 157,933 records (institutional) in the year 073/074. Thus there was the increment of 28.3% in individual records and nearly 16.2% in the institutional records leading to the total increment of 23.7% in the total borrowers' records.



Borrowers' records distribution shows similar pattern as that of credit reports generation. As per the statistics available till the year end, Commercial banks registered largest number of borrowers' records in the bureau followed by NDBs, RDBs and FCs.

Categories of lending institutions	Number of Records	Percentage of the Total
Commercial Banks (CB)	350,312	78.6%
Development Banks/National (NDB)	12,946	3%
Development Banks/Regional (RDB)	63,001	14%
Finance Companies (FC)	18,982	4.3%
Co-operatives and others (CO)	373	.001%
Total Searches	445,614	100%



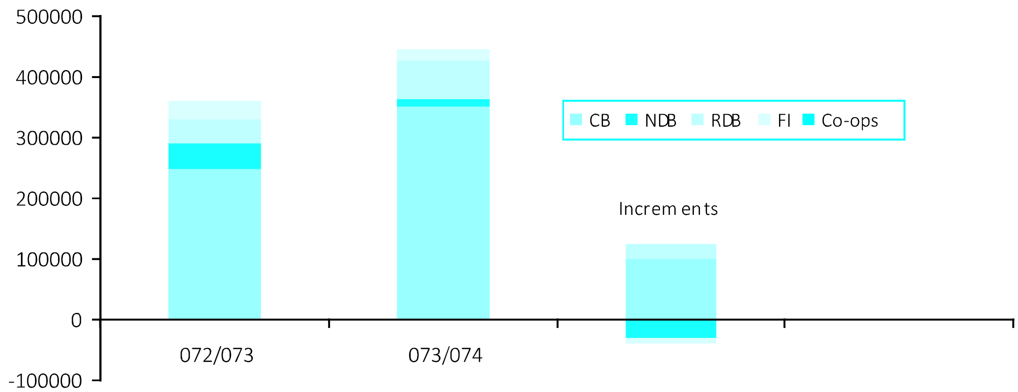
Commercial Banks registered 78.6% of the total records where as National Development Banks, Regional Development Banks and Finance Companies registered 3%, 14% and 4.3% of the total records respectively. The Co-operative and others submitted the lowest number of records (0.001%).

Commercial Banks had the largest increment of records (+101,376) followed by Regional Development Banks (+23,160) where as there has been substantial decrease in the records of NDBs (-29,530) and FCs (-9,566). The incremental change in co-operatives has been quiet small (+157). The year saw the mergers of many NDBs and FCs with the CBs which led to the increase in CBs records and decrease in the records of NDBs and FCs.

Out of the total increments, CBs occupied 118.4% of the total where as National Development Banks, Regional Development Banks and Finance companies occupied -34.5%, 27% and -11.2% respectively of the total increments.

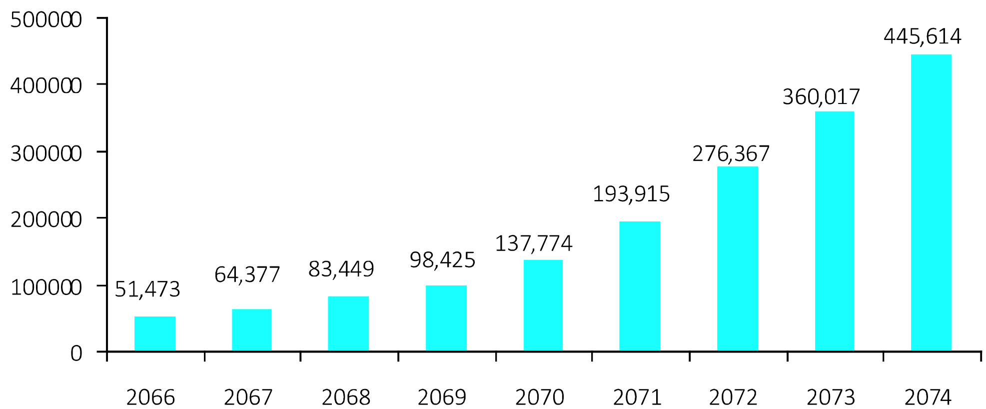
Categories of lending institutions	Number of Records		Total Increments	% Increase/ decrease	% of total Increments
	073/074	072/073			
Commercial Banks (CB)	350,312	248,936	101,376	40.7%	118.4%
Development Banks/National (NDB)	12,946	42,476	-29,530	-69.52	-34.5%
Development Banks/Regional (RDB)	63,001	39,841	23,160	58%	27%
Finance Companies (FC)	18,982	28,548	-9,566	-33.5%	-11.2%
Co-operatives and others (CO)	373	216	157	72.7%	.002%
Total Borrowers Records	445,614	360,017	85,597	23.8%	100%

The massive decrease in registered records in case of NDBs and FCs was because of their mergers with the CBs or NDBs. The year saw a massive drop in the numbers of lower category financial institutions. Seven NDBs merged with Commercial Banks (CBs) where as two merged with other large NDBs. Similarly five Finance Companies (FCs) merged with CBs where as three merged with NDBs and two merged with FCs. Once the merger was made, all the records registered in the name of merging entity got transferred to merged entity thus reducing the records of both NDBs and FCs and increasing that of CBs.



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

Year	073/074	072/073	071/072	070/071	069/070	068/069	067/068	066/067
Total borrowers	445,614	360,017	276,367	193,915	137,774	98,425	83,449	64,377
Yearly increments	85,597	83,650	82,452	56,141	39,349	14,976	19,072	12,904



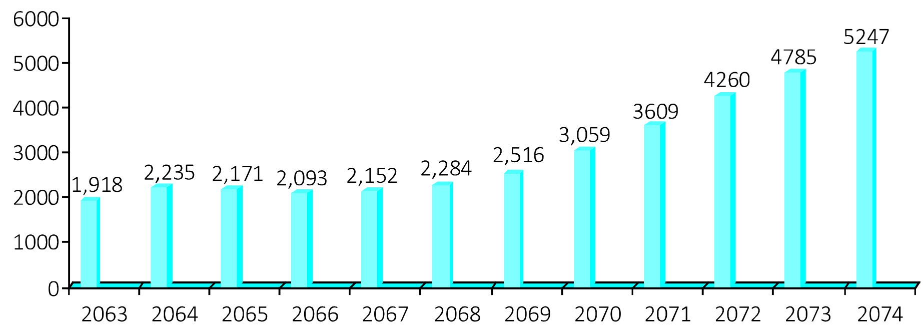
(Annual increment of the Borrowers' Records)

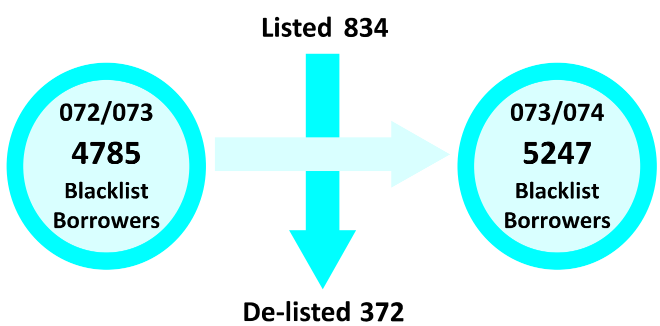
4. Statistics of the Blacklisted Borrowers

The year saw the increase of only 462 borrowers in the blacklist. Total of 834 borrowers were added where as 372 borrowers were de-listed from the blacklist giving rise to the total of 5,247 borrowers in the blacklist by the year end.

Statistics of the Blacklisted Borrowers

	Till 066/067	067/068	068/069	069/070	070/071	071/072	072/073	073/074
Added in Blacklist	3,647	263	353	690	738	930	833	834
Removed from Blacklist	1495	131	121	147	188	279	308	372
Total borrowers in Blacklist at the end of fiscal year	*2,152*	*2,284*	*2,516*	*3,059*	*3,609*	*4260*	*4785*	*5,247*



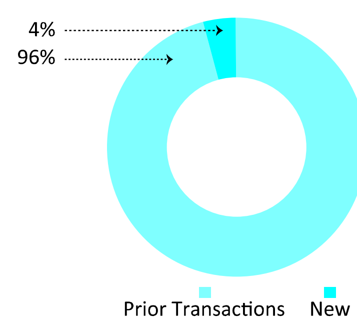


The increase of 462 borrowers into the Blacklist increased the bad debt amount by Rs.132crore from Rs5,720crore in 072/073 to Rs5,852crore in 073/074.

5. Statistics of STR Service

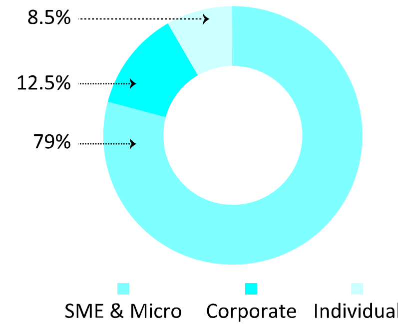
Secured Transaction Registry started its service from 15th May, 2017. Total of 33,180 notices were registered in the Registry till the year end 073/074. Though the service was opened for all the users (individuals, public and private firms, bank and finance companies, courts and legal entities etc), no other entities other than the commercial banks registered their notices during the period. The notices registered were new as well as prior transaction notices that were transacted between the commercial banks and the borrowers prior to the launch of the registry service. Out of 33,180 notices registered, 96% of the notices (31,795) were prior transactions notices where as 4% notices (1,385) were new notices.

Sector-wise Distribution of Registrations	Total	Percentage of the total
Prior Transaction Notices	31,795	96%
New Notices	1,385	4%
Total	33,180	100%

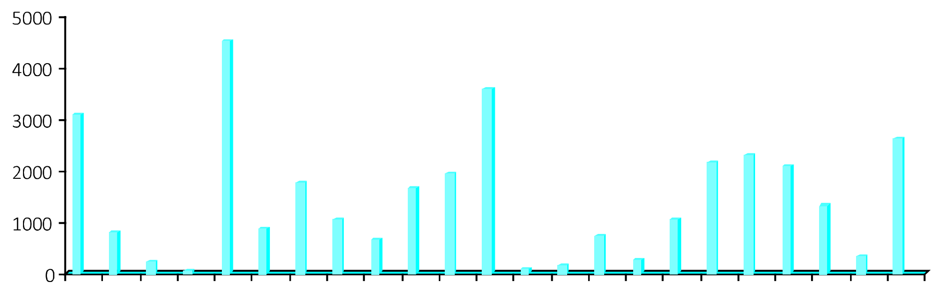


It was observed that maximum numbers of lending made by commercial banks were on SME/Micro sector followed by individual and corporate sector.

Sector-wise Distribution of Registrations	Total	Percentage of the Total
SME & Micro	26,214	79%
Corporate	4,171	12.5%
Individual	2,795	8.5%
Total	33,180	100%

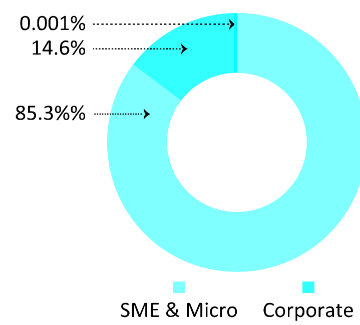


The following graph shows the distribution of the notices registered by the commercial banks in the Registry. Only twenty three banks registered their notices during the period.



The number of notices registered varied quiet widely with some banks registering as high as five thousand notices where as some registering less than hundred notices. This showed that some banks were very aggressive in lending against the movable assets where as some were less reluctant. As per the statistics, the total credit amounting to Rs.640.7 billion was disbursed by the commercial banks against the movable assets prior to the launch of the service.

Sector-wise Distribution of Lending	Total Rs. Billions	Percentage of the Total
SME & Micro	546.55	85.3%
Corporate	93.5	14.6%
Individual	0.65	.001%
Total	640.7	100%



Since as per the STR Act, there is no fee for searching the notices, no revenue was generated from searching. The total number of searches recorded during the period was 11,039 searches. Nearly 97% of the searches were made by the banks and financial institutions (clients) where as 4% searches were made by public. Since the public were not so much aware about the service, the searches were quite low.

6. Statistics of MF Bureau Service

The total number of microfinance institutions joining the bureau and sharing the data with it reached to twenty seven by the end of 073/074. Similarly, the total number of files registered in the database relating to “membership registration” reached to 170,908 files by the year end. The total number of 5,526 membership reports was generated by the microfinance institutions during the period.

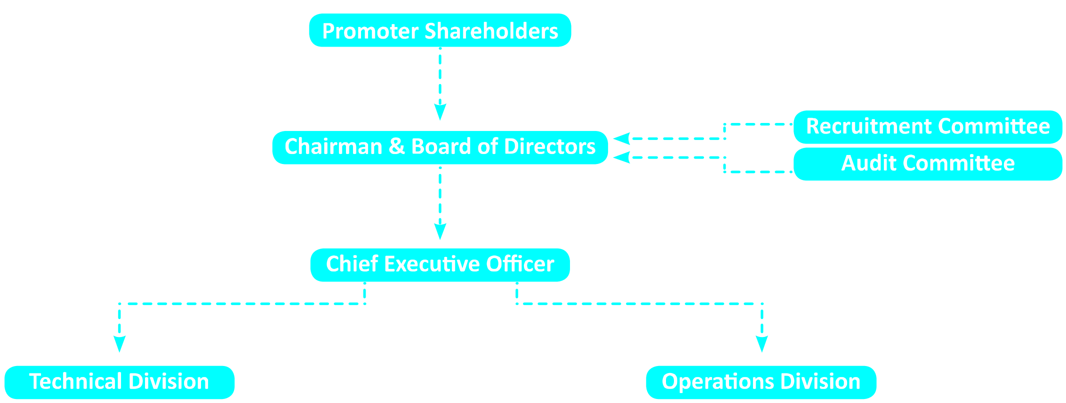
7. Corporate Governance

- The bureau has a long standing commitment to transparency and integrity in its corporate governance practices. Bureau has adopted comprehensive corporate standards and policies to govern its operations and ensure accountability for its actions. The company is committed to good corporate governance, which promotes the long term interests of the shareholders, strengthens Board and management accountability, and helps build shareholders' trust in the company. It strives hard to maintain highest standard of ethics and integrity in its relationships with the company's Board of Directors, shareholders and other constituents, and in its business conduct, consistent with company's values, and in compliance with both the letter and spirit of all applicable laws and regulations.

- The shareholders elect the Board of Directors to oversee management and to enhance long term value of the company for its shareholders. The Board evaluates and approves bureau's policies and plans, appoints Chief Executive Officer, approves compensation, appoints and supervises company's independent auditor, reviews the company's financial condition, declares dividends and approves investments and other significant matters. The Board possesses the dual mandate of advisory and oversight. The Board also has the power to appoint independent legal, financial, or other advisors as Board deems necessary from time to time. The Board regularly reviews developments in corporate governance and updates corporate governance guidelines and other governance materials as it deems necessary and appropriate.

8. Organization Structure

- Being an IT driven company with major functions revolving around the data analytics and application systems, the organization structure has been designed across strategic capabilities to maximize the organizational performance at the lowest cost. Given the increasingly critical role data & technology plays in competitive positioning of the company, bureau plans to develop itself as a "capability driven" company - one that understands the skills and capabilities needed by the business to drive growth, flexibility and innovation while still running at appropriate cost.



- The bureau has established two strategic divisions (Technical & Operations) and has adopted a small and flat organization structure with few management layers and minor degrees of verticality. Flat organizations are more responsive and fast moving, more in tune with their leadership, and more nimble than their hierarchical counterparts. This structure empowers the employees to take charge, help make decisions and feel responsible for the company's success. Chain of command becomes short and span of control becomes wide. Fewer layer means less staffs means lower costs. The structure facilitates a greater level of communication between employee and management and tends to be more democratic and offer greater level of innovation. The structure offers higher level of flexibility which means decisions are made faster and on an "as needed" basis. When employees are more responsible for operations, they take more pride in company's success. The structure puts greater emphasis on team work and empowerment.

9. HR Management

- The bureau has adopted the HR management practices that suit the flat structure. At flat organization structure, the carrier path is no longer about moving up but going across. The bureau wants to develop the pool of talents that can move across the divisions (IT and Operations), gain expertise and make decisions. The employees understand that their progression will be marked by the number of experiences, skills and projects that they have under their belts – any compensation and pay raises commensurate with those achievements – rather than promotions. The company values employees who have demonstrated agility and want to have exposure to a broad set of experiences. It emphasizes on hiring people who are independent but creative, have manager's mentality but a producer's work ethic and are motivated to work in creative and challenging environments.
- Since flat structure demands high quality of the people in various jobs, the company places significant importance on recruitment practices where candidates are selected after careful screening of their competencies and capabilities. Rapid changes in technology require skilled, knowledgeable workforce who are adaptive, flexible and focused on the future. HRM focuses on recruiting talented people and creating a competent and motivated workforce that delivers. The company follows a conscientious recruiting policy where it takes adequate care to bring effective balance between workload and workforce. It strives hard to create safe, healthy and happy workplace where employees feel comfortable to spend time and share thoughts, engage in brainstorming sessions and make decisions. The collaborative culture of the company brings synergy in work, increases innovation, creativity, productivity and helps build more engaged workforce.
- The company believes in transparency and gives employees a transparent outlook to all the related activities. More transparency implies less confusion that in turn improves employees' performance. The bureau aligns variable compensation plans with quantifiable employee performance to motivate the employees to deliver high quality performance. The bureau has employed a very transparent and fair evaluation system with cross functional and 360 degree performance feedback systems. Such comprehensive feedbacks empower employees to determine their performance gaps and improve accordingly. The bureau regularly maps employees' competency gaps, identifies areas of improvement and provides the right training programs for them. The Bureau arranges regular trainings for the employees to make them familiar with the systems and the operations.

10. Management

- CEO is appointed by the Board and is the highest ranking management executive in the company. CEO's main functions include making major corporate decisions, managing the overall operations of the bureau and its resources, enabling the Board of Directors to fulfill its governance functions and acting as an interface between the Board and the management. The CEO has overall responsibility for creating, planning, implementing and integrating the strategic direction of the bureau. CEO implements the strategy approved by the Board and ensures that the company's structure and processes meet the strategic and the cultural needs of the organization.
- The CEO is supported by the team of senior executives that include chiefs of operations, technical and finance departments and other senior officers. Being a flat structure, all the executives work in a team and are in direct touch with CEO and support CEO in making major decisions and moving the bureau forward.

11. Board and the Committees

- The shareholders of the company elect seven members from among them as its Board of Directors in every four years through the Annual General Meeting of the company. The Board represents and is accountable to shareholders and makes decisions on shareholder's behalf as a fiduciary and looks after the financial well being of the company. The tenure of Directors is for four years. Out of seven members, four are elected from commercial banks, and one each from the Development Banks, Finance Companies and Nepal Rastra Bank. The number of representations in the Board from each category is based on the total shareholding of each category of financial institutions. 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.
- All the members have relevant industry experience and possess required expertise and skills to make short and long term policies and strategies for the bureau. They meet all the qualification criteria as mentioned in the company's Articles of Association and Article 89 of the Company Act 2063 of the country.
- During the period, the Board always acted in good faith and with due care and exercised their business judgment on an informed basis which they reasonably and honestly believed to be in the best interests of the bureau and its shareholders. The decisions in the Board were made by majority rule.

a) *Changes in the Board of Directors*

There were two changes in the Board of the Directors of the company during the period. The two new members, Mr. Bhuban Kadel from Nepal Rastra Bank and Mr. Raj Kumar Rai from Gurkhas Finance Limited, were elected from the 12th AGM of Company held on 28th Kartik, 2073 (13th Nov., 2016) after the departure of Mr. Naresh Singh Bohra (Narayani National Finance) and Mr. Min Bahadur Shrestha (NRB) from the Board.

b) *Board Meeting*

There were altogether eight board meetings held during the period out of which seven meetings were chaired by Mr. Sashin Joshi where as one meeting was chaired by Mr. Ajay Shrestha. The numbers of the attendance of the Board members in the Board meetings were as follows:

	Name	Representation from	No. of meetings held during Tenure	Meetings attended	% of attendance
1.	Mr. Sashin Joshi, Chairman	Nabil Bank Ltd.	8	7*	87.5%
2.	Mr. Ajay Shrestha	Bank of Kathmandu Ltd.	8	7	87.5%
3.	Mr. Min Bahadur Shrestha	Nepal Rastra Bank	3	0	0%
4.	Mr. Jyoti Prakash Pandey	Nepal Investment Bank Ltd.	8	6	0.75%
5.	Mr. Anukool Bhatnagar	Nepal SBI Bank Ltd.	8	8	100%
6.	Mr. Krishna Raj Lamichhane	Kailash Bikas Bank Ltd.	8	7	87.5%
7.	Mr. Naresh Singh Bohra	Narayani National Finance Ltd.	3	0	0%
After 12th AGM, the following two members were included in the Board					
1.	Mr. Bhuban Kadel	Nepal Rastra Bank	5	5	100%
2.	Mr. Raj Kumar Rai	Gurkhas Finance Limited	5	4	80%

** Mr. Sashin Joshi abstained from one board meeting which was chaired by Mr. Ajay Shrestha in his absence by the unanimous decision of all the Board members.*

c) *Board of Directors Disclosure*

Mr. Sashin Joshi
Chairman

Nabil Bank Limited	**CEO**

Mr. Bhuban Kadel
Director

Nepal Rastra Bank	**Executive Director**

Mr. Ajay Shrestha
Director

Bank of Kathmandu Lumbini Ltd	**CEO**

Mr. Jyoti Prakash Pandey
Director

Nepal Investment Bank Limited	**CEO**

Mr. Anukool Bhatnagar
Director

Nepal SBI Bank Ltd	**CEO**

Mr. Krishna Raj Lamichhane *Director*	
Kailash Bikas Bank Limited	**CEO**

Mr. Raj Kumar Rai *Director*	
Gurkhas Finance Limited	**CEO**

d) Audit Committee

The audit committee plays a key role in assisting the Board to fulfill its oversight responsibilities in areas such as an entity's financial reporting, internal control systems, risk management systems and internal and external audit functions. It also overseas, on behalf of the Board, the financial reporting controls implemented by the management and the integrity of the published financial information. The audit committee is a central pillar of effective corporate governance and is in best position to offer effective oversight of the performance, independence and objectivity of the auditor and the quality of the audit. It reviews and supervises the compliance of auditor towards standards, regulations etc. It also makes recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor and approves the remuneration and terms of engagement of the auditor.

Board appoints three members in the committee, two from the Board and one from the bureau's management. The Board ensures that all the members thus appointed have relevant experience and expertise in the field and have competency and capability to lead the committee.

There were altogether 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.	Krishna Raj Lamichhane, Chairman	4	3	75%
2.	Raj Kumar Rai	3	3	100%
3.	Omkar Lal Shrestha	4	4	100%

The Chairman, Mr. Krishna Raj Lamichhane, left the office of Board of Directors at the last quarter of the year and abstained from last audit committee meeting which was chaired by Mr. Raj Kumar Rai in his absence.

e) Recruitment Committee

There was one recruitment committee meeting held during the period.

	Name	Number of meetings held during the tenure	Number of meetings attended	% of attendance
1.	Ajay Shrestha, Chairman	1	1	100%
2.	Raj Kumar Rai	1	1	100%

f) Expenses incurred on committees

	Committee	Number of meetings	Expenses on Committees		
			Meeting Allowance	Other Expenses	Total
1.	Board Meetings	8	181,000	2,920	183,920
2.	Audit Committee Meetings	4	27,000	1,460	28,460
3.	Recruitment Committee meeting	1	10,000	366	10,366
	Total		218,000	4,746	222,746

12. Risk Factors Disclosures

The risk factor disclosure is an important component of the Annual Report that is meant to inform investors about the various kinds of risks that the bureau is exposed to in its operation and business. The improved understanding of the risks by investors shall lead to better stewardship of the company and to efficient allocation of resources. The disclosures can provide more understandings on the bureau's risk susceptibility and its resilience to withstand them in case of any eventualities in the future. The disclosures involve a discussion of circumstances, trends, or issues that may affect the bureau's business, prospects, operating results, and future financial performances. In the light of the changing technology, banking sector business and economic & financial landscape of the country, the bureau takes a careful look at its existing risk factor disclosures to determine whether they accurately reflect the current potential risks of the bureau's business or any updates are needed on them to make them reflect the current potential risks.

Risk assessment and risk management are the responsibility of management and are carried out through the staffs who have acquired deep domain expertise through their long carriers and proximity to the business operations and core processes. The business leadership in the company have specific and risk focused goals and objectives that are aligned with overall risk framework. Depending upon the nature of the risk involved, the bureau uses a wide variety of risk mitigation strategies including delegation of authorities and employs a comprehensive toll gate processes (six sigma DMAIC problem solving methodology) leading up to and through the execution of various strategies to mitigate technical, operational and financial risks.

Technological Risks

Bureau's core activities rely on technology but the trust we place on technology is constantly under threats. Technology risks threaten assets and processes vital to bureau's business and may prevent compliance with regulations, impact profitability and damage bureau's reputation. The IT threats come in many different forms. Some of the most common are software attacks, theft of intellectual property, identity theft, theft of equipment or information, sabotage, and information extortion. Protecting information assets like borrowers' data, operational and financial data and intellectual property is the major concern of the bureau. It is also important to identify and verify events such as data breaches, network failure and suspicious activities before they damage the bureau's reputation, revenue generation and prevent bureau from reaching its targeted goals. As the bureau grows in terms of increasing number of various systems under its umbrella, it becomes more crucial for it to ever become more alert on IT risks and apply various tools and techniques to assess monitor, manage and mitigate them.

Risk

Cyber-security

As the world connects more and more smart devices to the internet, the number of potential vulnerabilities increases in linear fashion. There is simply a much greater "attack surface" which is vulnerable to the hackers who disrupt, delay, alter or redirect the flow of data. These hackers vary in target, motive, levels of organization, and technical capabilities requiring the IT companies to adopt ever increasing measures to prevent their attacks. They are moving quicker, cracking security measures more rapidly and forcing the company to play catch up. They are always staying on top of the newest updates, to overcome the latest defenses. They change their approach to hacking with every attack, meaning there is not a pattern to their hacking. Perhaps the scariest part of the results for the bureau is that the hack and missing data might not be discovered for weeks or months after the fact, meaning that hackers could be long gone with the information before the bureau even realizes its systems have been infiltrated.

Risk Mitigation Strategies

The bureau is always vigilant in protecting the sensitive data from attacks and has multiple layers of defenses ranging from simple to more complicated that regularly changes to be unpredictable to match the unpredictability of the hackers. We constantly take stock of our systems and combine human monitoring with technology to thwart any attacks in our systems. We have built a robust threat prevention program that can quickly turn unknown attacks into known threats. The bureau regularly monitors its cyber security platforms and performs top down risk assessment around the security process in order to ensure that the security measures implemented are able to thwart any external threats on the system. The security process revolves around best practices in cyber security such as monitoring applications, creating specific access controls, collecting detailed logs, maintaining security patches, monitoring user activities, creating a data breach response plan, maintaining compliance, educating and training technical staffs. The bureau has adopted tiered data security strategy that aligns multiple layers of defenses to counter application threats and stop the cyber attacks on different levels, so they never reach the core of the system. Multiple layers can isolate and protect data should one of layers be compromised from external and internal threats.

System includes both logical (authorization, authentication, encryption, password) and physical (restricted access, locks on

servers, storage and networking cabinets) securities. The network level security deploys firewalls running anti virus software and intrusion detection/intrusion prevention/data loss prevention system. VLAN has been installed to segregate internal network into different zones with different access levels. The access rules are deployed to prevent the users from accessing resources that they are not authorized to and to counter external and internal threats. The system has audit logs on all servers to track any security incidence. All the login/out activities, user commands and the data analysis operations are logged and stored.

The application level security deploys the security mechanisms like encryption, user name, password, predefined file formats, audit logs, audit trial logs, user session time out and authentication to further secure the application system. The web level security deploys SSL (Secure Sockets Layer) certificate, Digital Certificate and secure FTP (File Transfer Protocol) to secure data transaction from the web. The SSL will be enabled on all the websites hosted, enabling all transactions in encrypted form. All users who access the information must have their websites SSL enabled. The FTP server would be SSH (Secure Shell) enabled and also the clients need to support SSH. That is, file level security is through digital signature and encryption & encryption coupled with signing where as submission level security is through FTP. The bureau also maintains itself up to date with new anti malware signatures and patches and the latest patches are immediately installed on the system. The bureau focuses on user activity monitoring in order to ensure that their actions meet security practices.

Risk

Data Center Protection (Physical Security)

The old adage of network security, that “security is like an onion” (it makes you cry!), because you need to have it in layers built up from the area you are trying to protect, applies just as much for the physical security of the data center. Physical security is often a second thought when it comes to information security. Since physical security is very often considered to be an administrative element, it is often overlooked because of the most companies’ primary focus on technology oriented security counter measures. Hacking into network systems is not the only way that sensitive information can be stolen or used against the company. Physical security must be implemented correctly to prevent attackers from gaining physical access to data center and steal the data. All the firewalls, cryptography and other security measures would be useless if that to occur. The challenges of implementing physical security are much more problematic now than in previous decades. These days, any body having the access to the data center can steal the data by using the portable devices like laptops, USB drives, tablets, flash drives and smart phones.

Risk Mitigation Strategies

The bureau has adopted multilayered physical security system with each layer equipped with various monitoring and surveillance devices to track the unauthorized access to the data center. The goal of each layer is to restrict access if breach has occurred in earlier layer. As a matter of fact, the security is all about keeping unauthorized hands off the IT property – it is about locks, guards, cameras and alarms. The controlled physical barriers, extensive CCTV camera surveillance, security breach alarms, biometric checks, indoor surveillance for ID verification, multiple forms of verification, monitoring of all authorized access are in place in each layer to restrict any unwarranted entries. All the critical data center equipments such as servers, switches, storage devices are housed in the well designed inner protective zone that is inaccessible except to the authorized persons. All the server room equipments are stacked into the cabinet with lock up facilities to prevent any physical access.

In order to provide continuous operation under all foreseeable circumstances and prevent any loss of data, the failover mechanisms are in place that immediately take over and prevent any breakdowns. The data center is equipped with back up generators, batteries, UPS, fire detection and suppression systems, lightning protection system, moisture detection system, facilities monitoring devices and central monitoring of all the components of the data center to prevent any outages and loss of data. Apart from this, the bureau has Disaster Recovery Site in National Information Technology Center in Singh Durbar to provide uninterrupted service in case of any system breakdowns in Primary site.

Risk	Risk Mitigation Strategies
Data Security (IT staffs) The complexity involved in managing the bureau's data center IT environment combined with growing amount of data streaming through banking sector require diligent IT administration and effective data management policies. Nevertheless, humans are not infallible, an accidental deletion or failed backup can result in unknowingly losing customer or proprietary information or the inability to access important evidence required to diagnose a security event. Large percentage of data loss instances are the result of accidental user error. In the event of a security breach, human errors resulting in failed data backup could mean the bureau without vital event log information to articulate where the attack or malware originated. Many international researches have indicated that one of major reasons for the data loss and security vulnerability comes from the most common IT mistakes and oversights of the IT staffs. The most common mistakes are (i) failure to document and execute established IT, retention and backup procedures, (ii) failure to backup effectively, (iii) failure to adhere to and maintain relevant security policies (iv) failure to keep OS and security controls up to date and (iv) deleting data that is still in active use etc. Data loss may also occur because of system misconfiguration, poor patch management, use of default user names or passwords or easy to guess passwords, lost devices, disclosure of information via an incorrect email address, double clicking on an unsafe URL or attachment, sharing passwords with others, leaving computers unattended when outside the work place, using personal smart phones that connect to Data Center network etc.	The bureau has taken fundamental precautions such as i) restricting access to sensitive data to unintended recipients, ii) deploying security controls, using automated safeguards such as cryptography, password management, identity and access management, network access rules and automatic standby locks iii) prioritizing hardware upgrades iv) using effective recovery plan for data loses v) rigorously testing and validating IT network processes vi) having two step protocols for the file deletion etc to prevent any data losses because of human errors. The bureau focuses on educating and training employees in their job roles that will help to improve overall workplace competency, reducing the likelihood of human error. This is especially important for staffs dealing with mission critical data of the bureau. Such critical data are reserved for the access to the few well trained employees. Reducing the access to these systems will reduce the likelihood of human error. The bureau regularly makes its staff test the disaster recovery plan. To put disaster into perspective, the bureau makes the employees run through simulated human error disasters. This has allowed the bureau to test its own DR plan to ensure its effectiveness, and conduct a real life simulation for the training purposes. The bureau has also taken due precaution to avoid any likelihood of data theft in the data center. The bureau does thorough background checks on new staffs, rotates staffs on the critical jobs, have a fraud action plan which sets out structured response in the event of worst happening. The bureau data center is manned by highly competent IT professional who have many years of experience in data center operation. They are regularly provided trainings on key security issues and policy fundamentals, compliance standards, access principles and security practices and procedures for reporting security incidences.

Risk	Risk Mitigation Strategies
Intellectual Property Protection Since the Data Center hosts various kinds of hardware, system software and application software developed or manufactured by global technology companies, the bureau needs to be extremely careful in protecting their proprietary technologies or solutions embedded in the system failing which the bureau will be subjected to claims and litigation charges from the companies. The use of internet provides easy pathways for intellectual property theft that can cause severe damage to the companies. With the data center having IPs of various technological companies, identifying and safeguarding them is a critical challenge for the bureau.	The bureau has mapped IP inventory installed in the Data Center and has employed robust compliance standard and appropriate policy and procedures to plug and prevent IP leaks. The IP inventory is monitored regularly and corrective actions are taken immediately in case of any eventualities. The staffs are given advanced training on various measures that helps to check and curb the IP thefts. To abort "Foil phishing" which is widely used by hackers to get into the system and steal the IP resources, the bureau employs a mix of spam filtering and latest antivirus to stop such incidents. To prevent malware attacks, the bureau updates all the applications on time and resorts to web filtering services which will help to block entire categories of malware sites. Apart from this, controlling access to sensitive data and having an incident response plan to investigate and respond to security breaches are given utmost priority and are in place.

Risk	Risk Mitigation Strategies
Technology Incompatibility The technology is changing very fast and so is the bureau's system and its technology base. Many hardware that were purchased few years back runs the risk of being obsolete in few years time with no replacement and spare parts. New upgraded versions of the hardware appears in the market each year making the switchover cost to new hardware very expensive. The bureau also runs the risk of incompatibility of Application System because of the evolving industry standards and user's technology platforms. Any incompatibility may pose serious problems to the bureau to be at same league with other credit bureaus of the region and share the data with them in the future.	The bureau has employed a flexible, scalable and service oriented architecture (SOA) that can be incrementally extended or forward integrated with the new hardware and systems without any major changes in its core platform. The Silverblade system is built on the memory data grid, allowing new instances to run the same applications and share the workload while retaining the transient state information. The system can also be integrated with new instances through interfaces or middleware. The bureau consistently applies upgrades where needed in order to be in line with the industry standards and bridge incompatibility gap with new system. The bureau's vendor has maintained the inventory of the hardware and its spare parts to replace or repair units in case any faults or malfunctions on them.

Operational Risks

Risk

Borrowers' Identification

Though the large population of the country has the citizenship card as their personal identification, the citizenship number does not seem to be unique creating a lot of problems in correct identification of the borrowers. A person may have multiple citizenship cards where as a citizenship number belongs to multiple persons making the correct identification of the borrowers more difficult. Having multiple citizenship cards gives lot of avenues for the willful defaulter to take the loans from various banks and default on them.

Without correct identification, the bureau runs the risk of incorrect subject matching leading to wrong loan profiles being included in the person's credit report. This will have serious impact on the credibility of the bureau and make the users apprehensive about using our reports for their lending decisions. Such incidents lead to quick and dramatic effect in reducing the number of users visiting our site thus affecting adversely in our earnings.

Risk Mitigation Strategies

The bureau has developed a unique algorithm based on various combinations of borrowers' personal information that has remained very effective to correctly identify the borrowers and their loan profiles. Though the algorithm has remained very stable and is reliable so far, the bureau keeps on improving on it to reduce any remote chances of errors on the identification process.

Because of the increasing number of borrowers' profiles, the bureau is contemplating to use biometric solution in the future for the identification purposes and further integrating this solution with the Silverblade system.

Risk

Quality of Data

The "quality data" is the lifeline of the bureau without which bureau runs the risk of losing credibility of its credit reports. But since the data is collected from the banks and financial institutions; the accuracy of which the bureau has no control over, the bureau always runs the risk of having poor quality data that affects the final outcome of the credit report.

Risk Mitigation Strategies

The bureau regularly imparts trainings to the banks and financial institutions to maintain the correct and complete data about the borrowers and educates them about how it is going to benefit them in having quality credit report from the bureau. The bureau from its side has put in place required measures to check the quality of the data entering into its system by subjecting them to validation engines where it goes through various layers of sanity checks before it enters into the bureau's database. All the data that do not meet the required standards are rejected and sent to the financial institutions for the corrections and these cycles are repeated many times unless all the data are completely corrected. Thus, though the bureau has least control over the data entered by the financial institutions, it puts all its efforts in ensuring that data meets all its required standards as set by the bureau.

Risk

Confidentiality of Data (User's end)

The bureau's data is used by the banks and financial institutions where it is exposed to users of the banks. There are most likely chances that data leaks may occur at the users end exposing the bureau to data confidentiality risk. The credit reports may be used for ulterior purposes other than specified by the NRB regulation.

Risk Mitigation Strategies

The bureau allows the access of the services only to the authorized users of the banks and financial institutions. Only few "user accesses" are granted to each bank and each user can access the service only through username and password. The concerned banks have to be responsible for any breach of confidentiality of the data by their users. As per NRB directive, the credit reports can be used only for the permissible purposes. Any misuse of the bureau's information is considered as a serious offence and is subject to punitive actions by the NRB. The bureau can immediately debar the service of the bank if found engaged in misuse of data.

Risk

Retention of IT talents

"IT talents" is a hot commodity in the market now which shows no signs of cooling off. The market for quality IT engineers has tightened. They are limited in supply but high in demand. With a shortage of good talent and increase in demand, it is hard to find and keep experienced and skilled workers. Recruiting and retaining top IT talents in the bureau isn't quite so cut and dried which seems a constant uphill battle. Being an IT driven company engaged in providing online data services to the banking sector, the bureau can least afford to lose IT talents which can have serious impacts on manning and maintaining the application system and Data Center at its best level. It is extremely difficult to replace the experienced and talented workforce immediately and the cost of attrition can be staggering and extremely high.

Risk Mitigation Strategies

In order to recruit and retain the best talents, bureau focuses on providing competitive salary, a good work environment, ongoing education and advancement opportunities, job security, work life balance and a very challenging and fulfilling scope of works. The bureau provides a great sense of agency and independence to engineers and provides stimulating environment where engineers can unleash their passions, challenge their intellects and engage their creativities. The bureau fosters a blameless culture, a culture that does not turn around and blame or point fingers, to make them feel supported and encouraged to carry out innovative ideas. It recognizes their good works and innovativeness, gives praises, acknowledges contributions and compensates them accordingly.

Risk

Power System Outages

Data Center consumes plenty of power to not only power its equipments but also to keep data center cool at its set point temperature. Since the Data Center has to run consistently through out the year (24x7x365), the bureau has to ensure that power is available all through out without any interruption. Looking at the most likely chances of long load shedding hours in the capital city in the near future, the bureau runs the risk of power outages in the data center thus incurring huge business loss and losing confidence of its users on its services.

Risk Mitigation Strategies

The bureau has taken all the measures possible to provide uninterrupted services to its users. Data Center is equipped with high capacity UPS, Batteries and Generators that can feed power to the Data Center in case of any breakdown on commercial power supply. In case that UPS fails to withstand the load for a long time or all redundancies fail to operate, the bureau can immediately activate DR site to provide service. The DR site equipments are housed in National Information Technology Center (NITC) located in Singhdurbar, Kathmandu. NITC is equipped with 24x7x365 uninterrupted commercial power supply provided through two separate dedicated power supply feeders of Nepal Electricity Authority. Apart from this, it has high capacity UPS, Batteries and Generators that can withstand the Data Center load for many hours.

Risk	Risk Mitigation Strategies
Insurance Coverage The plants, equipment and machinery are exposed to number of risks inherent in their operations in addition to exposure to natural calamities. There is always the risk of loss or damage to the facility because of fire, earthquake and other natural calamities that may closedown the bureau's operations.	All the data center equipments and infrastructures have been safeguarded with adequate insurance coverage.

Business Risks

Risk	Risk Mitigation Strategies
Revenue Generation The business of the bureau largely depends upon the business of the banks and financial institutions. Banks are the sole clients or buyers of the bureau's services. As the banking business grows and the lending increases, so grows the credit information enquiries leading to the increase in the revenue. Similarly the slump in the banking business reduces the number of enquiries and thus its revenue. Any factor that affects the banking business has the reciprocal effect on the bureau's business as well. Such reliance on the single client and its business make the bureau vulnerable to the risk and make it difficult to forecast its future cash flows and earning potential.	The bureau has embarked into two new sectors and introduced two new services (secured transaction registry and microfinance bureau services) recently in order to diversify its business portfolio and increase its revenue base. The revenue generated from these two new services is expected to counterbalance any decrease in revenue from the sales of credit reports in case of any downturns in banking sector business. Apart from this, the bureau plans to bring out various kinds of value added products and services in the near future that will generate additional revenue for the bureau. The bureau also wants to extend its coverage to the utilities and other sectors by collecting the data of serious defaulters from those sectors and make its credit report more inclusive and comprehensive. Such advanced products can be another source of revenue stream for the bureau.

Risk	Risk Mitigation Strategies
Compliance & Regulation The risk of revoking the provision by NRB to compulsorily obtain the credit report of the borrowers by the licensed institutions before extending any loan to them may badly affect bureau's earnings and put it in a very difficult position.	The bureau is putting all its efforts to make its products and services highly market driven and as per the needs of the users. The objective is to enrich the quality of its credit report and make it very inclusive and informative so that its users consider the product very useful and of great value to them to have and make decisions based on it. The bureau focuses on creating the value of report to the users thus creating its demand and increasing its sales and revenue rather than relying on NRB compliance that enforces the users to obtain the report compulsorily.

Financial Risks

Risk	Risk Mitigation Strategies
Risk that arises because of financial liabilities of the company in terms of debt, trade and other payables.	The bureau has financial assets, trade and other receivables, cash and bank balance, short term deposits that arrive directly from its operations. The implementation of Silver Blade system and Secured Transaction Registry system was financed by the bureau's own resources where as the microfinance bureau was financed through ADB Grant. Thus the bureau does not bear any financial liabilities till date and has the capability to arrange its own resources for the future expansions.
Interest Rate Risk that arises because the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Subsequently that future proceeds have to be reinvested at lower interest rates.	Interest rate risk may not pose serious problem for the bureau since interest income is not the main income and has only marginal contribution on bureau's total income.
The risk that counterparties will not meet its obligations under a financial instrument or customer contract which will lead to financial losses.	Since the customers of the Bureau are all banks & financial institutions, it is exposed to minimum credit risk.

Reputational Risk

Risk	Risk Mitigation Strategies
Reputation is difficult to build and easy as pie to destroy. Reputation is fragile. What it takes decades to build can be lost in matter of days. Bureau's reputation is perhaps its most valuable asset. Being in service sector with the consistent pressure to deliver the high quality, seamless and uninterrupted service (24x7x365) to its users at the affordable cost puts the bureau always at risk to lose its credibility and reputation in case of failing to do so. Poor quality of report, poor service, poor data security and confidentiality, decreasing revenue or increasing operating costs, financial issues, lower dividend payout, poor management, errant employees and their turn over are few factors to say the least that will have direct impact on the bureau's reputation that may lead to loss of revenue and business for the company.	Bureau pays close attention to and keeps focus on key areas that is critical in managing reputational risks. Bureau aligns them in five critical areas - strategic alignment, cultural alignment, quality commitment, operational focus and organizational resiliency. The bureau has strong management oversight on matters of strategy, policy, execution and transparent reporting that is vital to effective corporate governance, a powerful contributor to sustaining reputation. The bureau regularly revaluates its risk management programs and proactively manages risk to reputation by carefully integrating risk into strategy setting and business planning. It has built a positive culture regarding compliance with laws, regulations and internal policies. It has in place strong control environment and has built organizational resiliency to counter high impact risk events. In addition to bureau's commitment to integrity and ethical values, the control environment consists of the organization structure and assignment of authority and responsibility and setting appropriate performance measures for those responsibilities.

Employee Benefit Risk

Risk

Though providing an attractive benefits package to employees is of growing importance to hire and retain many quality employees in the company, it comes with a huge price tag and is risky. The company may face lawsuits by employees in case of errors, omissions or any discrepancies in benefits provided to them. There are many litigation cases petitioned by the employees against their employers in the court of law in connection with the employee's benefits.

Risk Mitigation Strategies

Being a small company, the scope of the bureau's employees' benefits schemes is not large enough that makes the bureau susceptible to the risks. The bureau has two benefit funds namely Gratuity Fund and Leave Fund. A gratuity fund is part of the total lump sum an employee receives from the bureau for the service rendered by the employee to the bureau. The amount payable as gratuity is equivalent to certain days/months of salary (as per the provisions) per year multiplied by number of years of service multiplied by the last salary drawn in office.

Similarly the leave fund which is another component of the benefit scheme is accumulated unused home and sick leave that will be paid to the employee at the time of the retirement. The home leave can be accumulated for maximum of ninety days where as sick leave can be accumulated for maximum of forty five days during the total period of the service of the employee. The gross obligation for the company for sick leave encashment is calculated considering the last drawn salary multiplied by ninety days where as for home leave, it is last drawn salary multiplied by sixty days. Since the funds have been created, there are least likely chances that bureau defaults on the payment and may risk facing any legal challenges in the future.

13. Issues and Problems affecting the service of the Bureau

Issues & Problems

Data Quality

Data quality has always remained the major concern for the bureau. As per the General Principle, the bureau must have relevant, complete, correct, current and sufficient data from the data providers.

But since data is collected from external sources where bureau has no control over, collecting the quality data on regular intervals has been quite a challenge to the bureau. In spite of all its efforts, the bureau is still finding difficulties in meeting desired level of data quality as per the best international practices. One of the major reasons for the poor data quality is the lack of proper legal and regulatory framework that enforces banks and financial institutions to submit the quality data on time. Neither there are any provisions for strong punitive actions in case of banks failing to do so.

Solution Strategies

The bureau has been focusing on three major areas to address this data quality issue.

Regulation

One of the most effective ways to solve this problem is through the implementation of best international practice of "principle of reciprocity" in information collection and dissemination i.e. disseminate the information to only those institutions that share the data with the bureau. Those who fail to share the data are not entitled to have information from the bureau. The bureau is working very closely with the NRB to include this provision in the Regulation and Directive.

System

The newly implemented Silverblade system has all the mechanisms in place to check the quality of the data. All the incoming data comes in a predefined file format (IFF) and are subjected to validation engines for the sanity checks. Only those data that qualify the sanity checks and meet the quality standards are absorbed by the system. Poor data are subjected to iteration cycles and are sent to data providers for the corrections and rectifications and this process continues till the data are purified and absorbed by the system.

Awareness and Education

The bureau has been conducting regular trainings and awareness programs to the member institutions educating them about the importance of data quality and how it is going to affect the quality of the credit report and other services that bureau plans to bring out in the future.

Data Collection threshold

The collection of the borrowers' records of Rs.1million and above facilities as set by the Central Bank's regulations has restricted the bureau from collecting the data from small borrowers thus preventing the bureau from making its database more inclusive.

Though the issue has been addressed by the Central Bank in its Monetary Policy 074/075, it has yet to be published in the NRB Directive.

Legal and Regulatory Framework

The existing regulatory provisions have failed to address various issues related with the effective operation of the bureau such as regulatory oversight, obligations of the bureau and data providers, data confidentiality, data security and integrity, data processing rules, data exchange rules, information dispute and rectification process, consumer rights etc.

As per the best international practices, the Bureau should also be granted the right to collect the data from the 3rd Party sources such as utilities, courts, tax departments, bankruptcy filing offices etc in order to make its database more inclusive.

There is the immediate need to have the Credit Bureau Act that will empower and regulate the bureau and provide comprehensive regulatory framework incorporating all the necessary provisions for its functioning.

The bureau has developed the initial draft of the Act and submitted it to the concerned authorities for the review and further actions.

The Ministry of Finance has included the preparation of Credit Bureau Act under its Financial Sector Reform Project funded by DFID. The Ministry will set up a committee having the members from NRB, CIB, Ministry of Finance and Ministry of Law to work on the Credit Bureau Act.

14. New Systems and their Successful Operations

Though all the three systems (advanced commercial bureau / Silverblade, Microfinance Bureau, Secured Transaction Registry system) have been launched by now, the bureau faces new challenges in making them successful in terms of their use by the targeted segments.

Challenges	Solution Strategies
Secured Transaction Registry Service Unlike commercial and MF bureau whose target market segments are the BFIs and MFIs respectively, the secured transaction registry targets the individuals or enterprises of the country who are interest in borrowing or lending the money against the movable assets. That is the target groups extend beyond the banking sector to the business and consumers who may make the use of the law to gain access to the credit that has been unavailable to them so far.	Since its major target segments are the individuals and big or small public or private enterprises, it has developed two pronged strategies to target them. *i) Create awareness about the system and service:* Bureau plans to conduct extensive series of awareness programs that will educate the people about the Registry and its benefits. The bureau will use print and broadcast media or use media mix to reach to the target segments.

Since the banking sector was primarily focused during the initial phase of the launch of the service, many users beyond the banking sector are still unaware about the service and its benefits. Unless the service reaches to all the target users, its success can not be guaranteed and it loses all its purpose for which it was introduced in the economy.

ii) System accessibility

In order to reach to the common people and make them use the service, the system must be accessible and user friendly. Taking this into consideration, the bureau has developed a very simple, effective yet user friendly system to help users register the notices without any problems. The system is developed in such a way that even a person with simple computer skills can easily access the system and register notices. The notices to be registered are kept as minimum as possible with the information of debtor, secured party and collaterals only. The system is web based and can be accessed from any place where internet service is available.

Microfinance Bureau

Though the microfinance bureau service has been launched with the data of limited number of microfinance institutions, it will take few more years for the bureau to collect the data from all the microfinance institutions located all across the country. Many MFIs suffer from the lack of readiness to join the bureau because of their poor data quality, poor MIS, unskilled staffs, poor resource base and poor awareness level about the bureau and its services.

The bureau also faces further challenges in its operation because of the lack of required legal and regulatory frameworks that is adequate for the effective operation of MF credit bureau. Though the Central Bank has come out with the MF Directive requiring all the microfinance institutions to join the bureau, be its member and take credit report before extending any loans of Rs.50,000 and above facilities, the regulation is silent in case the MFIs default in doing so. There are no any punitive actions that could be enforced in case MFIs fail to join the bureau and share the data.

Challenges also exist in setting up the tariff that is acceptable to the microfinance institutions and encourage them to join the bureau.

Market Penetration Strategy

The bureau plans to adopt top down approach in its attempts to collect the data from microfinance institutions. It is assumed that top tier microfinance institutions regulated by Central Bank are relatively better in terms of their data quality, MIS, skilled staffs, resources etc. The bureau's focus will be to collect data from all "D" class financial institutions regulated by Nepal Rastra Bank (microfinance development banks and financial intermediaries) in the initial phase of its operation (Phase 1/Year 1) followed by the collection of data from MF institutions located in Kathmandu valley in Phase II/Year 2, Regional Centers and Towns in Phase III/ Year3 and all across the country in Phase IV/ Year 4.

Legal & Regulatory Framework

The Bureau is working with Central Bank to come out with the inclusive MF bureau Directive that incorporates all the major issues related with the MF bureau operations.

Tariff

The MF bureau will put the service into Pilot Run initially in order to study the Hit Patterns of the service during the pilot period that will help in setting up the tariff. A committee comprising the members from MF associations, Central Bank, Ministry of Finance and the bureau will be formed to reach to a consensus on tariff.

Education and Awareness

Bureau plans to conduct various levels of trainings to the microfinance institutions to educate them about the bureau, its benefits and how it is going to help them in making better lending decisions and reducing their non performing loans. The trainings will be conducted on the regular basis in Kathmandu and country's regional centers.

Silverblade System

The success of the Silverblade system which was launched recently depends very much on the quality of its credit reports, quality of its service and various kinds of value added products and services it pulls out in the future.

The bureau will be focusing on collecting all the data irrespective of any threshold from the financial institutions on a timely basis to enrich its database. The bureau will employ various sanity check techniques to improve on the quality of the incoming data. The bureau will continuously improve on the system and incorporate latest application and security modules to make the system more functional and secured. The bureau plans to pull out Credit Bureau score once all the data from financial institutions are collected and gets matured.

15. Action Plans for the Year 074/075

Since all three new systems (New Commercial Bureau, Microfinance Bureau and Secure Transaction Registry) have been launched and put into operation, the major focus of the bureau in the year 074/075 will be to constantly monitor all these three systems and bring continuous improvement in their performances. The collection of data, its sanitization and maturity, hardware system performances, trainings, capacity and institutional development are few areas where the bureau has to put its focus in the incoming year.

- As is so common in any new system launches, Silverblade system may encounter many "post launch" issues and problems in the initial phase of its operation either at its system ends or client ends. The system has to be continuously monitored through out the year and all the issues has to be immediately addressed and resolved. Apart from addressing post launch issues, the bureau will work collectively with the member institutions to collect all the data available with them to enrich its data base and bring maturity in it soon.

- The MF bureau has been launched with the membership data of only twenty seven micro financial institutions. There is huge task ahead to bring all the MFIs under bureau's umbrella and extend its service. The bureau will be engaged through out the year in increasing its membership base and collecting the data from the members.

- The bureau will increase the frequency of the interaction programs with the BFIs and MFIs to discuss more on the issues related with the data quality, data collection, input file format, changes and updates on the new system, dispute resolution and others. The bureau will address all the users' queries related with the systems and services and seek their suggestions for the improvements.

- The bureau will enhance the STR system and incorporate updates on it as necessary as per the suggestions received from the users remaining within provisions of the STR Act and the Regulation. The updates will be done only after getting the approval from Government (Ministry of Finance).

- The bureau plans to conduct massive awareness programs related with STR law, system and service to its other target market segments once the prior transaction period is over. The awareness programs will be conducted all through out the country. The objective of the program is to educate the people about the service and how it is going to help them in lending or borrowing against movable assets.

- The bureau will work closely with the Central Bank to implement regulations that will have direct bearings on the operations of the commercial bureau and microfinance bureau. Since collection of data has always remained the major concern for the bureau without which the bureau can not deliver its services as expected, the bureau will take up the issues to the relevant authorities to issue the necessary regulations regarding the matter.

- The bureau plans to take new measures for the capacity building and institutional development of the company. The bureau plans to restructure its "organization structure" and recruit additional staffs in technical and operations division to cope up with the increased workload. Apart from this, the bureau plans to take new measures for the capacity building and institutional development of the company. All the staffs will be trained and exposed to best international practices in credit bureau operations through various layers of local and overseas training.

16. Long Term Action Plans

- Organize the Business and its Processes around a strong technology platform. Use Technology all across the operations to increase efficiency in service delivery, reduce costs of operations, provide internal support system and manage changes fast etc.

- Enhance the scope of operation by collecting information from 3rd Party sources such as utilities, leasing companies, insurance companies, investment funds and other lending institutions. Enrich the quality of the credit report by making it more inclusive and informative.

- Bring out various kinds of value added products and services on a phase wise basis. This includes the simple products like credit scoring, check return and identification verification in the initial years followed by more complex products such as Fraud Prevention, Marketing Services, Basel II models and Behavioral Statistics in later years.

- Expand the service of microfinance bureau to reach to all the microfinance institutions all across the country within five years of the implementation of the service.

- Bring all the potential users of Secured Transaction Registry service within its umbrella within three years of its implementation of service. Implement highly effective and focused awareness programs to reach to the potential target groups.

- Work closely with all the government agencies to have a dedicated Charter Act for the bureau. (the charter act has been prepared and sent to a law firm for the feedbacks and suggestions)

- Establish bureau as one window solutions provider for various kinds of credit risk assessment solutions to the banks and financial institutions of the country by building the largest credit information data bank and adopting world class technology, practices and solutions.

- Establish bureau at par with other credit bureau operators of the region in terms of the quality of service, scale and scope of operations.

17. Growth Potential and future prospects of credit bureau

- Inadequate access to finance and credit has remained one of the most critical components to economic development, particularly for the rural households and micro, small and medium enterprises (MSMEs) of the country. As some 80 percent of the Nepalese population lives in rural areas and about two-thirds of them rely on agriculture, extending financial services to the rural people is especially meaningful for the inclusive growth of Nepal. Despite tremendous needs, large population of rural Nepal is still deprived of the access to finance. MSMEs also require access to finance to meet short term and long term capital needs and to grow and expand their businesses.

- Given the difficult geographical terrain of the country, potential customers are widely dispersed in rural areas where it is not cost effective for lenders to operate a branch network. Apart from this, with limited access to inclusive and timely data, lenders are concerned that borrowers might accumulate many loans from multiple lenders - potentially resulting in their over indebtedness and leaving lenders with an unacceptably large portfolio of non performing loans. Against the backdrop of such challenges, credit bureau can perform the crucial functions of gathering and distributing reliable credit information, improving creditor protection and strengthening credit markets. In effect, the need for physical collateral can be at least supplemented with reputational collateral.

- Transparent credit information is a prerequisite for sound risk management and financial stability. Credit bureau, support financial stability and credit market efficiency and stability in two important ways. First, banks and non-bank financial institutions (NBFIs) draw on credit reporting systems to screen borrowers and monitor the risk profile of existing loan portfolios.

  Second, the Regulator relies on credit information to understand the interconnected credit risks faced by systemically important borrowers and financial institutions and to conduct essential oversight functions. Such efforts reduce default risk and improve the efficiency of financial intermediation. These efforts ultimately benefit consumers through lower interest rates.

- The Credit Bureau system can mitigate a number of market failures. The availability of high-quality credit information, for example, reduces problems of adverse selection and asymmetric information between borrowers and lenders. This reduces default risks, which in turn results in lower average interest rates, enhances competition in the credit market and ultimately increases access to credit and allocation of new credit in the economy. Information sharing can also promote a responsible "credit culture" by discouraging excessive debt and rewarding responsible borrowing and repayment.

- Perhaps most important, credit reporting allows borrowers to build a credit history and to use this "reputational collateral" to access formal credit outside established lending relationships. This is especially beneficial for small enterprises and new borrowers with limited access to physical collateral. Stylized evidence from the past

financial crisis also suggests that positive credit information helped to safeguard the financial access of creditworthy borrowers that would have otherwise been cut off from institutional credit.

- Thus in a nutshell, Credit Bureau is a critical element of a country's financial infrastructure, and is essential for facilitating access to financial services. It supports the sound and fair extension of credit in an economy as the foundation for robust and competitive credit markets. It helps ensure financial stability by enabling responsible access to credit to the underserved and un-banked population of the country. They facilitate lending processes by providing lenders with objective information that enables them to reduce their portfolio risk, reduce transaction costs and expand their lending portfolios. By doing so, the credit bureau enables lenders to expand access to credit to creditworthy borrowers including individuals with thin credit files, micro entrepreneurs, and small and medium enterprises. Against this backdrop, the credit bureau 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 borrowers in the country.

18. Growth Potential of Secured Transaction Registry

- An effective secured transaction regime is a fundamental component in any financial system and is essential to the development of the economy. It provides a legal regime through which secured creditors can reduce several of the risks relating to the granting of the loans or other forms of credit to business enterprises (consumers). Generally, a secured transaction is a loan or a credit transaction in which the lender acquires security interest in collateral owned by the borrower and is entitled to foreclose on or repossess the collateral on the event of borrowers default. By enabling lenders to take security interest in collateral (that is the movable assets of debtor), the law of the secured transactions provides the lenders with assurance of legal relief in case of default by the borrower. The availability of such remedies encourages lenders to lend capital at lower interest rates, which in turn facilitates the free flow of credit and stimulates economic growth of the country.

- It is a well known fact that access to finance is one of the most important components for economic development of the country. Farmers need to purchase new equipment such as fertilizers and farming equipment, new and existing small and medium enterprises need start up capital, manufacturers need financing to purchase new equipment and consumers need to purchase new consumer goods or replace existing ones. The risk endemic to the advancement of credit in Nepal can be substantially mitigated by providing security to credit. Since land is not available for most people and businesses of the country, movable property such as machinery, automobiles, inventory and account receivables can provide necessary security.

- Against this backdrop, the STR law becomes critical to maximize the economic potential of movable assets of SMEs where SMEs are the mainstay of the economy. The STR service can have strong impact on SME finance, by building greater transparency in the financial system, enhancing the rights of creditors and debtors and providing for certainty in the priority scheme against 3rd parties, thus giving financial institutions greater confidence to lend against the movable assets of the SMEs.

19. Growth Potential of Microfinance Bureau

- While number of microfinance institutions are increasing rapidly in the country and the demand for credit has risen exponentially, there has been a parallel increase in number of unforeseen difficulties with increased problems of multiple lending, credit delinquencies and borrower's over indebtedness that has muted the benefits of micro-lending. Without systems to safeguard against such negative outcomes, the ability of microfinance to significantly advance financial inclusion is seemed to be at risk.

- The microfinance sector has huge upside potential which creditors are increasingly eager to tap. The rural credit requirement in the country is many times higher than the total supply from the formal and informal sectors. Of the approximate households living below poverty line, more than half are deprived of services from the formal microfinance sector. Even though, the definite demand forecasts for Microfinance is still elusive, there is much anecdotal evidence to conclude that market for micro-credit is growing rapidly and will continue to grow in the future.

- With the growth of both demand and supply side (more untapped borrowers and more funds to lend) along with the parallel increase of the associated risks, a microfinance credit bureau would be a vital ingredient to restrain the growth of credit delinquencies and extend access to financial services to the poor. The bureau acts as an intermediary between lenders and borrowers and brings many benefits to both creditor and debtor, helping to create a credit-conscious culture while reducing the number of delinquencies on loans. It will help micro financial institutions to stop over indebtedness as a result of multiple borrowings. From a broader perspective, an MFCIB will encourage competition among lenders, reduce the cost of borrowing for good customers,

enhance the compliance culture, and promote greater economic activity among the vast majority of Nepal's population.

- Those MFIs who are connected to the bureau can reduce their operational costs and can have a comparative advantage in the market; that is, they can drop their lending rates, offer more products, increase their market share, and achieve greater financial self-sufficiency. Mobile banking (or branchless banking) which is taking its momentum now is likely to grow rapidly in Nepal and should enhance the need for and value of an MFCIB, since it will permit the deepening and broadening of the MFCIB data base.

- To put it in an encapsulated form, the MF bureau has a huge potential to grow in the future. With the growing number of microfinance institutions and increasing subscriber base, it can play a meaningful role in supporting the microfinance institutions to mitigate various risks associated with the credit expansion. It has the potential of overcoming sector specific weaknesses, extending the reach and benefits of the "microfinance" among the poor. It will extend outreach of the credit to low income families, mitigate poverty by expanding access to finance, reduce operational costs of MFIs and promote credit culture and more competition among the MFIs.

20. International trends in Credit Bureau development and its impacts in Nepal Bureau

- The vast majority of the countries, nearly more than three quarters surveyed in the World Bank Doing Business in 2016, have either one or more private bureaus or public credit registry. Most of these credit reporting service providers were established in the 1990s and 2000s. Over the past few decades, there has been a decided shift toward the establishment of private credit bureaus. A number of factors can be attributed to this proliferation of credit reporting, including the spreading of market based economies, economic development, expansion of retail lending, and advancements in information technology combined with reductions in their costs. In addition to these "organic" drivers, there has also been increased attention by researchers on this topic who have found positive economic and social impacts from credit reporting and private credit bureaus in particular. These findings, in turn, have driven policy makers, regulators and development organizations to prioritize the development of credit information sharing. Today, market actors and policy makers all across the globe view credit reporting as a key aspect of a nation's economic growth.

- The credit reporting industry experienced unprecedented growth since 2000, especially in emerging markets. In terms of bureau coverage, Latin America and Caribbean region continues to lead among developing regions. Yet, since 2005, credit bureaus in Europe, Central Asia, East Asia and Pacific, and the Middle East and North Africa have demonstrated significant leaps in improving their coverage. Although Sub Sahara Africa had the least developed credit information infrastructure, the region has made significant strides in recent years.

  In addition to coverage, credit information availability index (index based on positive/negative data, data on both individuals/firms, data from retailers and utility companies, minimum two years of historical data, penetration of 1 percent of adult population, borrowers' right to access their credit reports) was highest in Europe and Central Asia region followed by Middle and North Africa region. The Latin America, Caribbean and South Asia region moved to third place where as East Asia and Pacific region were tied for the last place.

- Since the early 2000, several new Credit Reporting Service Providers (CRSPs) with international operations have emerged as major players in credit bureau market. They include i) CRIF from Italy having presence in Europe, North America, Latin America, Caribbean, Asia and Africa region ii) Creditinfo from Iceland having presence in Europe, Central Asia, the Middle East, Caribbean and Sub Sahara region iii) Campuscan from South Africa having presence in South African region, iv) XDS having presence in East Africa region, v) Veda Advantage from Australia having presence in Australia region, vi) Dun & Bradstreet having presence in Asia Pacific, the Middle East and Sub Sahara Africa region.

  The entry of many CRSPs has intensified the competition that has resulted in better product offerings and lower prices. Many bureaus have tied up with these CRSPs and have set up partnerships with them to introduce best technology, operating system, international practices, operation know how, resources etc in their bureaus.

- In over hundred countries that credit bureau exist, massive changes in ownership structure and legal and regulatory frameworks have been observed lately. On the ownership front, there are the two extremes. On one extreme, one, two or a few very large data furnishers (typically lenders) own the majority of the private bureaus where as on the other extreme independent/third parties own the bureau. It has been observed globally that bureau ownership by independent third parties (not data furnishers or data users) is found to be optimal ownership structure to enable long term bureau development. Many countries are following the later option of late.

  Although credit reporting systems have existed at least since the 1800s, specific regulation of credit reporting system coincided with the technological developments of 1960s and rising concerns over transparency and individual rights. The growing recognition of

credit reporting activities as a core function in any modern financial market has become a catalyst for the regulation of these activities. Regulation of credit reporting activities usually focuses on licensing of credit reporting service providers, imposing responsibility for data accuracy, collection and disclosure, consumers having access to their information and being able to have erroneous information corrected, compliance monitoring, and enforcement.

- It has been observed across the globe that there is however no consensus on what constitutes an adequate legal and regulatory framework for credit reporting as there is a natural tension between the objectives of having access to broader sources of information for enhanced credit reporting and the interest in preserving individual privacy. Though the contents of the regulatory framework differed, it was observed that many bureaus all across the globe had their own Statutory Act that empowered them with adequate regulatory provisions to deliver the effective bureau services to the users.

- In our SAARC region, the CIBIL of India is the largest in terms of its database size with 136million records spanning across consumer and commercial borrowing space. It has the diverse shareholding with leading banks, financial institutions and international credit bureaus (Transunion and Dun & Bradstreet) holding a stake in it. Similarly the bureaus of Sri Lanka, Bhutan, Maldives, Pakistan and Bangladesh all have highly advanced bureau systems in place. The bureaus of Sri Lanka, Pakistan, Bhutan, Maldives and India are having D&B credit reporting system where as Bangladesh is having that of CRIF. All the bureaus have been empowered by their respective governments with special Credit Bureau Act to operate the services.

- The launch of the Silverblade system has put the Nepal bureau in same league with other bureaus of the region in terms technology, system quality and services. The bureau will maintain both positive and negative information and will provide this information to the members in the form of various risk management tools that help credit grantors mitigate risk and increase business profitability. However, we still lag behind in having strong legal and regulatory framework as compared to other countries of the region. The lack of this restrains bureau's growth and hinders it from delivering services as per the best international practices.

21. Bureau's Relations with Shareholders and other stakeholders

- The bureau's relationship with shareholders is crucial to the bureau's future success. The Bureau endeavors to maintain candid and constructive relations with all its shareholders and ensures that they are always provided with ready, equal and timely access to balanced and understandable information about the bureau. Bureau is committed to maintaining the effectiveness of its communications with its shareholders for the purpose of generating a mutual understanding of objectives, trust and confidence between the bureau and its shareholders. The Bureau also recognizes the importance of direct communication between the bureau and shareholders through greater engagement, and that it is accountable to shareholders for creating and delivering value through effective governance of the business.

- Apart from its shareholders, the bureau is closely associated with its other stakeholders -member institutions, 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. The bureau 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 member institutions capable of using the service more efficiently and effectively.

The bureau always ensures that the shareholders' and stakeholders' views are heard and understood and welcomes their questions and concerns relating to the governance of the company.

Financial Indicators

Balance Sheet

Rs.

Particulars	073/074	072/073	071/072
ASSETS			
Non Current Assets			
Property Plant & Equipment	90,835,386	91,957,783	91,097,658
Intangible Assets	183,917,808	183,705,398	183,654,516
Deferred Tax Assets	364,157	1,088,808	1002,215
Total Non Current Assets	***275,117,351***	***276,751,989***	***275,754,359***
Current Assets			
Cash & Cash Equivalents	25,682,370	35,463,046	4,187,265
Trade Receivables	18,078,596	9,872,303	10,139,222
Prepaid Expenses and Advances	35,496,734	35,915,063	11,805,238
Financial Assets measured at Amortized Cost (FD)	561,800,000	415,800,000	362,900,000
Financial Assets held at fair value through Profit or Lass (Shares)	1,000,000	1,000,000	1,000,000
Total Current Assets	***642,057,700***	***498,050,412***	***390,031,725***
Total Assets	**917,175,051**	**774,802,401**	**665,786,114**
EQUITY AND LIABILITIES			
Non Current Liabilities			
Retirement Benefit Obligations	1,998,312	1,909,054	1,909,055
Trade & Other Payables	13,496,743		
Deferred Grant/Fund from Asian Development Bank	231,369,813	231,369,813	231,369,813
Total Non Current Liabilities	***246,864,868***	***233,278,867***	***233,278,868***
Current Liabilities			
Trade & Other Payables	31,504,960	21,041,816	20,630,247
Total Current Liabilities	***31,504,960***	***21,041,816***	***20,630,247***
Equity			
Share Capital	155,112,000	103,408,000	103,408,000
Reserve & Surplus	483,693,223	417,073,718	308,468,999
Total Equity	***638,805,223***	***520,481,718***	***411,876,999***
Total Equity & Liabilities	**917,175,051**	**774,802,401**	**665,786,114**

Income Statement

Rs.

Particulars	073/074	072/073
Income from Operation		
Service Charge	229,899,182	207,386,390
Total Operating Income	**229,899,182**	**207,386,390**
Operating Expenses		
Staff Cost	14,434,572	13,122,757
General Administrative Expenses	33,076,247	30,997,548
Depreciation and amortization	2,418,504	2,275,248
Operating Profit	**179,969,859**	**160,990,837**
Finance Income	32,358,307	21,458,854
Dividend Income	100,000	
Loss on Sale of Assets	55,962	354,420
Profit Before Income Tax	***212,372,204***	***182,095,271***
Staff Bonus	19,306,564	16,554,116
Taxation	48,890,135	41,425,236
---Current Income Tax	48,165,484	41,511,830
---Deferred Tax (Income)/Expenses	724,651	(86,593)
Profit for the Year	**144,175,505**	**124,115,919**

Balance Sheet Ratios and Indicators

Amount in Rs. million

Particulars	073/074	% of total liabilities/ assets	072/073	% of total liabilities/ assets	Changes	
					Amount	%
ASSETS						
Non Current Assets						
Property, Plant and Equipment	90.84	9.94%	91.96	11.87%	(1.12)	-1.22%
Intangible Assets	183.92	20.05%	183.71	23.71%	0.21	0.11%
Deferred Tax Asset	0.36	0.04%	1.09	0.14%	(0.73)	-66.97%
Total Non-Current Assets	***275.12***	***30.12%***	***276.76***	***35.72%***	***-1.64***	***-0.59%***
Current Assets						
Cash and Cash Equivalents	25.68	2.80%	35.46	4.58%	(9.78)	-27.58%
Trade Receivables	18.08	1.97%	9.87	1.27%	8.21	83.18%
Prepaid Expenses & Advances	35.50	3.87%	35.92	4.64%	(0.42)	-1.16%
Financial Assets measured at Amortized Cost (FD)	561.80	61.25%	415.80	53.67%	146.00	35.11%
Financial Assets held at fair value through Profit/Loss (Shares)	1.00	0.11%	1.00	0.13%	-	0.00%
Total Current Assets	***642.06***	***70%***	***498.05***	***64.28%***	***144.01***	***28.91%***
Total Assets	**917.18**	**100%**	**774.80**	**100%**	**142.38**	**18.38%**
EQUITY AND LIABILITIES						
Non-Current Liabilities						
Retirement Benefit Obligations	2.00	0.22%	1.91	0.25%	0.09	4.71%
Trade & Other Payables	13.50	1.47%	-	0.00%	13.5	100%
Deferred Grant/Fund from ADB	231.37	25.23%	231.37		-	-
Total Non-Current Liabilities	***246.87***	***26.92%***	***233.28***	***30.11%***	***13.59***	***5.83%***
Current Liabilities						
Trade & Other Payables	31.50	3.43%	21.04	2.72%	10.46	49.71%
Total Current Liabilities	**31.50**	**3.43%**	**21.04**	**2.72%**	**10.46**	**49.71%**
Equity						
Share Capital	155.11	16.91%	103.41	13.35%	51.70	50.00%
Reserve and Surplus	483.69	52.74%	417.07	53.83%	66.62	15.97%
Total Equity	***638.80***	***69.65%***	***520.48***	***67.18%***	***118.32***	***22.73%***
Total Equity & Liabilities	**917.17**	**100.00%**	**774.80**	**100.00%**	**142.37**	**18.38%**

Income Statement Ratios and Indicators

Amount in Rs. million

Particulars	073/074	% of total core income	072/073	% of total core income	Changes	
					Amount	%
Income from Operations						
Income from Service Charges	229.53	99.84%	207.39	100%	22.14	10.65%
Income from STR	0.372	0.16%	-	-	0.372	
Income from core service	*229.90*	*100%*	*207.39*	*100%*	*22.51*	*10.85%*
Operating Expenses						
Salary &Allowance	14.43	6.28%	13.12	6.33%	1.31	10%
Administrative Expenses	33.08	14.39%	31	14.95%	2.08	6.71%
Depreciation and Amortization	2.42	1.05%	2.28	1.10%	0.14	6.14%
Operating Expenses	*49.93*	*21.72%*	*46.4*	*22.37%*	*3.53*	*7.6%*
Operating Profit	***179.97***	***78.28%***	***160.99***	***77.63%***	***18.98***	***11.79%***
Interest Income	32.36		21.46			
Dividend Income	*0.10*					
Loss on Sale of Assets	*0.06*	*0.026%*	*0.35*	*0.17%*	*(0.29)*	
Profit before Tax and Bonus	***212.37***		***182.10***		***30.27***	***16.62%***
Staff Bonus	19.31	8.4%	16.55	7.98%	2.76	16.68%
Taxation	48.89	21.27%	41.13	19.98%	7.46	18.01%
Current Income Tax	48.17	20.95%	41.51	20.02%	6.66	16.04%
Deferred Tax (Income)/Exp.	0.72	0.31%	(0.09)	-0.04%	0.81	-900%
Profit for the Year	**144.17**	**62.71%**	**124.12**	**59.85%**	**20.05**	**16.15**

Financial Highlights

- The bureau has, for the preparation of the financial statements, followed the Nepal Financial Reporting Standards (NFRS) pronounced by Accounting Standards Board – Nepal and issued by Institute of Chartered Accountant of Nepal (ICAN). NFRS confirms, in all material respect, to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IARS).

  The objective of adopting NFRS is to follow a set of high quality global accounting standards that brings uniformity, comparability and transparency in the books of account of the company. NFRS sets out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. The application of NFRS involves the use of assumptions, significant judgmental decisions and estimates. The financial statements have been prepared in historical cost and going concern basis and follows accrual basis of accounting. NFRS requires the company to present comparative information in respect of the preceding period (071/072, 072/073, 073/074) for all amounts reported in the current period's financial statements. The Notes to the Financial Statement attached herewith provides comparative information in narrative or descriptive format to make the reader understand the current period's financial statement. Some adjustments have been made in previous years' accounts to comply with NFRS and bring uniformity in the comparison.

- The total assets that included both current and non current assets increased by 18.37% from Rs.775Mn in 072/073 to Rs917Mn in 073/074. Apart from the property plant, equipment and deferred taxes assets, all the assets are taken as current assets unless disclosed otherwise.

  The non current assets that consists of property & plant, intangibles and deferred tax assets decreased by 0.59% to Rs.275Mn where as current assets that comprises of cash & cash equivalents, trade receivables, prepaid expenses & advances and current fixed deposits increased by 28.9% to Rs.642Mn.

Rs.

Particulars	Year 073/074	Year 072/073	Changes
Non Current Assets	275,117,351	276,751,989	-0.59%
Current Assets	642,057,700	498,050,412	28.9%
Total Assets	**917,175,051**	**774,802,401**	**18.37%**

- All property, plant, and equipment is stated at cost less accumulated depreciation and impairment losses. The major cost (Rs.82Mn, 90% of property & plant) includes the costs associated with infrastructure equipments installed in Data Center to render the commercial bureau, microfinance bureau and secured transaction registry services to the users. The other cost includes the costs for office equipment, vehicles and plant & machinery. Some office equipments worth Rs.1Mn were purchased and some non usable office items worth Rs.0.95Mn were disposed off during the period. The total depreciation cost for tangible assets amounted to Rs.2Mn during the period.

- Intangibles included the costs of all software installed in the Data Center. This included the costs associated with oracle software, system software and existing legacy system software. Since "Building, Structures and similar Works" are the types of assets that need to be amortized for their useful life, it has also been included in intangible assets. Some software worth Rs.0.57Mn was purchased during the period. The total amortization cost for the intangibles amounted to Rs.Rs0.35Mn in the year.

Rs.

Particulars	Year 073/074	Year 072/073	Changes
Non Current Assets			
Property, Plant & Equipment	90,835,386	91,957,783	-1.2%
Intangible Assets	183,917,808	183,705,398	0.1%
Deferred Tax Asset	364,157	1,088,808	-66.6%
Total Non Current Asset	**275,117,351**	**276,751,989**	**-0.59%**

The details of the movements and calculations of depreciation & amortizations expenses are given in the table.

Rs.

Particulars	Opening Balance (073/074)	Assets Added	Assets Disposed	Depreciable Assets value	Depreciation	Closing Balance (073/074)
Tangible Assets (Depreciation)	91,957,783	1,038,058	95,962	92,899,879	2,064,493	90,835,386
Intangible Assets (Amortization)	183,705,398	566,421	0	184,271,819	354,011	183,917,808
Total	**275,663,181**	**1,604,479**	**95,962**	**277,171,698**	**2,418,504**	**274,753,194**

The Depreciation method has been changed from Written Down Value method to Straight Line Method to allocate the costs of the assets to their residual values over the estimated useful lives. The useful lives for Data Center, Vehicle, Furniture and fixtures, computer and office equipment, software are 10years, 5 years, 6 years 5 years and 5 years respectively. The useful life for leasehold improvement is over the life of the leased period.

- The deferred tax asset arising due to temporary difference between tax bases of assets and liabilities amounted to Rs.0.36Mn this year as compared to Rs1Mn in 072/073. The decrease in deferred tax asset by Rs.0.72Mn during the year has been reduced from the previous years' balance of the deferred tax asset in the Balance sheet and incorporated as the deferred tax expense in the income statement of current year.

Rs.

Particulars	Carrying Amount	Tax Base	Temporary Difference
Property, Plant & Equipment	13,458,369	10,919,489	2,538,880
Defined Benefit Plan Provision	3,176,553		(3,176,553)
Performance Incentive	327,360		(327,360)
Lease Liability	491,593		(491,593)
Total			(1,456,626)
Tax Rate	@25%		(364,157)
	Deferred Tax Liability/(Asset) -31/03/2074		(364,157)
	Deferred Tax Expense/(Income) – 073/074		724,651

- Cash and cash equivalents" that is classified as loans and receivables and subsequently measured at amortized costs has decreased by 27.6% to Rs.25.7Mn. The company always maintains a policy of maintaining right balance among cash in hand, investment opportunities and working capital. Excess cash may lead to lost investment opportunities and reduced return on assets where as inadequate cash may lead to deficiency in working capital

Rs.

Particulars	Year 073/074	Year 072/073	Changes
Current Assets			
Cash & Cash Equivalents	25,682,370	35,463,046	-27.6%
Trade Receivables	18,078,596	9,872,303	83.1%
Prepaid Expenses and Advances	35,496,734	35,915,063	-1.16%
Current Fixed Deposits	561,800,000	415,800,000	35%
Financial Assets held at fair value through Profit or Loss (Shares)	1,000,000	1,000,000	0%
Total Current Assets	642,057,700	498,050,412	28.9%

- "Trade receivables" that consists of service charge receivables and interest accrued receivables increased by 83% to Rs.18Mn. The service charge receivable increased by 7.5% from Rs.5.9Mn in 072/073 to Rs.6.4Mn in 073/074. Similarly interest accrued receivable increased by 198% from Rs.3.9Mn in 072/073 to Rs.11.7Mn in 073/074. The higher interest income coupled with year end maturity of many accounts led to higher interest accrued receivables as compared to previous year.

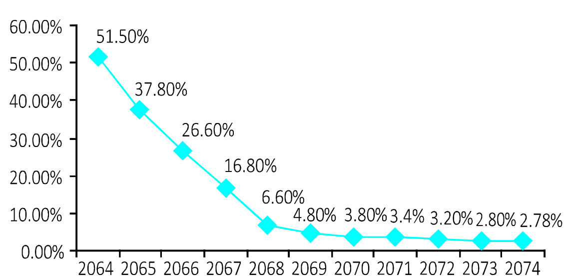
Rs.

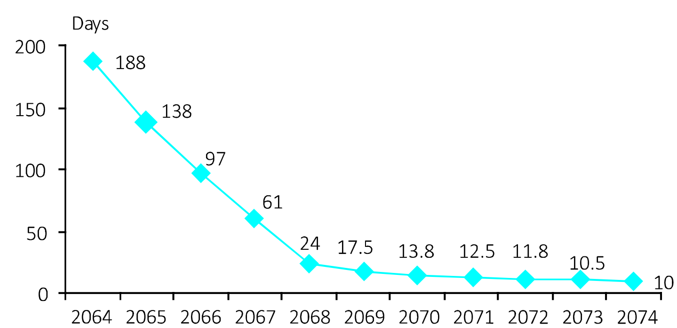
Particulars	Year 073/074	Year 072/073	Changes
Trade Receivables			
Service Charge Receivable	6,408,299	5,958,679	7.5%
Interest Accrued Receivable	11,670,297	3,913,624	198%
Total Trade Receivables	18,078,596	9,872,303	83%

- Though the service charge receivable increased by 7.5%, it decreased against the total invoice bills as compared to previous year from 2.8% in 072/073 to 2.78% in 73/074. The company has been making remarkable progress in service charge receivable which has been decreasing each year since last many years. The reasons for this decrease can be attributed to the very tight credit policy, efficient and effective invoice generation and bills collection mechanisms, appropriate technology platform and very focused and dedicated team for bills collection. Average collection period of invoice bills has been reduced from 10.5days to 10days.

Rs.

	066/067	067/068	068/69	069/070	070/071	071/072	072/073	073/074
Total Invoice	42,167,870	64,378,968	8,2933,858	112,271,008	140,550,540	169,862,348	207,384,390	229,899,182
Service Charge Receivable	7,083,868	4,265,269	4,003,328	4,250,910	4,810,153	5,500,152	5,958,679	6,408,299
% Receivable	16.8%	6.6%	4.8%	3.8%	3.4%	3.2%	2.8%	2.78%





- There was the marginal decrease in "Prepaid expenses and advances" by nearly -1.16% as compared to previous year. The major prepaid expenses were "other receivables" and "advance tax" which occupied nearly 81.6% and 16.4% of the total prepaid and advances. The reason for higher "other receivables" that amounted to nearly Rs.28.9Mn was because of payment made to the application vendor for the development of the Silverblade system, the payment of which occupied nearly 99% of the "other receivables" and 81% of the total prepaid and advances. The payment was made in 072/073 as per the contractual terms and conditions signed between the both the parties (the bureau & the vendor) before the implementation of the project. The prepaid expenses such as "staff loan" and "staff advances" had the marginal effect on the total changes.

- The Investments increased by 35% from 415.8Mn in 072/073 to 561.8Mn in 073/074. All the revenues that were earned through the operations were invested in short term and long term deposits accounts of various banks and financial institutions as per the criteria set forth by the Board. The average rate of return during the period was quite high as compared to previous year leading to the increase in income from the investments.

- The Investment in Corporate Security included equity investments of Rs.1Mn in ICRA Nepal Limited. The investment was made in 068/069 and the bureau holds 5% stake in the company and has one representation in its Board of Directors. The investment was made looking at its potential to grow in the future and earn substantial revenue for the bureau. The bureau earned the dividend of Rs.0.1Mn from the investment in the year 073/074.

- The Retirement & Benefit Obligation takes both Leave Fund and Gratuity Fund into account. During the period, provision for gratuity liability charged through profit and loss account amounted to Rs.439,977 that led to increase the gratuity fund to Rs.2,982,035. The total of Rs.1,803,794 was disbursed to a retiring staff during the period reducing the year end balance to Rs.1,178,241. Similarly Leave provision of Rs.89,257 was made during the period thus increasing the Leave Fund balance to Rs.1,998,312. The Gratuity Fund has been deposited separately with the Citizens Investment Trust. The year end balance of Leave Fund has been reflected in the balance sheet.

- Non current trade payables included accrued rent amount and deferred income on Secured Transaction Registry. The accrued rent amount was created due to lease rental for the office premises charged on straight line basis in accordance with the lease. The rental charge including the increments was calculated for ten years period and its ten year average was compared against the current rental charge paid for the year. The difference amounting to Rs.0.49Mn was recorded as non current lease payables for the year. The deferred income of Rs13Mn on STR service was created due to allocation of STR income for five years period as per the provisions of the Act.

Rs.

Particulars	Year 073/074	Year 072/073	Changes
Non Current Liabilities			
Retirement & Benefit Obligations	1,998,312	1.909,054	4.7%
Trade & other Payables	13,496,743	-----	100%
Fund from Asian Development Bank	231,369,813	231,369,813	0%
Total Non Current Liabilities	246,864,868	233,278,867	5.8%

- The bureau received the Grant of Rs.231Mn from Asian Development Bank in 071/072 for the implementation of microfinance bureau system. Grants relating to intangible assets are included in non-current liabilities as deferred government grants and are credited to the profit or loss over the expected lives of the related assets.

- The current "trade and other payables" increased by 49.7% to Rs.31.5Mn as compared to previous year. The major payables were bonus payable, advanced received from STR service, deferred income on STR service and other miscellaneous payables which occupied nearly 61.5%, 15.6%, 10.6% and 12.2% of the total trade payables respectively. The advance from STR service amounted to Rs4.9Mn, deferred STR income to Rs.3.3Mn, bonus payable to Rs19.4Mn and other miscellaneous payables to Rs.3.9Mn thus increasing the total payable by 49.7% to Rs.31.5Mn.

Current Liabilities

Rs.

Particulars	Year 073/074	Year 072/073	Changes
Trade & Other Payables	31,504,960	21,041,816	49.7%

- The share capital increased by 50% because of the issue of 50% bonus share (1:2; one bonus share for every two shares held) to its shareholders as per the decision reached by the 12th AGM of the company. The Reserve and Surplus that included Retained Earning, General Reserve, Capital Reserve and Deferred Tax Reserve also increased by 16% to Rs483.7Mn during the period leading to the increase in equity capital by 22.7% to Rs.638.8Mn.

Rs.

Particulars	Year 073/074	Year 072/073	Increase
Equity			
Share Capital	155,112,000	103,408,000	50%
Reserve & Surplus	483,693,223	417,073,718	16%
Total Equity	638,805,223	520,481,718	22.7%

Rs.

Particulars	Year 073/074	Year 072/073	Increase
Reserves			
Retained Earnings	337,093,050	298,219,838	13%
General Reserve	139,300,916	110,465,815	26%
Capital Reserve	7,299,257	7,299,257	0%
Deferred Tax Reserve		1,088,808	
Total Reserve	483,693,223	417,073,718	16%

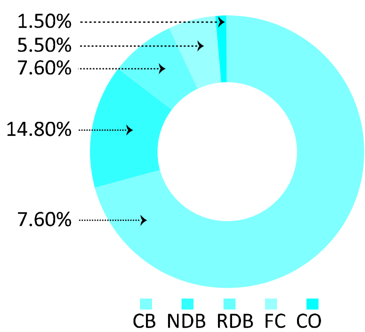
- The retained earnings increased by 13% to Rs.337Mn after adding the net profit and adding/deducting all the essentials (general reserve, deferred tax reserve etc) as per the new accounting (NFRS) principles. The bureau sets aside 20% of the net profit to the general reserve every year until the General Reserve is equal to two times to paid up capital as mentioned in the section 18(b)(4) of the company's article of association. Deferred tax reserve created earlier is transferred to retained earnings as it is no longer required. The Capital Reserve that was created at initial years of the bureau's establishment has been unchanged and left unused since than.

- The revenue from credit bureau services (service charges) amounted to Rs.229.5Mn where as from registry service (STR) amounted to Rs.0.37Mn leading to increase in revenue from core services by 10.86% to 229.9Mn. Though the actual revenue generated from STR services during the period was Rs16.7Mn, it was distributed for the five years period to comply with the STR Act. The Interest Income increased by 50% because of the higher interest rate offered by the banks and financial institutions at their fixed deposit accounts during the period. The bureau earned Rs.0.1Mn as the dividend from its investment in ICRA Nepal this year. Thus the total revenue from operations increased by 14.6% from Rs228.8Mn in 072/073 to Rs.262.4Mn in 073/074.

Rs.

Particulars	Year 073/074	Year 072/073	Increase
Revenues			
Revenue from Service Charges	229,526,732	207,386,390	10.7%
Revenue from STR	372,450	--------	100%
Revenue from Core Services	*229,899,182*	*207,386,390*	*10.86%*
Interest Income	32,358,307	21,458,854	50.8%
Dividend Income from ICRA Nepal	100,000	-------	100%
Revenue from Operations	262,357,489	228,845,244	14.6%

- As the previous years, the Commercial Banks were the largest contributor of the service revenue followed by National Development Banks, Regional Development Banks and Finance Companies. The revenue from the Co-operatives and Others were minimal. Service Charge from the "Others" included the revenue from the "self declaration report" (official Blacklist Report that bureau generated for the borrowers upon their request) and new member registrations.

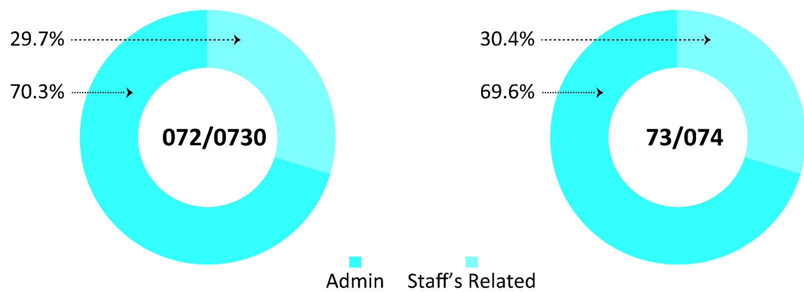


S. No.	Names	Revenue Generated	% of the total
1.	Commercial Banks (CB)	161,938,065	70.6%
2.	National Development Banks	34,076,845	14.8%
3.	Regional Development Banks	17,381,400	7.6%
4.	Finance Companies	12,632,250	5.5%
5.	Co-operatives & Others	3,498,172	1.5%
	Total	229,526,732	100%

- The operating expenses increased by 7.7% to Rs.47.5Mn this year as compared to Rs44Mn in 072/073. The staff related expenses which primarily consisted of salary, provident fund, leave provision, gratuity etc increased by 10% where as administrative expenses increased by 6.7% to Rs.33Mn. The major components of administrative expenses were AMC expenses, rental expenses, electricity expenses, web expenses etc. As in previous years, AMC occupied nearly 81% of the total administrative expenses and 50% the operating expenses (excluding depreciation). The AMC expenses covered the repair and maintenance of all the infrastructure equipments (hardware and system software) installed in the Data Center. The bureau had signed an Annual Maintenance Contract with the Service Provider that covered not only the repair and maintenance of the equipment but also the renewal of all the annual licenses of the software installed in the system. The staff related expenses occupied 30.4%of the total operating expenses (excluding depreciation) where as administrative expenses occupied 69.6% of the total. All the expenses made during the period were within the approved limit of the budget. The budget utilization was 82.7% of the total approved budget (Rs.57.4million).

Rs.

Particulars	Year 073/074	Year 072/073	Increase
Expenses			
Salary, Allowances & staff related expenses	14,434,572	13,122,757	10%
Administrative Expenses	33,076,247	30,997,548	6.7%
Operating Expenses excluding Depreciation	*47,510,819*	*44,120,305*	*7.7%*



- The depreciation expenses increased by 6.3% to Rs.2.4Mn in 073/074 as compared to Rs.2.3Mn in 072/073.

Rs.

Particulars	Year 073/074	Year 072/073	Increase
Expenses			
Depreciation and Amortization	2,418,504	2,275,248	6.3%

The new assets worth Rs.1.6Mn were added into the system where as the assets worth Rs.0.096Mn were disposed off leading to the total depreciable asset balance of Rs277Mn. The total depreciation of the assets for the period amounted to Rs.2.42Mn leading to the closing balance of the assets at the end of the year amounting to Rs.274.8Mn.

- The operating expenses including depreciation amounted to Rs.49.9Mn this year as compared to Rs46.4Mn in 072/073.

Rs.

Particulars	Year 073/074	Year 072/073	Increase
Expenses			
Salary, Allowances & staff related expenses	14,434,572	13,122,757	10%
Administrative Expenses	33,076,247	30,997,548	6.7%
Operating Expenses excluding Depreciation	*47,510,819*	*44,120,305*	*7.7%*
Depreciation and Amortization	2,418,504	2,275,248	6.3%
Operating Expenses including Depreciation	49,929,323	46,395,553	7.6%

- The company disposed off old battery amounting to book value of Rs.95,962 installed in the Data Center at the price of Rs.40,000 resulting in the loss of Rs.55,962 from the sales.

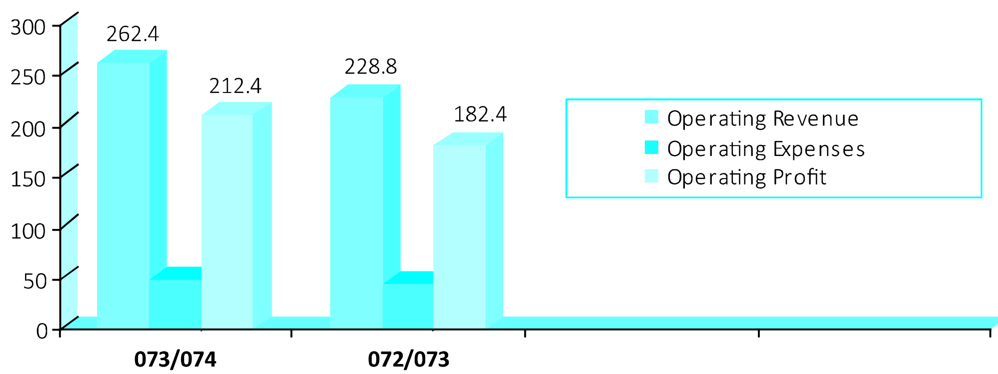
Rs.

Particulars	Year 073/074	Year 072/073	Increase
Loss on sale of assets	(55,962)	(354,420)	-

- The company earned the operating profit (before bonus & Taxes) of Rs.228.7Mn this year as compared to Rs.182Mn in 072/073 thus increasing its profit margin by Rs.46.6Mn (25.6%).

Rs.

Particulars	Year 073/074	Year 072/073	Increase
Incomes			
Revenue from Operations	262,357,489	228,845,244	14.6%
Operating Expenses including Depreciation	(49,929,323)	(46,395,553)	7.6%
Profit from Operations	*212,428,166*	*182,449,691*	*16.4%*
Non Operating Expenses (Loss on sale of assets)	(55,962)	(354,420)	
Profit before Bonus & Tax (PBT)	212,372,204	182,095,271	16.6%



- As per the increase in operating profit, the provision for bonus also increased accordingly by 16.6% to Rs.19.3Mn in 073/074 as compared to Rs.16.6Mn in 072/073. 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.

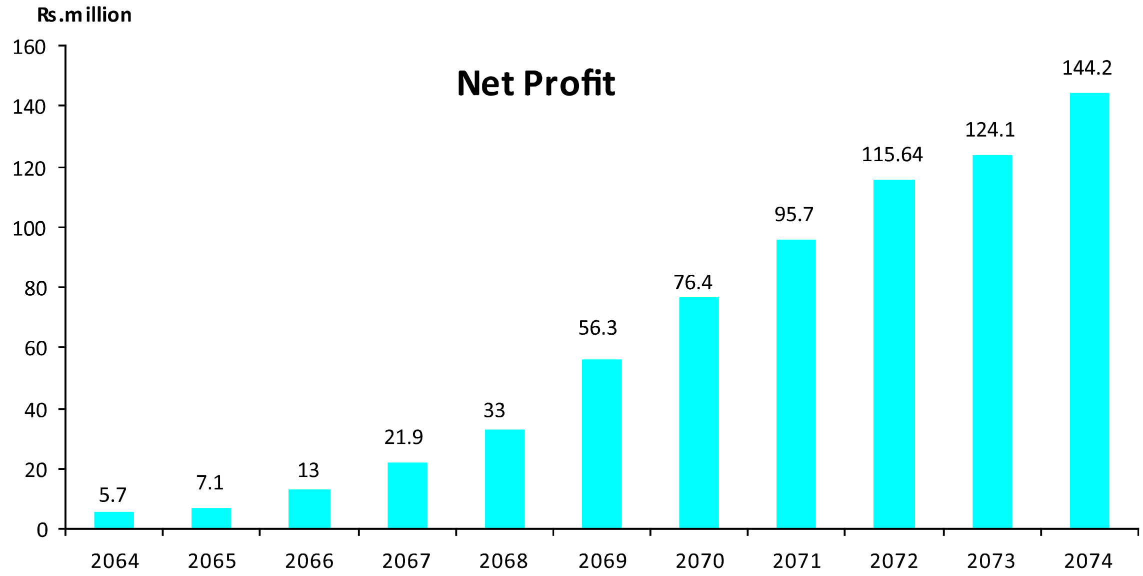
Rs.

Particulars	Year 073/074	Year 072/073	Increase
......Expenses			
Provision for Bonus	19,306,564	16,554,116	16.6%

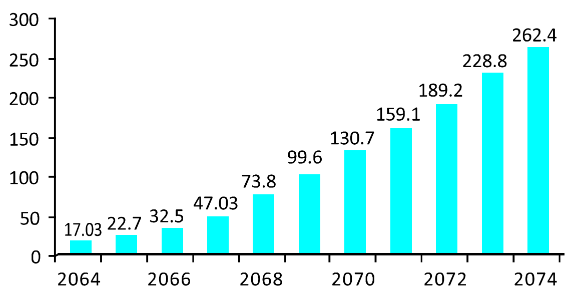
- The company made the pretax profit of Rs.193.1Mn this year. The provision for Income Tax as per the Income Tax Act 2058 for the year amounted to Rs.48.2Mn which was adjusted against the total tax deposit of Rs.54Mn during the period. Thus the excess tax deposit of Rs.5.8Mn was shown as the Advance Tax in financial statements.

Rs.

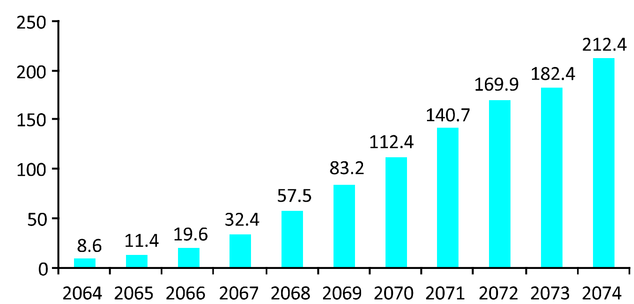
Particulars	Year 073/074	Year 072/073	Increase
Profit Before Tax	193,065,640	165,541,155	16.6%
Provision for Taxation with Deferred Tax	48,890,135	41,425,236	18%
a. Current Tax Expenses	*48,165,484*	*41,511,830*	*16%*
b. Deferred Tax Expenses	*724,651*	*(86,593)*	
Net Profit	144,175,505	124,115,919	16.2%



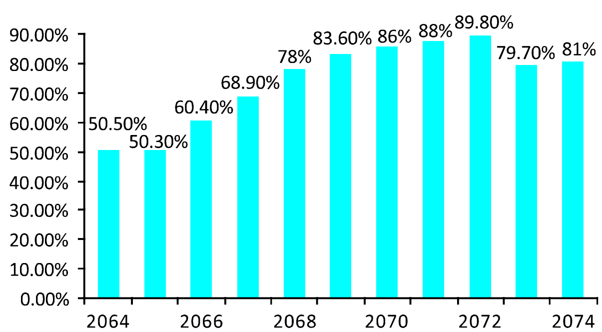
Operating Revenue



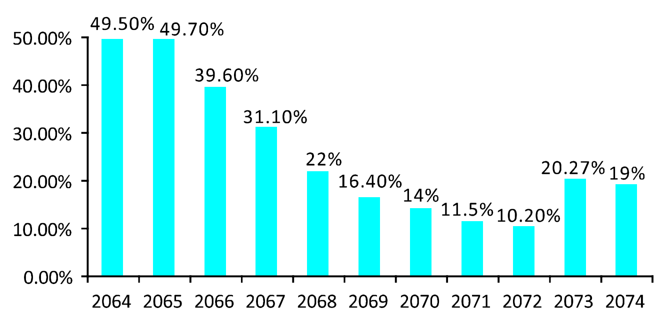
Operating Profit (PBT)



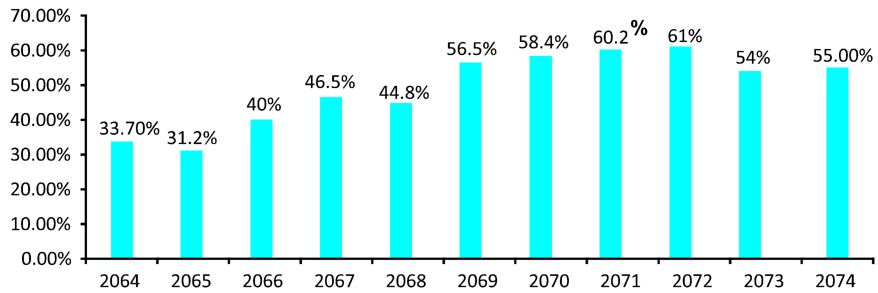
Operating Profit Margin



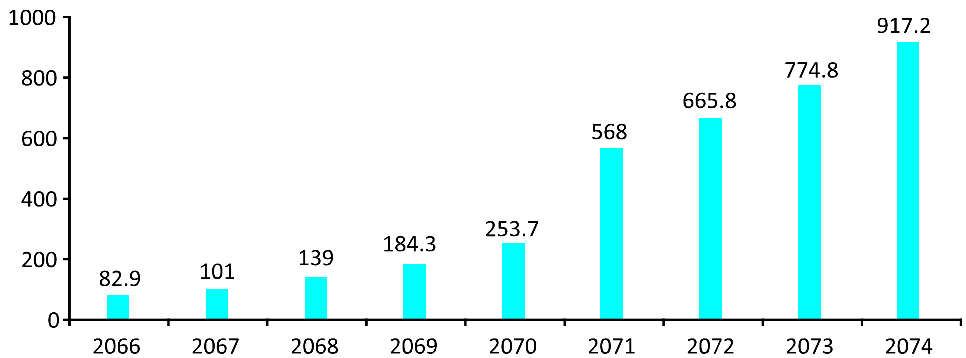
Cost to Income Ratio



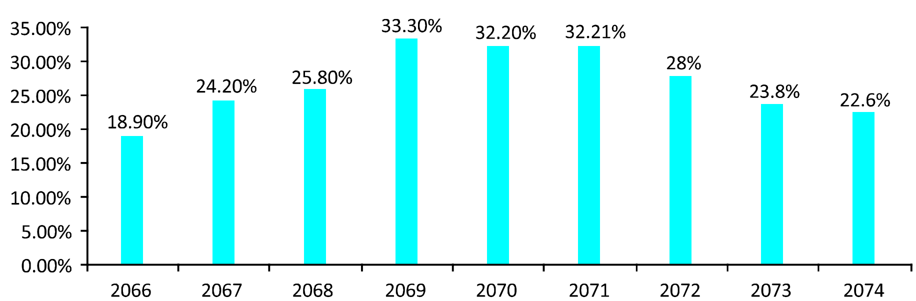
Net Profit Margin Ratio



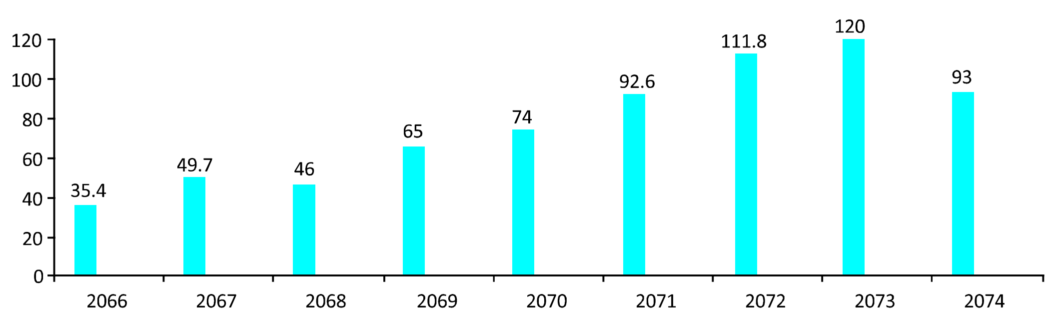
Total Assets



Return on Equity



Earning Per Share



Internal Control Systems

The bureau has employed a very effective internal control system that encompasses a set of rules, policies and procedures that safeguard the company's assets and resources, deter and detect corruption and frauds, ensure accuracy and completeness of the accounting data, ensure reliability and integrity of financial information, produce reliable and timely financial and management information, ensure compliance and adherence to its policies and plans, conduct business in an orderly and efficient manner. The bureau's internal control consists of features which are embedded in operations and are able to respond to changing risks within and outside the company.

The internal control system employed by bureau consists of following elements:

Information and Communication: this element gathers the correct information and communicates it to the correct people.

Risk Assessment: this element determines the risk associated with each objective of the company and then how each risk should be managed. This involves identifying the areas in which the greatest threat or risk of inaccuracies or loss exist. Greatest risks receive the greatest amount of effort and level of control.

Control Environment: this element reflects the overall "tone" or approach to internal control set by management. This includes focus on integrity and ethical behavior, a commitment to investigating discrepancies, commitment to competence, and diligence in designing systems and assigning responsibilities.

Control Activities: this element includes policies and procedures in place to ensure that instructions of management are carried out.

Monitoring: this element focuses on checking the internal control system to ensure that it is working. The internal control is periodically reviewed by the management to ensure that it remains sufficient for current state of risk. By performing a periodic assessment, management ensures that internal control activities have not become obsolete or lost due to turnover or other factors. They are improved to remain sufficient for the current state of risks

The internal control assessments are carried out by Internal Auditor of the bureau which operates as a separate unit external to the bureau and reports its observations to the Audit Committee which passes it to Board of Directors. The internal audit supports the bureau's management in directing operations by inspecting and evaluating the efficiency of business operations, risk management and internal control, and by producing information and recommendation to enhance efficiency.

The internal auditors are allowed to perform independently and without any external pressure. At the same time they are expected to perform proficiently and with impartiality and due professional care. The company's periodic internal audit is done on a quarterly basis by the firm SYDREC having its principle office in Kalikasthan, Dillibazar where as the annual audit is done by the firm "S.R Pandey & Co., Chartered Accountants" having its principle office in Nabil Galli, MaharajGunj, Kathmandu.

Report of the Audit Committee

Committee Members

Mr. Krishna Raj Lamichhane, Chairman of the committee & Board member

Mr. Raj Kumar Rai, Board member

Mr. Omkar Lal Shrestha, Management

- The Audit Committee overseas the company's financial reporting process on behalf of the Board of Directors. The bureau's management has the primary responsibility for the financial statements, for maintaining effective internal control over financial reporting, and for accessing the effectiveness of internal control over financial reporting. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the audited (consolidated) financial statements (and the related schedules) with the management, including a discussion of the quality, not just the acceptability, of the accounting principles; the reasonableness of significant judgments; and the clarity of disclosures in the financial statements.
- The Committee is governed by the Articles of Association of the Company and the country's Company Act. The Committee members are nominated by the Board for the period of four years. The Committee held four meetings during the fiscal year 073/074. The meetings of the Committee are designed to facilitate and encourage communications among the

committee, management, internal auditor and statutory auditor of the company. The Committee discussed with the company's internal auditor and statutory auditor the overall scope and plans of their respective audits, discussed the results of their examinations, their evaluations of the company's internal control and the overall quality of the company's financial reporting.

- Specially, the committee among other actions:

  - reviewed the company's quarterly earnings, consolidated financial statements and other financial reports as submitted by the internal auditor at each quarter. Assessed the effectiveness of the audit process and also assessed in its quarterly meetings the adequacy and appropriateness of internal control policies and internal audit programs and their findings.

  - reviewed the final annual audit report submitted by the external auditor, including non financial information, prior to publication there of. The audit committee discussed the report in which the external auditor set forth its findings and attention points and management's responses to those attention points.

  - reviewed compliance with statutory and legal requirements and regulations, particularly in the financial domain. Important findings, identified risks and follow up actions were examined thoroughly in order to allow appropriate measures to be taken.

  - inquired about significant risks, reviewed bureau's policy for risks assessment and risk management, and assessed the steps management has taken to control these risks.

  - met in periodic executive session with each of the external auditor, management and internal auditor.

  - Assessed the performance of the internal and external auditor.

- Following the review, the committee is satisfied that

  - the finance function is adequately skilled, resourced and experienced

  - the internal financial controls are effective and no material weaknesses in financial control have been identified;

  - the auditors are independent.

- The Audit Committee hereby states as follows:

  - the scope and planning of the audit were adequate in committee's opinion;

  - the accounting and reporting policies of the company confirmed with the statutory requirements and agreed ethical practices;

  - the Internal Control and Internal Audit Functions were operating effectively; and

  - the external auditor's findings as stated in the audit report were being dealt by the management satisfactorily.

  - the company's internal controls and business risks management frameworks are delivering the desired outputs and working effectively. The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the financial position of the Bureau is well monitored and assets are safeguarded.

In reliance on the reviews and discussions referred to above, the audit committee recommends for the submission of the Audit Committee Report to Board of Directors for its approval and its adoption in Annual Report and for its filing to the Inland Revenue Department of the Ministry of Finance for the tax purposes and the copy sent to Company Registrar office for its reference. Audit Committee also recommends for the reappointment of S.R. Pandey & Co., as the external auditor of the company for the fiscal year 074/075.

The Committee is satisfied that it has considered and discharged its responsibilities in accordance with its mandate and terms of reference during the year under review.

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 Committee Report submitted by the Audit Committee. Board also went through the Final Audit Report of the company for the year 073/074 as audited by S. R. Pandey & Co., and 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 to be adopted in the Annual Report and presented to the shareholders in the forthcoming 13th 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 S.R Pandey & Co., as the Statutory Auditor of the company for the fiscal year 074/75. Board will propose the name of Statutory Auditor in the 13th Annual General Meeting of the company for its ratification.

Report of the Recruitment Committee

Mr. Ajay Shrestha, Chairman of the Committee & Board member

Mr. Raj Kumar Rai, Board member

The recruitment committee was created by the Board to oversee the effectiveness of the bureau's organization structure, define the short term human resources needs in contract and permanent positions, review employees' Bylaw and other personal policies, review the salary structure & benefits packages of the employees and review succession plan in the organization etc.

Following the review, the committee made the following remarks:

– since most of the bureau's operations are technology based and are in virtual environment with minimal manual intervention, the care should be exercised to recruit the employees on the permanent positions which should be offered only for critical jobs mainly for retaining knowledge and providing stability to the organization. The management should develop the necessary criteria and processes for the recruitment in the permanent positions and ensure that they must be fair and transparent.

– the employees By Law needs to be reviewed and amended accordingly to incorporate various levels and positions of the new organization structure (flat) and other issues related with perks, benefits and allowances of the employees.

– the succession plan should aim to groom the staffs internally from its core operations and train them accordingly with necessary skills and traits so as to make them capable of leading the bureau in the future.

Comments and Observations of the Board on Recruitment Committee's Report

The Board concluded that the Committee presented the fair assessment of the bureau's organization structure and HR policies and advised management to make plans to carryout the activities as recommended in the report.

Statement of the Value Added and its Distribution

- ## Contribution to the national exchequer and to the economy

The company paid Rs.48Mn as the corporate tax to the Government of Nepal in the year 073/074. The company also helped to collect Rs.341.2crores (Rs.3,412million) from the serious defaulters (blacklist borrowers) in the year thus helping the banks and financial institutions reduce their non performing loans.

- ## Employees Salary

The total expense incurred by the company in the form of salary, allowance and other facilities to the staffs amounted to Rs.14.4million. CEO was paid the total remuneration package of Rs4.9Mn and the remaining staffs were paid Rs.9.5million. CEO is also provided with vehicle and all its operating expenses.

- ## Employees Bonus

Company has allocated Rs.19.3million as the provision for bonus for the year 073/074 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.144million to its Accumulated Profit account from the earnings of the fiscal year 073/074

Additional Details

- ## Litigation Cases

Out of the Seven (7) "Blacklist" court cases carried forward from the year 072/073, three (3) cases were settled by the court during the period. No new cases were reported during the year. Thus there were only four cases pending at the end of fiscal year 073/074 which will be carried forward in the year 074/075.

- ## Number of Registered Members

Categories of Financial Institutions	Registered Members Till 073/074	Registered Members Till 072/073
Commercial Banks	28	28
National Development Banks	15	22
Regional Development Banks	29	45
Finance Companies	30	42
Microfinance Development Banks, Co-operatives etc.	7	6
Total Registered Numbers	109	143

The year saw a massive drop in the number of financial institutions. Seven National Development Banks (NDBs) merged with Commercial Banks (CBs) and two merged with other large NDBs where as nine Regional Development Banks (RDBs) merged with CBs and six merged with NDBs. Similarly five Finance Companies (FCs) merged with CBs, three merged with NDBs and two merged with FCs. Thus the number of CBs, NDBs, RDBS, FCs reduced to 28,15,29,30 respectively during the period. The number of microfinance institution increased from six to seven in the year.

Proposal for the issue of Cash Dividend

As per the decision reached by the 108th meeting of the Board of Directors of the company, Board decides to issue 50% Bonus share (1share for every two shares held) and 25% Cash Dividend (Rs.25 per share) to its shareholders for the year 073/074. This will reduce the total retained earnings of the company from Rs337.1million pre issue to Rs220.8million post issue.

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

Gratitude

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

Share Holders

S. No.	Name of Banks and Financial Institutions	Total Shares
1	**Nepal Rastra Bank**	155,520.00
	Commercial Banks	
1	Nepal Bank Limited	20,586.00
2	Rastriya Banijya Bank Ltd.	20,586.00
3	NABIL Bank Ltd.	54,898.50
4	Nepal Investment Bank Ltd.	110,410.50
5	Standard Chartered Bank Nepal Ltd.	54,898.50
6	Himalayan Bank Ltd	58,956.00
7	Nepal SBI Bank Ltd.	54,898.50
8	Nepal Bangladesh Bank Ltd.	60,672.00
9	Everest Bank Ltd,	54,898.50
10	Bank of Kathmandu Ltd.	109,407.00
11	Nepal Credit and Commerce Bank Ltd	59,098.50
12	NIC Asia Bank Ltd.	63,019.50
13	Machhapuchhre Bank Ltd.	59,098.50
14	Kumari Bank Ltd.	59,098.50
15	Laxmi Bank Ltd.	77,760.00
16	Siddhartha Bank Ltd.	75,045.00
17	Agriculture Development Bank Ltd.	46,656.00
18	NMB Bank Ltd.	8,400.00
19	Prabhu Bank Ltd.	84,576.00
20	Citizen Bank International Ltd.	9,975.00
21	Sunrise Bank Ltd.	9,973.50
22	Civil Bank Ltd.	5,385.00
	Total Commercial Banks	**1,158,297.00**

S. No.	Name of Banks and Financial Institutions	Total Shares
	Development Banks	
23	N.I.D.C Development Bank Ltd.	17,496.00
24	Mahalaxmi Development Bank Ltd.	72,657.00
25	Kailash Development Bank Ltd.	4,200.00
26	Vibor Society Development Bank Ltd.	1,575.00
27	Om Development Bank Ltd	1,575.00
28	Siddhartha Development Bank Ltd.	4,200.00
	Total Development Bank	**101,703.00**
	Finance Companies	
29	Nepal Share Markets & Finance Ltd.	4,200.00
30	Himalayan Finance & Saving Co. Ltd.	1,575.00
31	United Finance Ltd.	4,200.00
32	Union Finance Ltd.	4,200.00
33	Srijana Finance Ltd.	6,823.50
34	Gurkhas Finance Ltd.	11,976.00
35	Samjhana Finance Ltd.	4,200.00
36	Goodwill Finance Ltd.	9,201.00
37	Shree Investment and Finance Ltd.	13,374.00
38	Progressive Finance Ltd.	4,200.00
39	General Finance Ltd.	4,200.00
40	Central Finance Ltd.	4,200.00
41	Multipurpose Finance Ltd.	4,200.00
42	Synergy Finance Ltd.	30,948.00
43	World Merchant Banking & Finance Ltd.	4,200.00
44	Capital Merchant Banking & Finance Ltd.	1,575.00
45	Crystal Finance Ltd.	4,200.00
46	Guheshwori Merchant Banking & Finance Ltd.	4,200.00
47	Sagarmatha Finance Ltd.	1,575.00
48	Lalitpur Finance Ltd.	4,200.00
49	Nepal Finance Ltd.	6,577.50
50	Lumbini Finance Ltd.	1,575.00
	Total Finance Companies	**135,600.00**
	Grand Total	**1,551,120.00**

Disclosure of Information as per Company's Act 2006

- Review of the transactions of the previous year**: Disclosed in the Board of Directors Report.**
- Impacts, if any, caused on the transactions of the company from national and international situation: **No material impact observed in the business**
- 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**
- Industrial or professional relations of the company**: Disclosed in the Board of Directors Report**
- Alterations in the board of directors and the reasons therefore**: Disclosed in the Board of Directors Report**
- Major things affecting the transactions**: Detailed in the Board of Director's Report**
- If there are any remarks in the audit report, the comments of the board of directors on such remarks: **None**
- Amount recommended for payment by way of dividend: **Disclosed in the Board of Directors Report**
- 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**
- 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**
- Disclosures made by the substantial shareholders of the company to the company in the financial year: **None**
- 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**
- 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**
- 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**
- 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
- Details of total management expenses during the financial year**: Disclosed in the Board of Directors Report**
- 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**
- 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**
- Amount of remuneration, allowances and faculties paid to the director, managing director, chief executive and officer**: Disclosed in the Board of Directors Report**
- Amount of dividends remaining unclaimed by the shareholders**: Disclosed in the Board of Directors Report**
- Details of sale and purchase of properties pursuant to Section 141 of Company Act 2006**: Disclosed in the Board of Directors Report**
- Details of transactions carried on between the associated companies pursuant to Section 175 of the Company Act 2006**: None**
- 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 Financial Reporting Standards (NFRS).

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 Financial Reporting Standards as published by the Accounting Standards Board and issued 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 Financial Reporting 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., S.R. Pandey & Company, 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 Company

The Directors are pleased to submit their report together with the Audited Accounts of the bureau for the year ended 31st Asar, 2074, to be presented at the 13th Annual General Meeting of the Bureau.

Review of The Year

The Chairman's review on **page 13** 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 Bureau.

Principal Activities / Core Business

The main activity of the company is the business of collection and collation of trade, credit and financial information on borrowers and prospective borrowers of lending institutions. The bureau has recently started the new Commercial Bureau, Microfinance Bureau and Secured Transaction Registry services. The commercial bureau and microfinance bureau will be engaged in providing the credit information services to BFIs (banks and financial institutions) and MFIs (microfinance institutions) respectively where as Secured Transaction Registry will be providing the services to public and private enterprises, SMEs, micro enterprises and individuals.

Financial Statements

The financial statements prepared in compliance with the requirements of Clause 109 of the Company Act are given on **page 68 to 71** in this annual report.

Independent Auditor's Report

The Auditor's Report on the financial statements is given on **page 72** in this report.

Accounting Policies

The Accounting Policies adopted in preparation of the financial statements is given on **pages 73 to 74** The Bureau adopted the Nepal Financial Reporting Standards (NFRS) from this year and all the accounts have been prepared in line with the NFRS accounting policies.

Financial Results/Profit and Appropriations

The Income Statement is set out on **page 69**

Property, Plant & Equipment

Information relating to movement in Property, Plant & Equipment during the year is disclosed in financial statement on **page 87**

Investments

Details of long-term Investments held by the Company are given in financial statements on **page 79**.

Directors' Responsibilities

The Statement of the Directors' Responsibilities is given on **page 64** of this report.

Dividend

The Dividend declared by the Board of Directors for the financial year ended 31st Asar, 2074 is given on **page 60** of this report.

Reserves

The Reserves and Accumulated Profits as at 31st Asar, 2074 is given on **page 93**. The breakup and the movement are shown in the Statement of Changes in Equity.

Stated Capital

The details of share capital and reserves as at 31st Asar,2074 are given in financial statement on **page 92**

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 64.**

Board Committees

Audit Committee

The Report of the Audit Committee is given on **page 56**

Recruitment Committee

The report of the recruitment committee is given on **page 58**

Financial Highlights

The earnings per share, net assets per share are given in Financial Highlights on **page 54** of this Annual Report.

Auditor

The resolution to have the service of Statutory Auditor, Messrs. S.R Pandey & Company Chartered Accountants for the year 074/075 will be proposed at the 13th 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 Bureau will be held at **Hotel Annapurna on 10th November, 2017 at 11:30AM.**

For and on behalf of the Board.

....

Company Secretary

S. R. PANDEY & CO.
Chartered Accountants

2nd Floor, House No. 2979/33
Nabil Galli, Maharajgunj
P. O. Box No. 2343
Kathmandu, Nepal

Tel.: 977-1-4720983, 2104700
Fax: 977-1-4720983
e-mail: info@srp.com.np

AUDITOR'S REPORT TO THE SHAREHOLDERS OF KARJA SUCHANA KENDRA LIMITED

1. We have audited the accompanying financial statements of Karja Suchana Kendra Limited, which comprise the Statement of Financial Position as at Ashad 31, 2074, (July 15, 2017) and the related Statement of Profit or Loss & Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Notes to Financial Statement for the year then ended.

Management's Responsibility for the financial Statement

2. Management is responsible for the preparation and fair presentation of these financial Statements in accordance with Nepal Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

3. 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

4. In our opinion, the accompanying financial statement present fairly, in all material respects the financial position of Karja Suchana Kendra Limited, as at Ashad 31, 2074 (July 15, 2017), and of the results of its financial performance, its cash flow and changes in equity for the period from Shrawan 1, 2073 to Ashad 31, 2074 (July 16, 2016 to July 15, 2017), in accordance with Nepal Financial Reporting Standards and comply with Company Act, 2063.

Report on Other Legal and Regulatory Requirements

5. On the basis of our examination, we would like to report that:

   i. We have obtained all the information and explanations, which were considered necessary for the purpose for our audit.

   ii. The Company has kept proper books of accounts as required by law, in so far as it appears from our examination of those books of account.

   iii. The Statement of Financial Position as at Ashad 31, 2074, (July 15, 2017) and the related Statement of Profit or Loss & Other Comprehensive Income, Statement of Change in Equity, Statement of Cash Flow, Notes to Financial Statement dealt with by this report are in agreement with the books of account maintained by the Company.

   iv. During our examination of the books of account of the Company, we have not come across the cases where the Board of Directors or any member thereof or any representative or any office holder or any employee of the Company has acted contrary to the provisions of law or caused loss or damage to the Company, and

   v. We have not come across any fraudulence in the accounts.

S.R. PANDEY & CO. Chartered Accountants Kathmandu

DATE: October 15, 2017
PLACE: Kathmandu

Sudarshan Raj Pandey
Senior Partner

Statement of Financial Position as at 31st Ashad 2074 (15th July, 2017)

NPR

Particulars	Notes	2074 Ashad 31st	2073 Ashad 31st	2072 Ashad 31st
ASSETS				
Non Current Assets				
Property, Plant and Equipment	6	90,835,386	91,957,783	91,097,658
Intangible Assets	7	183,917,808	183,705,398	183,654,516
Deferred Tax Asset	12	364,157	1,088,808	1,002,215
Total Non Current Assets		**275,117,351**	**276,751,989**	**275,754,389**
Current Assets				
Cash and Cash Equivalents	4.2	25,682,370	35,463,046	4,187,265
Trade Receivables	4.3	18,078,596	9,872,303	10,139,222
Prepaid Expenses & Advances	4.4	35,496,734	35,915,063	11,805,238
Financial Assets measured at Amortized Cost (FD)	4.1	561,800,000	415,800,000	362,900,000
Financial Assets held at fair value through Profit or Loss (Shares)	4.5	1,000,000	1,000,000	1,000,000
Total Current Assets		**642,057,700**	**498,050,412**	**390,031,725**
Total Assets		**917,175,051**	**774,802,401**	**665,786,114**
EQUITY AND LIABILITIES				
Non Current Liabilities				
Retirement Benefit Obligations	8.2	1,998,312	1,909,054	1,909,055
Trade & Other Payables	4.6	13,496,743	-	-
Deferred Grant/Fund from Asian Development Bank	11	231,369,813	231,369,813	231,369,813
Total Non Current Liabilities		**246,864,868**	**233,278,867**	**233,278,868**
Current Liabilities				
Trade & Other Payables	4.6	31,504,960	21,041,816	20,630,247
Total Current Liabilities		**31,504,960**	**21,041,816**	**20,630,247**
Equity				
Share Capital	9	155,112,000	103,408,000	103,408,000
Reserve and Surplus	10	483,693,223	417,073,718	308,468,999
Total Equity		**638,805,223**	**520,481,718**	**411,876,999**
Total Equity & Liabilities		**917,175,051**	**774,802,401**	**665,786,114**

Schedules and Explanatory Notes forms integral part of Statement of Position

As per our report of even date

....	....	....
Anil Chandra Adhikari	Sashin Joshi	S.R. Pandey, FCA
Chief Executive Officer	**Chairman**	Senior Partner
		S.R. Pandey & Co.

....	....	....	....
Bhuban Kadel	Jyoti Prakash Pandey	Anukool Bhatnagar	Raj Kumar Rai
Director	**Director**	**Director**	**Director**

Date: October 15, 2017
Place: Kathmandu, Nepal

Statement of Profit or Loss and other Comprehensive Income

For the Period from 1st Shrawan 2073 to 31st Ashad 2074 (16th July 2016 to 15th July 2017)

NPR

	Notes	For the Year Ended on 2074 Ashad 31st	For the Year Ended on 2073 Ashad 31st
Income from Operation			
Service Charge	5.1	229,899,182	207,386,390
Total Operating Income		**229,899,182**	**207,386,390**
Operating Expense			
Staff Cost	8.1	14,434,572	13,122,757
General Administrative Expenses	15	33,076,247	30,997,548
Depreciation and amortisation	16	2,418,504	2,275,248
Operating Profit		**179,969,859**	**160,990,837**
Finance Income	5.2	32,358,307	21,458,854
Dividend Income	5.3	100,000	-
Loss on sale of assets		55,962	354,420
Profit Before Income Tax		**212,372,204**	**182,095,271**
Staff Bonus	8.1	19,306,564	16,554,116
Taxation		48,890,135	41,425,236
Current Income Tax	12	48,165,484	41,511,830
Deferred Tax (Income) / Expense	12	724,651	(86,593)
Profit for the Year		**144,175,505**	**124,115,919**
Other Comprehensive Income / (Expenses)			
Net Gains on Available-for-Sale Investments		-	-
Actuarial Gains / (Losses) on Defined Benefits Plan		-	-
Total Other Comprehensive Income / (Expenses)			
less: Tax Expense relating to Components of OCI		-	
Total Comprehensive Income for the Year		**-**	**-**
Attributable to			
Equity Share Holders		**144,175,505**	**124,115,919**

As per our report of even date

....	....	....
Anil Chandra Adhikari	Sashin Joshi	S.R. Pandey, FCA
Chief Executive Officer	**Chairman**	Senior Partner
		S.R. Pandey & Co.

....	....	....	....
Bhuban Kadel	Jyoti Prakash Pandey	Anukool Bhatnagar	Raj Kumar Rai
Director	**Director**	**Director**	**Director**

Date: October 15, 2017
Place: Kathmandu, Nepal

Statement of Cash Flow

For the Period from 1st Shrawan 2073 to 31st Ashad 2074 (16th July 2016 to 15th July 2017)

NPR

Particulars	For the Year Ended on 2074 Ashad 31st	For the Year Ended on 2073 Ashad 31st
A. Cash Flow from Operating Activities		
Net Profit before Tax	193,065,640	165,541,155
Adjustments for:		
Loss on sale of assets	55,962	227,770
Depreciation expenses	2,418,504	2,275,248
Income tax Paid	(48,165,484)	(41,425,237)
Increase/(Decrease) in Liabilities	24,049,145	773,538
(Increase)/Decrease in Other Assets	(7,787,964)	(23,929,500)
Net Cash Flow from Operating Activities (A)	***163,635,803***	***103,462,974***
B. Cash Flow from Financing Activities		
Increase/(Decrease) in Share Capital	-	-
Increase/(Decrease) in Long Term Loan	-	-
Dividend Paid	(25,852,000)	(15,511,200)
Net Cash Flow from Financing Activities (B)	***(25,852,000)***	***(15,511,200)***
C. Cash Flow from Investing Activities		
(Increase)/Decrease in Investments	-	(53,261,969)
(Increase)/Decrease in Fixed Deposits	(146,000,000)	-
Sale/(Purchase) of Tangible Fixed Assets	(998,058)	(3,414,024)
Sale/(Purchase) of Intangible Assets	(566,421)	-
Net Cash Flow from Investing Activities (C)	***(147,564,479)***	***(56,675,993)***
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	**(9,780,676)**	**31,275,781**
Cash and Cash Equivalents at beginning of the year/period	35,463,046	4,187,265
Cash and Cash Equivalents at end of the year/period	**25,682,370**	**35,463,046**
Components of Cash and Cash Equivalents	**25,682,370**	**35,463,046**
Balance with Banks	25,682,370	-
Collateralised Borrowing and Lending Obligation	-	-

As per our report of even date

....
Anil Chandra Adhikari
Chief Executive Officer

....
Sashin Joshi
Chairman

....
S.R. Pandey, FCA
Senior Partner
S.R. Pandey & Co.

....
Bhuban Kadel
Director

....
Jyoti Prakash Pandey
Director

....
Anukool Bhatnagar
Director

....
Raj Kumar Rai
Director

Date: October 15, 2017
Place: Kathmandu, Nepal

Statement of Changes in Equity

For the period from 1st Shrawan 2073 to 31st Ashad 2074 (16th July 2016 to 15th July 2017)

NPR

Particular	Share Capital	Accumulated Profit/ Loss	General Reserve	Capital Reserve	Deferred Tax Reserve	Total
Balance at the Beginning of the Period	103,408,000	199,013,696	85,642,631	7,299,257	1,002,215	396,365,799
Adjustment		15,511,200				15,511,200
Readjusted Opening	**103,408,000**	**214,524,896**	**85,642,631**	**7,299,257**	**1,002,215**	**411,876,999**
Issue of Share Capital						-
Profit for the Year		124,115,919				124,115,919
Other Comprehensive Income/ (Expense) net of tax						-
Transferred to General Reserve		(24,823,184)	24,823,184			-
Cash Dividend Paid		(15,511,200)				(15,511,200)
Deferred Tax Income/ Expense		(86,593)			86,593	-
Balance at the End of the FY 2072/73	**103,408,000**	**298,219,838**	**110,465,815**	**7,299,257**	**1,088,808**	**520,481,718**
Issue of Share Capital						-
Profit for the Year		144,175,505				144,175,505
Other Comprehensive Income/ (Expense) net of tax						-
Transferred to General Reserve		(28,835,101)	28,835,101			-
Deferred Tax Reserve		1,088,808			(1,088,808)	
Issue of Bonus Share	51,704,000	(51,704,000)				
Cash Dividend Paid		(25,852,000)				(25,852,000)
Balance at the End of the FY 2073/74	**155,112,000**	**337,093,050**	**139,300,916**	**7,299,257**	**-**	**638,805,223**

As per our report of even date

....
Anil Chandra Adhikari
Chief Executive Officer

....
Sashin Joshi
Chairman

....
S.R. Pandey, FCA
Senior Partner
S.R. Pandey & Co.

....
Bhuban Kadel
Director

....
Jyoti Prakash Pandey
Director

....
Anukool Bhatnagar
Director

....
Raj Kumar Rai
Director

Date: October 15, 2017
Place: Kathmandu, Nepal

Notes to the Financial Statements as of Ashad End 2074 (15th July 2017)

1. Overview of the Company

Karja Suchana Kendra Limited is a limited liability public company domiciled in Nepal registered under the Company Act of Nepal. The registered address of the company is Kathmandu Metropolitan Ward No. 13 with registration number 1316/068/069.

Karja Suchana Kendra was established in 14 May, 1989 with the sole objective of improving the functionality of the country's financial system.

Karja Suchana Kendra 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 creditdecisions.NRB came out with new amendments to consolidate the functioning of Kendra 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 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.

The Board of Directors of the company acknowledges the responsibility of preparation of financial statements of the company.

2. Statement of Compliance

The financial statements have been prepared in accordance with Nepal Financial Reporting Standards (NFRS) as published by the Accounting Standards Board (ASB) – Nepal and Issued by Institute of Chartered Accountant of Nepal (ICAN).

2.1 Approval of financial statements

Accompanied financial statements have been adopted by the Board of Directors on its meeting held on 15thOctober, 2017 and have been recommended for approval by shareholders in the Annual General Meeting

3. Basis of Preparation

The company while complying with the reporting standards, makes critical accounting judgement as having potentially material impact on the financial statements. The significant accounting policies that relate to the financial statements as a whole along with the judgements made are described herein.

Where an accounting policy is generally applicable to a specific item, the policy is described within that relevant note. NFRS requires the company to exercise judgement in making accounting estimates. Description of such estimates has been given in the relevant sections wherever they have been applied.

3.1 Reporting Pronouncements

The company has, for the preparation of financial statements, adopted the NFRS pronounced by ASB as effective on September 13, 2013 which was applicable to Karja Suchana Kendra from FY 2073/74. NFRS conform, in all material respect, to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)

3.2 Accounting Conventions

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.
The financial statements have been prepared on a going concern basis where the accounting policies and judgements as required by the standards are consistently used and in case of deviations disclosed specifically.

3.3 New reporting standards in issue but not yet effective

NFRS 9 – Financial Instruments has been issued but is not effective until further notified. For the reporting of financial instruments, NAS 32 Financial Instruments, Presentation, NAS 39 Financial Instruments Recognition and Measurements and NFRS 7 Financial Instruments – Disclosures have been applied.

A number of new standards and amendments to the existing standards and interpretations have been issued by IASB after the pronouncements of NFRS with varying effective dates. Those become applicable when ASB Nepal incorporates them within NFRS.

A significant impact on classification and measurement including impairment of financial instruments, will arise as a result of application of NFRS 9.

3.4 Presentation

The financial statements have been presented in the nearest Nepalese Rupees.

For presentation of the statement of financial position assets and liabilities have been bifurcated into current and non-current distinction.

The statement of profit or loss has been prepared using classification 'by nature' method.
The cash flows from operation within the statement of cash flows have been derived using the indirect method.

3.4.1 Presentation currency

Financial statements are denominated in Nepalese Rupees, which is the functional and presentation currency of the company.

3.4.2 Current and Non-Current distinction

Assets

Apart from the property plant and equipment and deferred taxes assets all the assets are taken as current assets unless specific additional disclosure is made in the notes for current and non-current distinction.

Liabilities

Apart from the defined benefit plan obligations all the liabilities assets are taken as current liabilities unless specific additional disclosure is made in the notes for current and non-current distinction.

3.5 Accounting Policies and accounting estimates

The company, under NFRS, is required to apply accounting policies to most appropriately suit its circumstances and operating environment. Further the company is required to make judgement in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the financial statements. This may later be determined that a different choice could have been more appropriate.

Accounting policies have been included in the relevant notes for each item of the financial statements. The effect and nature of the changes, if any, have been disclosed.
NFRS requires the company to make estimates and assumptions that will affect the assets, liabilities, disclosure of contingent assets and liabilities, and profit or loss as reported in the financial statements.

The company applies estimates in preparing and presenting the financial statements. The estimates and underlying assumptions are reviewed periodically. Revision to accounting estimates are recognised in the period in which the estimates are revised and applied prospectively.

Disclosures of the accounting estimates have been included in the relevant section of the notes wherever the estimates have been applied along with the nature and effect of changes of accounting estimates, if any.

3.6 Financial Periods

The company follows the Nepalese financial year based on the Nepalese calendar.

3.7 Discounting

Discounting has been applied where assets and liabilities are non-current and the impact of the discounting is material.

3.8 Limitation of NFRS implementation

If the information is not available and the cost to develop would exceed the benefit derived, such exception to NFRS implementation has been noted and disclosed in respective section.

4. Financial Instruments

Accounting Policy

The Company classifies its financial assets into the following measurement categories: a) financial assets held at fair value through profit or loss; b) loans and receivables; c) held-to-maturity; and d) available-for-sale. Financial liabilities are classified as either held a) at fair value through profit or loss, or b) at amortised cost.

Management determines the classification of its financial assets and liabilities at initial recognition or, where applicable, at the time of reclassification.

Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as held for trading if acquired principally for the purpose of selling in the short term.
Financial assets and liabilities may be designated at fair value through profit or loss when:

- *The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis*
- *A group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis*
- *The assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the intention and ability to hold to maturity.

Available-for-sale

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

Financial liabilities held at amortised cost

Financial liabilities, not classified held at fair value through profit or loss includes payables which are classified as amortised cost instruments.

Initial recognition

All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and financial assets classified as held-to-maturity or available-for-sale are initially recognised on the trade-date (the date on which the Company commits to purchase or sell the asset).

Loans are recognised when cash is advanced to the borrowers.

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the net trading income in the statement of profit or loss.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to profit or loss unless the Company makes irrevocable election to make changes in fair value through Other Comprehensive Income.

Loans and receivables and held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are subsequently measured at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or where the Company has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Company has retained control, the assets continue to be recognised to the extent of the Company's continuing involvement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires.

Explanatory Notes

As at 31st Ashad 2074

NPR

Financial Assets	Assets at fair value			Assets at amortised costs		Total
	Trading	Designated at FVTPL	Available for sale	Loans and Receivables	Held to maturity	
Fixed Deposits	-	-	-	561,800,000	-	561,800,000
Balance with Banks	-	-	-	25,682,370	-	25,682,370
Trade Receivables	-	-	-	18,078,596	-	18,078,596
Prepaid Expenses and Advances	-	-	-	35,496,734	-	35,496,734
Investment in corporate securities	-	-	1,000,000	-	-	1,000,000
Total	**-**	**-**	**1,000,000**	**641,057,700**	**-**	**642,057,700**

NPR

Financial Liabilities	Liabilities at fair value		Liabilities at amortised costs	Total
	Trading	Designated at FVTPL		
Trade & Other Payables	-	-	45,001,703	45,001,703
Total	**-**	**-**	**45,001,703**	**45,001,703**

As at 31st Ashad 2073

NPR

Financial Assets	Assets at fair value			Assets at amortised costs		Total
	Trading	Designated at FVTPL	Available for sale	Loans and Receivables	Held to maturity	
Fixed Deposits	-	-	-	415,800,000	-	415,800,000
Balance with Banks	-	-	-	35,463,046	-	35,463,046
Trade Receivables	-	-	-	9,872,303	-	9,872,303
Prepaid Expenses and Advances	-	-	-	35,915,063	-	35,915,063
Investment in corporate securities	-	-	1,000,000	-	-	1,000,000
Total	-	-	**1,000,000**	**497,050,412**	-	**498,050,412**

NPR

Financial Liabilities	Liabilities at fair value		Liabilities at amortised costs	Total
	Trading	Designated at FVTPL		
Trade & Other Payables	-	-	21,041,816	21,041,816
Total	-	-	**21,041,816**	**21,041,816**

As at 31st Ashad 2072

NPR

Financial Assets	Assets at fair value			Assets at amortised costs		Total
	Trading	Designated at FVTPL	Available for sale	Loans and Receivables	Held to maturity	
Fixed Deposits	-	-	-	362,900,000	-	362,900,000
Balance with Banks	-	-	-	4,187,265	-	4,187,265
Trade Receivables	-	-	-	10,139,222	-	10,139,222
Prepaid Expenses and Advances	-	-	-	11,805,238	-	11,805,238
Investment in corporate securities	-	-	1,000,000	-	-	1,000,000
Total	-	-	1,000,000	389,031,725	-	390,031,725

NPR

Financial Liabilities	Liabilities at fair value		Liabilities at amortised costs	Total
	Trading	Designated at FVTPL		
Trade & Other Payables	-	-	20,630,247	20,630,247
Total	-	-	20,630,247	20,630,247

Unless specifically disclosed financial assets and liabilities are current assets and liabilities respectively.

4.1 Fixed Deposit

The fixed deposits are maintained at various banks and other financial institutions with varying maturity period. The fair value of the fixed deposit is the carrying amount.

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Fixed Deposit			
Current	561,800,000	415,800,000	362,900,000
Non-current	-	-	-
Total	561,800,000	415,800,000	362,900,000

4.2 Cash & Cash Equivalents

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Cash in Hand	-	-	-
Cash at Bank	25,682,370	35,463,046	4,187,265
Total	25,682,370	35,463,046	4,187,265

Balance with banks is classified as loans and receivables and are subsequently measured at amortised costs.

Risks associated with these assets are regularly assessed.

4.3 Trade Receivables

The trade receivables that fall under the classification of financial instruments are carried at amortised costs and those other assets that do not fall within the definition are carried at cost. These instruments are regularly monitored for impairment.

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Service Charge Receivable	6,408,299	5,958,679	5,500,152
Interest Accrued Receivable	11,670,297	3,913,624	4,639,070
Total	18,078,596	9,872,303	10,139,222

4.4 Prepaid Expenses & Advances

The Prepaid Expenses & Advances that fall under the classification of financial instruments are carried at amortised costs and those other assets that do not fall within the definition are carried at cost. These instruments are regularly monitored for impairment.

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
National Life Insurance (Loan Deposit)	476,668	447,118	447,118
Staff Advances	229,109	5,203	143,738
Advance Tax (Net)	5,825,311	5,648,067	1,220,609
Other receivable and advance	28,953,968	29,786,924	9,033,253
Staff Loan	11,678	27,751	-
Cheque in Hand	-	-	960,520
Total	35,496,734	35,915,063	11,805,238

4.5 Investment in Corporate Security

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Corporate Securities	1,000,000	1,000,000	1,000,000
Total	**1,000,000**	**1,000,000**	**1,000,000**

This include equity investments in ICRA Nepal Limited. This investment does not result in control or significant influence over the invested entity. This investment is classified as available for sale assets.

Investments in ICRA Nepal Limited

This investment is not actively traded in the market and are therefore not liquid. The Company has no intention to dispose these investments in foreseeable future. The Company considers that the cash flows that the Company expects to receive in future exceeds the carrying value of the investments. This investment has been carried at cost considering in fair value to be immaterial.

4.6 Trade & Other Payables

Accounting Policy

Non-financial liabilities are recorded and reported at cost based on legal and constructive obligation to the Company.

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Explanatory Notes

Current

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Audit Fee Payable	238,169	243,507	337,040
Telephone Charge	-	-	8,000
Other Payable	2,934,727	3,292,731	4,058,292
Advance Received of Service Charges	372,595	579,655	-
Deferred Income on Secured Transaction Registry	3,344,400	-	-
TDS payable	81,224	9,575	217,314
Bonus Payable	19,389,496	16,637,048	15,498,459
Dividend Payable	226,100	279,300	511,142
Advance Received from STR	4,918,250	-	-
Total	**31,504,960**	**21,041,816**	**20,630,247**

Non-Current

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Lease Payable (As per NFRS on Operating Lease)	491,593	-	-
Deferred Income on Secured Transaction Registry	13,005,150		
Total	**13,496,743**	**-**	**-**

Non-current payable includes accrued rent amount created due to Lease rental for premises charged on straight line basis in accordance to the lease.

4.7 Valuation hierarchy

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values. Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Companyrecognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 valuations are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 portfolios are those where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data.

Hierarchy of Fair Value Measurement

NPR

31-3-2074	Level 1	Level 2	Level 3	Total
Assets				
Corporate Securities				
ICRA Nepal Limited			1,000,000	1,000,000
Total	-	-	**1,000,000**	**1,000,000**

31-3-2073	Level 1	Level 2	Level 3	Total
Assets				
Corporate Securities				
ICRA Nepal Limited			1,000,000	1,000,000
Total	-	-	1,000,000	1,000,000

31-3-2072	Level 1	Level 2	Level 3	Total
Assets				
Corporate Securities				
ICRA Nepal Limited			1,000,000	1,000,000
Total	-	-	1,000,000	1,000,000

The following table presents the Company's financial instruments, which are held at the fair value. The table also presents the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, the range of values for those inputs.

Instrument	Principal valuation technique	Significant unobservable inputs
Corporate Securities		
ICRA Nepal Ltd.	Internal pricing model	EV/EBITDA multiples, P/E multiples, Liquidity discount

4.8 Fair value of Financial Instruments held at Amortised Costs on recurring basis

The following table shows the carrying amounts and incorporates the Company's estimate of fair value of those financial assets and liabilities not presented on the Company's statement of financial position at fair value. These fair values may be different from the actual amount that will be received or paid on the settlement or maturity of the financial instruments. For certain instruments, fair value may be determined using assumptions for which no observable prices are available.

4.8.1 Fair value of Financial Assets held at amortised cost

NPR

31-3-2074	Level 1	Level 2	Level 3
Fixed Deposits			561,800,000
Balance with Banks			25,682,370
Trade Receivables			18,078,596
Prepaid Expenses and Advances			35,496,734
Total			641,057,700

31-3-2073	Level 1	Level 2	Level 3
Fixed Deposits			415,800,000
Balance with Banks			35,463,046
Trade Receivables			9,872,303
Prepaid Expenses and Advances			35,915,063
Total			497,050,412

31-3-2072	Level 1	Level 2	Level 3
Fixed Deposits			362,900,000
Balance with Banks			4,187,265
Trade Receivables			10,139,222
Prepaid Expenses and Advances			11,805,238
Total			389,031,725

4.8.2 Fair Value of Financial Liabilities held at amortised cost

NPR

31-3-2074	Level 1	Level 2	Level 3
Trade & Other Payable			45,001,703
Total	-	-	45,001,703

31-3-2073	Level 1	Level 2	Level 3
Trade & Other Payable			21,041,816
Total	-	-	21,041,816

31-3-2072	Level 1	Level 2	Level 3
Trade & Other Payable			20,630,247
Total	-	-	20,630,247

4.9 Fair value Level 3 disclosures

The following sets out the basis of establishing fair values of amortised cost financial instruments. These are not generally traded and there is a significant level of management judgement involved in calculating the fair values.

Fixed Deposits

For fixed deposits with the banks, the estimated fair value of fixed interest bearing time deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity. These are generally the carrying amount of these assets.

Prepaid Expenses & Advances

These assets are generally with the residual maturity of less than one year. The impact of discounted cash flows of those assets more maturity period of more than one year is insignificant. Therefore, the fair value of other assets generally approximates the carrying amount.

Trade Receivables

These assets are generally with the residual maturity of less than one year. The impact of discounted cash flows of those assets more maturity period of more than one year is insignificant. Therefore, the fair value of other assets generally approximates the carrying amount.

4.10 Reclassification of financial assets

Financial assets and liabilities have been classified in accordance with the requirements of NFRS. These have been presented consistently and there have been no reclassifications since 2071-72, when financial instruments were restated under first time adoption of NFRS.

4.11 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 staff are fully aware with the information confidentiality policy and follow them strictly. Only those staff “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 staff 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 the Data Center equipments and infrastructures including the staff 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.

The major risk areas and mitigation mechanism is as given below:

4.11.1 Technological and Information Management Risk

The information collected from various BFIs regarding various borrowers is the major asset of the Bureau. 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 circumstances. 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.

4.11.2 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.

4.11.3 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.

4.11.4 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.

4.11.5 Reputational Risk

Reputational risk is a risk of loss resulting from damages to reputation of institution, in lost revenue; increased operating, capital or regulatory costs; or destruction of shareholder value.

Reputational risk is managed by the management committee which are responsible for protecting the institution's reputation locally and has the responsibility to ensure that the Bureau does not undertake any activities that may cause material damage to the reputation of institution.

4.11.6 Employee Benefit Risk

Employee benefit risk is the potential risk of loss due to having to meet shortfall in the Bureau's defined benefits gratuity and leave encashment schemes.

The gross obligation for gratuity is calculated considering the salary at the time of retirement of the individual staff and number of years' service with the Bureau. The leave can be accumulated for maximum period of 60 days for total period served by individual staff. The gross obligation for leave encashment is calculated considering the last drawn salary multiplied by no of eligible days for leave encashment. The gratuity amount is contributed to Citizen Investment Trust while the leave amount is duly provided.

4.11.7 Internal Control

The Board is committed to managing risks and in controlling its business and financial activities in a manner which enables it to reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations and enhance resilience to external events. To achieve this, the Board has adopted policies and procedures of risk identification, risk evaluation, risk mitigation and control/monitoring.

The effectiveness of the Company's internal control system is reviewed regularly by the Board, its Committees, Management and Internal Audit. The Audit Committee has reviewed the effectiveness of the Bureau's system of internal control during the year and provided feedback to the Board as appropriate.

4.12 Impairment

The company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets.

Impairment of assets other than financial assets

At each reporting date the Company assesses whether there is any indication that an asset may have been impaired. If such indication exists, the recoverable amount is determined.

Explanatory Notes

There is not any impairment charge required for any class of assets during FY 2073/74.Impairment amounting to NRS. 126,650 was made on FY 2072/73 for receivable from United Bikas Bank as its license was cancelled by Nepal Rastra Bank vide its decision dated 2071/05/19.

5. Revenue

Accounting Policy

Service Charge

Service Charges for credit information are recognized on accrual basiswhen the hits (queries) are made in the system. Annual Fees are recognized and realized on the basis on Nepali Calendar Year. Self-declaration fees are recognized when the service is delivered.
Income on Initial Registry Charges on Secured Transaction which is valid for the period of five years from registration as per Section 10 of Secured Transaction Act is allocated over the period of five years from the date of registry up to its validity period on monthly basis. The remaining amount is shown as deferred revenue on Secured Transaction Registry by allocation between current and non-current liability.

Income from financial instruments

Gains and losses arising from changes in the fair value of financial instruments held at fair value through profit or loss are included in the statement of profit or loss in the period in which they arise.

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised using the effective interest method.

Gains and losses arising from changes in the fair value of available-for- sale financial assets are recognised directly in profit or loss unless an irrevocable selection is done to charge it through Other Comprehensive Income. Once such selection is done the changes in fair value is also charged through Other Comprehensive Income unless the assets is derecognized. The gain or loss on disposal of available for sale financial assets is recognised directly in profit or loss.

Dividends on equity instruments are recognised in the statement of profit or loss within other income when the Company's right to receive payment is established

Explanatory Notes

5.1 Service Charge

	31st Ashad 2074	31st Ashad 2073
From Commercial Banks	161,938,065	136,629,825
From Development Banks (National)	34,076,845	33,249,150
From Development Banks (Regional)	17,381,400	20,969,765
From Finance Companies	12,632,250	14,335,750
From Co-Operatives & Other Companies	1,129,350	1,097,800
Other Charges	2,368,822	1,104,100
Income from Secured Transaction Registry	372,450	-
Total	**229,899,182**	**207,386,390**

5.2 Finance Income

	2073-74	2072-73
Interest from Deposits	32,357,758	21,457,621
Interest from Loan	549	1,233
Total	**32,358,307**	21,458,854

5.3 Dividend Income

	2073-74	2072-73
Dividend income from ICRA Nepal	100,000	-
Total	**100,000**	-

6. Property Plant and Equipment

Accounting Policy

All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight- line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Data Center	10 Years
Vehicle	5 Years
Furniture and Fixtures	6 Years
Computers and Office Equipment	5 years
Software	5 years
Leasehold improvements	life of the lease period

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. The value of the assets fully depreciated but continued to be in use is considered not material.

At each reporting date, assets are also assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately to the recoverable amount.

Assets with cost below NRs 5,000 are charged off as revenue expenditure. Gains and losses on disposal is included in the Statement of Profit or Loss.

Explanatory Notes

NPR

Total WDV	Balance as at 01/04/2072	Additions during the year	Disposals during the year	Balance as at 31/03/2073
Total WDV	**91,097,658**	**3,483,874**	**504,269**	**94,077,263**
IBM Hardware (Work In Progress)	82,142,682	-		82,142,682
Computers, Furniture & Fixtures and Office Equipment	3,815,906	948,074	-	4,763,980
Vehicle	3,435,783	2,535,800	-	5,971,583
Plant and Machinery	1,703,287		504,269	1,199,018
Total Depreciation	**-**	**2,119,480**	**-**	**2,119,480**
IBM Hardware (Work In Progress)				
Computers, Furniture & Fixtures and Office Equipment		1,072,851	-	1,072,851
Vehicle		866,776		866,776
Plant and Machinery		179,853		179,853
Net Book Value at 31 Ashad 2073				**91,957,783**
IBM Hardware (Work In Progress)				82,142,682
Computers, Furniture & Fixtures and Office Equipment				3,691,129
Vehicle				5,104,807
Plant and Machinery				1,019,165
Net Book Value at 31 Ashad 2072				**91,097,658**

Total WDV	Balance as at 01/04/2073	Additions during the year	Disposals during the year	Balance as at 31/03/2074
Total WDV	**91,957,783**	**1,038,058**	**95,962**	**92,899,879**
IBM Hardware (Work In Progress)	82,142,682	-	-	82,142,682
Computers, Furniture & Fixtures and Office Equipment	3,691,129	1,038,058	95,962	4,633,225
Vehicle	5,104,807	-	-	5,104,807
Plant and Machinery	1,019,165	-	-	1,019,165
Total Depreciation		2,064,493	-	**2,064,493**
IBM Hardware (Work In Progress)				-
Computers, Furniture & Fixtures and Office Equipment		839,699		839,699
Vehicle		1,020,961		1,020,961
Plant and Machinery		203,833		203,833
Net Book Value at 31 Ashad 2074				**90,835,386**
IBM Hardware (Work In Progress)				82,142,682
Computers, Furniture & Fixtures and Office Equipment				3,793,526
Vehicle				4,083,846
Plant and Machinery				815,332
Net Book Value at 31 Ashad 2073				**91,957,783**

7. Intangible assets

Accounting Policy

Acquired Intangible Assets

Intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the Company, and are amortised on the basis of their expected useful lives.

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised on the basis of expected useful life. Costs associated with maintaining software are recognised as an expense when incurred.

At each reporting date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Explanatory Notes

NPR

	Balance as at 01/04/2072	Additions during the year	Disposals during the year	Balance as at 31/03/2073
Total WDV	**183,654,516**	**206,650**	**-**	**183,861,166**
Building, Structures and similar Works of Permanent Nature	2,274,126	-	-	2,274,126
Old software	84,123	-	-	84,123
Oracle, Microsoft & Other software (WIP)	179,152,143	-	-	179,152,143
Software & Others	2,144,124	206,650	-	2,350,774
Total Amortization		155,768	-	**155,768**
Building, Structures and similar Works of Permanent Nature		113,706		113,706
Old software		42,062		42,062
Software & Others		-		-
Net Book Value at 31 Ashad 2073				**183,705,398**
Building, Structures and similar Works of Permanent Nature				2,160,420
Old software				42,061
Oracle, Microsoft & Other software (WIP)				179,152,143
Software & Others				2,350,774
Net Book Value at 31 Ashad 2072				**183,654,516**

NPR

	Balance as at 01/04/2073	Additions during the year	Disposals during the year	Balance as at 31/03/2074
Total WDV	**183,705,398**	**566,421**	**-**	**184,271,819**
Building, Structures and similar Works of Permanent Nature	2,160,420	-	-	2,160,420
old software	42,061	-	-	42,061
Oracle, Microsoft & Other Software (WIP)	179,152,143	-	-	179,152,143
Software & Others	2,350,774	566,421	-	2,917,195
Total Amortization	**-**		**-**	**354,011**
Building, Structures and similar Works of Permanent Nature		216,042		216,042
Old software		42,061		42,061
Software & Others		95,908		95,908
Net Book Value at 31 Ashad 2074				**183,917,808**
Building, Structures and similar Works of Permanent Nature				1,944,378
Oracle, Microsoft & Other software (WIP)				179,152,143
Old software				-
Software & Others				2,821,287
Net Book Value at 31 Ashad 2073				**183,705,398**

8. Employee Benefits

Accounting Policy

Retirement benefit obligations (Provident Fund, Gratuity & Leave)

The Company operates a defined contribution plan as provident fund contribution of its employees and defined benefit plans for the Gratuity payment requirement under its employee's byelaws.

For defined contribution plans, the Company pays contributions to the publicly administered provident fund plans (named Employee Provident Fund) on a mandatory basis, and such amounts are charged to operating expenses. The Company has no further payment obligations once the contributions have been paid.

For defined benefit plans (ie; Gratuity) and long term benefit plan (ie; accumulated leave), the liability recognised in the statement of financial position is the present value of the defined benefit obligation less the fair value of plan assets. Such obligations are estimated on the basis of the computation made by the Company as provided in its employees byelaws which is considered approximate to actuarial assumptions by the management. Third Party Actuarial Valuation is not made as the number of staff entitled to this benefit is only 3 and the cost for defined benefits obligation is considered not material. Further the cost of actual valuation exceeds the benefits to be received from such valuation.

Performance Incentive

The Company set asides Nrs. 800,000 as incentive package to its staff which is provided to staff on the basis of their individual performance appraisal. Any amount remaining after providing such incentive is carried forward to next year. The company recognize full package of NRs 800,000 as performance incentive expenses on accrual basis.

Staff Bonus

The Company set asides every year as staff bonus 10% of its accounting profit including such bonus.

Explanatory Notes

8.1 Current Employee benefits

Following employee benefits costs are charged to the Statement of Profit or Loss.

	31st Ashad 2074	31st Ashad 2073
Salary and Allowance	11,952,856	10,962,484
Provident Fund	451,832	444,848
Leave Encashment	451,255	-
Leave Provision	89,257	403,470
Gratuity	439,977	361,973
Performance Incentive	800,000	800,000
Uniform Expenses	249,395	149,982
Total	**14,434,572**	**13,122,757**
Staff Bonus	19,306,564	16,554,116
Total Staff Cost including Bonus	**33,741,136**	**29,676,873**

8.2 Retirement Benefit

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Opening Liability	4,451,113	4,089,145	3,984,942
Interest Cost	-	-	-
Current Service Cost	980,489	361,968	295,300
Less: Gratuity& Leave Paid during the Year	(2,255,049)	-	(191,097)
Actuarial Gain or Loss	-	-	-
Closing Liability	**3,176,553**	**4,451,113**	**4,089,145**

Defined Benefit Plan- Assets

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Opening Assets	2,542,058	2,180,090	1,943,277
(+) Estimated Investment Returns for the year	-	-	-
(+) Additional Investment during the Year	891,231	361,969	427,910
(-) Withdrawal (payouts during the year)	(2,255,049)	-	(191,097)
Actuarial Gain or Loss	-	-	-
Closing Assets	**1,178,241**	**2,542,059**	**2,180,090**

Net Charge	**FY 2073/74**	**FY 2072/73**	**FY 2071/72**
Net Charge - P & L	**980,489**	**361,968**	**295,300**
Net Charge (credit) - SOCE	-	-	-

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Gratuity Liability at the End	1,178,241	2,542,057	2,180,089
Leave Liability at the End	1,998,312	1,909,055	1,909,055
Total Liability	**3,176,553**	**4,451,112**	**4,089,144**
Balance for Gratuity Fund at CIT	1,178,241	2,542,058	2,180,089
Net Liability	**1,998,312**	**1,909,054**	**1,909,055**

9. Share Capital

Accounting Policy

Financial instruments issues are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue available number of own equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as deduction net of taxes from the proceeds.

Dividends on ordinary shares classified as equity are recognised in equity in the period in which they are declared.

Explanatory Notes

9.1 Share capital detail

The company's registered capital structure is as follows

NPR

31-3-2074	No of share	Value per share	Capital in Value
Authorised capital	3,000,000	100	300,000,000
Issued capital	1,551,120	100	155,112,000
Paid up capital	1,551,120	100	155,112,000

31-3-2073	No of share	Value per share	Capitala in Value
Authorised capital	1,500,000	100	150,000,000
Issued capital	1,034,080	100	103,408,000
Paid up capital	1,034,080	100	103,408,000

31-3-2072	No of share	Value per share	Capital in Value
Authorised capital	1,500,000	100	150,000,000
Issued capital	1,034,080	100	103,408,000
Paid up capital	1,034,080	100	103,408,000

9.2 Share ownership detail

The shareholding pattern of the company is as follows:

Shareholder Category	31st Ashad 2074 % of holding	31st Ashad 2073 % of holding	31st Ashad 2072 % of holding
Nepal Rastra Bank	10.03%	10.03%	10.03%
"A" Class Institutions	71.35%	69.03%	69.03%
"B" Class Institutions	9.61%	8.75%	8.75%
"C" Class Institutions	9.01%	12.19%	12.19%
Total	100.00%	100.00%	100.00%

10. Reserves

Accounting Policy

The reserves includes the following reserves.

10.1 General Reserve

The company sets aside 20% of the net profit to the general reserve every year until the General Reserve is equal to two times it paid up capital as mentioned in section 18 (b)(4) of its Article of Association.

10.2 Capital Reserve

The company has unused capital reserve since earlier years.

10.3 Deferred Tax Reserve

The Deferred Tax Reserve created earlier is transferred to retained earnings as it is no longer required.

Explanatory Notes

NPR

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Retained Earnings	337,093,050	298,219,838	214,524,896
General Reserve	139,300,916	110,465,815	85,642,631
Capital Reserve	7,299,257	7,299,257	7,299,257
Deferred Tax Reserve	-	1,088,808	1,002,215
Total	**483,693,223**	**417,073,718**	**308,468,999**

10.4 Movement in reserves

Movements in the reserves are given in detail in Statement of Changes in Equity.

11. Grant

Accounting Policy

The company recognizes government grant only when there is a reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received.

Grants relating to intangible assets are included in non-current liabilities as deferred government grants and are credited to the profit or loss over the expected lives of the related assets.

Explanatory Note

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Grant	231,369,813	231,369,813	231,369,813
Total	**231,369,813**	**231,369,813**	**231,369,813**

The grant was received from Asian Development Bank in 2070/71 for the implementation of Microfinance Bureau System. Since the system is still not ready for use as intended, it has not affected the Grant booked for the year.

12. Taxation

Accounting Policy

Income tax payable on profits is based on the applicable provisions of the Income Tax Act 2058 BS and is recognised as an expense in the period in which profits arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rate applicable to the Company as at the reporting date which is expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the statement of profit or loss together with the current or deferred gain or loss.

Explanatory Notes

12.1 Current Taxes

The Company's current tax liabilities are calculated using the Income Tax Act 2058 BS as applicable in Nepal. Current tax payable (or recoverable) is based on the taxable profit for the year. Taxable profit differs from the profit reported in the statement or profit or loss, because some item of income or expense are taxable or deductible in different years or may never be taxable or deductible.

12.2 Tax Settlement Status

The Company's income tax has not been assessed by the tax authorities till date.

12.3 Deferred Taxes

2073/74 NPR

Particulars	Carrying Amount	Tax Base	Temporary Diff
Property, Plant & Equipment	13,458,369	10,919,489	2,538,880
Defined Benefit Liability	3,176,553	-	(3,176,553)
Performance Incentive	327,360	-	(327,360)
Lease Liability	491,593	-	(491,593)
Total			**(1,456,626)**
	Tax Rate @	25%	(364,157)
	Deferred Tax Liability / (Asset) - 31-03-2074		**(364,157)**
	Deferred Tax Expense / (Income) - 2073-74		724,651
	Deferred Tax Liability / (Asset) - 31-03-2073		**(1,088,808)**
	Deferred Tax Expense / (Income) - 2073-74 P&L		724,651
	Deferred Tax Expense / (Income) - 2073-74 OCI		**-**

2072/73 NPR

Particulars	Carrying Amount	Tax Base	Temporary Diff
Property, Plant & Equipment	12,017,582	11,921,702	95,880
Defined Benefit Liability	4,451,112	-	(4,451,112)
Total			**(4,355,232)**
	Tax Rate @	25%	(1,088,808)
	Deferred Tax Liability / (Asset) - 31-03-2073		**(1,088,808)**
	Deferred Tax Expense / (Income) - 2072-73		**(86,593)**
	Deferred Tax Liability / (Asset) - 31-03-2072		**(1,002,215)**
	Deferred Tax Expense / (Income) - 2072-73 P&L		**(86,593)**
	Deferred Tax Expense / (Income) - 2072-73 OCI		**-**

2071/72 NPR

Particulars	Carrying Amount	Tax Base	Temporary Diff
Property, Plant & Equipment	28,449,860	28,369,576	80,284
Defined Benefit Liability	4,089,144	-	(4,089,144)
Total			**(4,008,860)**
	Tax Rate @	25%	**(1,002,215)**
	Deferred Tax Liability / (Asset)		**(1,002,215)**

13. Assets held for sale and discontinued operations

Accounting Policy

Non-current assets (such as property) and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when: (i) their carrying amounts will be recovered principally through sale; (ii) they are available-for-sale in their present condition; and (iii) their sale is highly probable.

Immediately before the initial classification as held for sale, the carrying amounts of the assets (or assets and liabilities in a disposal group) are measured in accordance with the applicable accounting policies described above.

Explanatory Notes

There are no assets that meet the recognition criteria for assets held for sale and discontinued operation.

14. Foreign Currencies

The Company does not have any foreign currency denominated Assets, Liabilities, Income and Expenses.

15. General Administrative Expenses

Accounting Policy

Lease rental for premises are charged on straight line basis in accordance to the lease. All other expenses are recognised when they become due for payment.

Note- The Company has entered into lease agreement from 1 Shrawan 2073 for a period of 10 years with Heritage Plaza Private Ltd. for lease property.

All the general administrative expenses are recognised when the benefit is received by the company.

Explanatory Notes

NPR

	31st Ashad 2074	31st Ashad 2073
Actual Office Rent	2,224,200	1,997,808
Office Rent (As per NFRS on Operating Lease)	491,593	-
Utility Expenses	1,283,242	990,181
Printing And Stationery Expenses	136,956	139,190
Fuel	235,666	186,962
Postal Charge	3,271	726
Repair and Maintenance	86,425	129,539
AMC of hardware and third party software	23,665,532	23,665,532
Technical Service Fees	676,479	744,254
Meeting Expenses	222,746	101,985
i. Meeting Allowances	211,000	88,000
ii. Other Meeting Expenses	11,746	13,985
Telephone Charge	78,311	85,051
Training Expenses	229,244	708,083
Travelling Expenses	926,558	-
Insurance Expenses	275,599	136,008
Audit Fee	234,519	219,454
i) External Audit Fee	117,134	117,134
ii) Internal Audit Fee	113,000	100,000
iii) Audit Expenses	4,385	2,320
Books And Periodicals	3,450	750
Legal Expenses	262,650	254,780
i. Legal Fee	254,150	254,150
ii. Other Legal Expenses	8,500	630
Web Charge	881,400	727,155
Paper & Publication	61,221	26,609
Miscellaneous Expenses	276,466	223,081
AGM Expenses	312,020	326,910
Furniture and Equipment Expenses	60,079	33,140
Festival and Ceremony Expenses	190,620	100,350
Business Expenses	200,000	200,000
Corporate Social Responsibilities	58,000	-
Total	**33,076,247**	**30,997,548**

16. Depreciation and Amortisation

Accounting Policy

The Company's accounting policy related to the depreciation of property plant and equipment has been discussed in Note 6.

Amortisation of expenses, wherever appropriate is apportioned on the basis of the pattern of the economic benefit derived, which is usually on the time apportioned basis.

Change in Depreciation Method from WDV to SLM

Assets Type	*Now SLM*	*Earlier WDV*
Data Center	*10 Years*	*5%*
Vehicle	*5 Years*	*20%*
Furniture and Fixtures	*6 Years*	*25%*
Computers and Office Equipment	*5 years*	*25%*
Software	*5 years*	*20%*
Leasehold improvements	*life of the lease period*	*5%*

The Depreciation method has been changed from Written Down Value Method to Straight Line Method to make depreciation charge as per the use of the assets.

This change is considered as change in accounting estimates as per NAS 16 on Property Plant and Equipment's. Total additional impact of this change is NPR. 78,949. This year expense has decreased and profit has increased by this amount.

Explanatory Notes

	31st Ashad 2074	31st Ashad 2073
Depreciation (refer note 6)	2,064,493	2,119,480
Amortization (refer note 6)	354,011	155,768
Total	**2,418,504**	**2,275,248**

17. Related Party Disclosures

Accounting Policy

The Company identifies following as the related parties under the requirements of NAS 24.

i) Shareholders having shareholding of 4% or more during the year.

ii) Companies represented by the Directors.

iii) Directors of the Company and their close family members if any

iv) Key Managerial Personnel and their close family members if any

Explanatory Notes

17.1 Significant Shareholders

Share Holder	31st Ashad 2074 % of holding	31st Ashad 2073 % of holding	31st Ashad 2072 % of holding
Nepal Rastra Bank	10.03%	10.03%	10.03%
Bank of Kathmandu	7.05%	5.46%	5.46%
Prabhu Bank	5.45%	5.45%	1.92%
Laxmi Bank	5.01%	5.01%	5.01%
Siddhartha Bank	4.84%	4.05%	4.05%
Nepal Investment Bank	4.06%	4.06%	4.06%
NIC Asia Bank	4.06%	4.06%	4.06%
Nabil Bank *	3.54%	3.54%	3.54%
Nepal SBI Bank *	3.54%	3.54%	3.54%
Gurkhas Finance *	0.77%	-	-

*Note: Companies represented by directors

17.2 Transaction with Subsidiary of Significant Shareholders

The following balance lies with the related parties as at the end of the financial year.

Related Party	Fixed Deposit	Bank Balance
Nepal Rastra Bank	-	66,769
Nepal Investment Bank	33,000,000	-
Bank of Kathmandu	100,000,000	2,929,896
NIC Asia Bank	10,000,000	-
Laxmi Bank	35,000,000	-
Prabhu Bank	62,000,000	21,007,619
Nabil Bank	1,089,176	-
Total	**240,000,000**	**24,004,284**

The interest income earned on the fixed deposit and the amount receivable is presented below:

Shareholder	Interest Income Earned	Interest *received*	Accrued Interest Receivable
Nepal Investment Bank	1,470,533	979,670	490,863
Bank of Kathmandu	1,768,903	554,541	1,214,362
NIC Asia Bank	1,033,081	724,040	309,041
Laxmi Bank	1,880,809	1,146,199	734,609
Prabhu Bank	2,525,560	1,832,847	692,712

17.3 Transactions with and payments to directors of the Company

Following payments have been made to the directors of the Company

	FY 2073/74	FY 2072/73
Directors' Meeting Allowance	211,000	88,000
Other Meeting Expenses	11,746	13,985
Total	**222,746**	**101,985**

Details of the board of directors and their composition, and changes if any during the period, are disclosed in the **director's report**.

There have been no payment or transactions with the close family member of the directors.

17.4 Transactions with and payment to key management personnel

The Company defines its Chief Executive Officer as the key management personnel.

Payment of NRs. 4,888,400 as made to the Chief Executive Officerduring the FY 2073/74 as per the Contract. In addition to that Vehicle facility is provided to the CEO.

There have been no payment or transactions with the close family member of the key managerial personnel.

18. First Time Adoption reconciliations and disclosures

18.1 Significant changes from the policies adopted in the past

Significant changes from the accounting polices adopted under previous GAAP and the adoption of NFRS has been disclosed in the respective segments, including the impact. The detailed impact disclosure is given below.

18.2 Adjustments to the opening NFRS Financial Statements

Comparative Statement of Financial Position Between Reinstated as per NFRS and Earlier Reported

NPR

Particulars	31st Ashad 2073			31st Ashad 2072		
	NFRS	Adjustment	Earlier Reported	NFRS	Adjustment	Earlier Reported
ASSETS						
Non-Current Assets						
Property, Plant and Equipment	91,957,783	183,705,398	275,663,181	91,097,658	183,654,516	274,752,174
Intangible Assets	183,705,398	(183,705,398)	-	183,654,516	(183,654,516)	-
Deferred Tax Asset	1,088,808	-	1,088,808	1,002,215	-	1,002,215
Total Non-Current Assets	276,751,989	-	276,751,989	275,754,389	-	275,754,389
Current Assets						
Cash and Cash Equivalents	35,463,046	-	35,463,046	4,187,265	-	4,187,265
Trade Receivables	9,872,303	-	9,872,303	10,139,222	-	10,139,222
Prepaid Expenses & Advances	35,915,063	-	35,915,063	11,805,238	-	11,805,238
Financial Assets measured at Amortized Cost (FD)	415,800,000	-	415,800,000	362,900,000	-	362,900,000
Financial Assets held at fair value through Profit or Loss (Shares)	1,000,000	-	1,000,000	1,000,000	-	1,000,000
Total Current Assets	498,050,412	-	498,050,412	390,031,725	-	390,031,725
Total Assets	774,802,401	-	774,802,401	665,786,114	-	665,786,114
EQUITY AND LIABILITIES						
Non-Current Liabilities						
Retirement Benefit Obligations	1,909,054	(1,909,054)	-	1,909,055	(1,909,055)	-
Trade & Other Payables	-	-	-	-	-	-
Grant/Fund from Asian Development Bank	231,369,813	-	231,369,813	231,369,813	-	231,369,813
Total Non-Current Liabilities	233,278,867	(1,909,054)	231,369,813	233,278,868	(1,909,055)	231,369,813
Current Liabilities						
Trade & Other Payables	21,041,816	1,909,054	22,950,870	20,630,247	1,909,055	22,539,302
Total Current Liabilities	21,041,816	1,909,054	22,950,870	20,630,247	1,909,055	22,539,302
Equity						
Share Capital	103,408,000	-	103,408,000	103,408,000	-	103,408,000
Reserve and Surplus	417,073,718	-	417,073,718	308,468,999		308,468,999
Total Equity	520,481,718	-	520,481,718	411,876,999	-	411,876,999
Total Equity & Liabilities	774,802,401	-	774,802,401	665,786,114	-	665,786,114

19. Events after reporting period

Accounting Policy

The company monitors and assess events that may have potential impact to qualify as adjusting and / or non-adjusting events after the end of the reporting period. All adjusting events are adjusted in the books with additional disclosures and non-adjusting material events are disclosed in the notes with possible financial impact, to the extent ascertainable.

Explanatory Notes

There are **no material events** that has occurred subsequent to 31st Ashad 2074 till the signing of this financial statement.

20. Contingent Liabilities and Commitments

Explanatory Notes

The Company seeks to comply with all applicable laws and regulations, but may be subject to regulatory actions and investigations, the outcome of which are generally difficult to predict and can be material to the Company. Furthermore, there are court cases pending against the company on account of "Blacklisting". The Company considers none of these claims as material.

Where appropriate, the Company recognises a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation(s). As on Ashad End 2074 there is no Contingent Liabilities.

21. Cash Flow Statements

21.1 Cash and cash equivalents

Accounting Policy

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with Banks.

Explanatory Notes

	31st Ashad 2074	31st Ashad 2073	31st Ashad 2072
Cash in Hand	-	-	-
Cash at Bank	25,682,370	35,463,046	4,187,265
Total	**25,682,370**	**35,463,046**	**4,187,265**

22. Dividends

Accounting Policy

Distribution of profit to the shareholders is done by way of payment of cash dividend and /or issue of bonus shares. Applicable withholding taxes are deducted from such distribution. The distributions are proposed by the board and approved by the general meeting. The proposed dividend and bonus shares are not adjusted in the books instead disclosed by way of notes.

Proposed Distributions (Dividends and Bonus Shares)

The Board has recommended **25% as cash dividend** and **50% bonus shares** for the reported year, 2073-74 based on paid up capital of Ashad End 2074. This proposal of the Board of Directors is subject to the ratification by the Annual General meeting of the Shareholders.

NPR

	FY 2073/74	FY 2072/73	FY 2071/72
Cash Dividend-Proposed	38,778,000	25,852,000	15,511,200
Bonus Share-Proposed	77,556,000	51,704,000	-
Total	**116,334,000**	**77,556,000**	**15,511,200**

....
Anil Chandra Adhikari
Chief Executive Officer

....
Sashin Joshi
Chairman

....
S.R. Pandey, FCA
Senior Partner
S.R. Pandey & Co.

....
Bhuban Kadel
Director

....
Jyoti Prakash Pandey
Director

....
Anukool Bhatnagar
Director

....
Raj Kumar Rai
Director

Date: October 15, 2017
Place: Kathmandu, Nepal