



# Board of Directors **REPORT**

Fiscal Year 070/071



KARJA SUCHANA KENDRA LIMITED

# Board of Directors



**MR. TULASI RAM GAUTAM**  
Chairman



**MR. NARA BAHADUR THAPA**  
Director



**MR. AJAY SHRESTHA**  
Director



**MR. JYOTI PRAKASH PANDEY**  
Director



**MR. RAJENDRA MAN SHAKYA**  
Director

*(Current Board Members)*

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# MESSAGE FROM THE CHAIR MAN



MR. TULASI RAM GAUTAM  
Chairman

**O**ur performance till date has remained quite remarkable. Financial and Operational Indicators of the company and the users' responses of our high quality service are the testimony of the fact that company has remained very successful in meeting its desired goals and objectives. We strive hard to be innovative and aim to deliver high quality products and services to our users all the time.

After many years of perseverance, focus and hard work, Karja Suchana Kendra Limited has finally succeeded in implementing all three projects of national importance: Microfinance Credit Information Bureau, Secured Transaction Registry and new Commercial Credit Information Bureau. All three projects which are considered to be major infrastructures for the development of the financial sector are expected to boost the growth of the credit market and extend the reach of the credit to poor and underprivileged of the country.

Microfinance bureau that we will be starting very soon will play a huge role in restraining the

growth of multiple lending, credit delinquencies and over indebtedness prevailing in the microfinance sector of the country. Weakening performance of MF institutions in the country is due in part to the absence of information sharing among the institutions that has led to increase the level of asymmetric information leading to worsening repayment performance in the sector. In such circumstances, MF credit bureau can play a significant role in addressing the above problems and promoting the financial inclusion.

The operation of Secured Transactions Registry service shall go a long way in contributing to the growth of credit market in the country. The financial institutions are reluctant to lend money to small businesses using movable goods as collateral. The main reason for the reluctance is the lack of legal procedures to "perfect" and enforce a security interest in movable goods. Secured Transaction Registry will allow Secured Parties to perfect their security interests and establish priority of their security interests in the movable goods of the borrower. Well-functioning secured transactions systems enable businesses to use their movable assets as security to generate capital.

The new Commercial Credit Bureau will replace the existing bureau and will be delivering services through its advanced platform. The new system will have highly advanced system architecture that will ensure the security and confidentiality of the data and provide fast and easy access of services to the users. Our objective always remains to introduce best technology and systems so that the banks and financial institutions located in any parts of the country can access the credit information service easily without any problem. We strive hard to maintain quality of our service so that it adds value in the decision making of the lenders.

Our vision has always been to develop Kendra as a world class bureau in terms of products, services and standards and establish it as a change agent and major catalyst in the growth of country's credit market. After the operation of all three systems, the Kendra will grow into an institution with the largest repository of credit data in the country. All the credits extended in the economy will be captured by Kendra.

With the volume of data collected by it, it can come out with various value-added products and services that will drive the growth of credit market further. The Bureau can turn into a one window solution provider for diverse areas banking business in the country.

Our performance till date has remained quite remarkable. Financial and Operational Indicators of the company and the users' responses of our high quality service are the testimony of the fact that company has remained very successful in meeting its desired goals and objectives. We strive hard to be innovative and aim to deliver high quality products and services to our users all the time.

The year 070/071 also remained very productive for us. The company witnessed the growth of 25.4% in its Net Profit. Kendra paid Rs. 12.8 million as the bonus to its employees and Rs. 32.2 million as the corporate tax to the government. On the Operation side, Kendra delivered secured, uninterrupted and error free services to all its users through out the year.

We are growing fast and see huge potential of our service in the future. We are kindly assisted by all our stakeholders in our endeavors to grow and move forward. I would like to thank all our member institutions, Nepal Rastra Bank and other government agencies for their support extended to us all the time. I also take this opportunity to thank Asian Development Bank for being generous to provide us the Grant of \$ 2.5 million to set up Microfinance Credit Information Bureau in the country. Without the support of all our stakeholders, we could not have come so far and achieved so much within such a short period of time.

Last but not the least, I would like thank all my colleagues in the Board for their team spirit and co-operation to help build this company. I also would like to appreciate the untiring efforts of all the staffs of Kendra who, through their hard work and commitment, always lived up to our expectations and delivered the results that we all were looking for. Thanks to them.

## CEO MESSAGE



MR. ANIL CHANDRA ADHIKARI  
CEO

**T**he operating revenue increased by 21.7% where as operating expenses increased by only 2.5% giving rise to the increment in operating profit by 25.2%. The operating profit reached to the figure of Rs. 140.7 million as compared to the previous year's figure of 112.4 million. The pretax profit edged to Rs. 128 million and the company earned the net profit of Rs. 95.7 million this year, an increment of 25.4% on previous year's earning of Rs. 76.4 million.

The year 070/071 ended on a good note.

The company achieved a growth of 25.4% in its net profit this year. The operating revenue increased by 21.7% where as operating expenses increased by only 2.5% giving rise to the increment in operating profit by 25.2%. The operating profit reached to the figure of Rs. 140.7 million as compared to the previous

year's figure of 112.4 million. The cost to income ratio decreased from 14% in 069/070 to 11.5% this year due to prudent cost management initiatives imposed by the bureau. The pretax profit edged to Rs. 128 million and the company earned the net profit of Rs. 95.7 million this year, an increment of 25.4% on previous year's earning of Rs. 76.4 million. On the operations side, company delivered uninterrupted high quality services to its users through out the year. The system availability was hundred percent and there were no any reported cases of system inaccessibility, credit report errors, data inaccuracies, poor invoicing, poor customer service etc.

The major achievement of the year was the completion of all three projects that were long overdue and pending. The Bureau completed the installation and commissioning of both new Commercial Credit Bureau and Microfinance Credit Bureau systems. The major highlight of the new system is its system architecture that is robust, modular and flexible. The users can load and access the data in the most secured environment. Security and confidentiality of data is regarded as two most vitally important ingredients of the system operation.

Both the systems are at present collecting the data from their respective users. Since the systems have inbuilt process of collecting data and verifying their quality, all the incoming data are subjected to sanity checks before they are loaded into the database. This sanity checks are in the form of iteration cycles where the data are checked in cycles and finally verified. Because of the poor quality of the data in banking and microfinance sector, the data sanity checks may take longer time. Once iteration cycles are completed, the system will be put "on live" for the users to use it.

The installation and commissioning of Secured Transaction Registry system has also been completed. The system is expected to go into operation by the 3rd Quarter of 071/072. While developing the Registry System, Bureau ensured that the system was simple and easy to use for any user logging into the system for the registration of notices and searches. The access of the service is web based and can

be accessed by any user from any parts of the country where internet service is available.

Operation of MF Bureau will pose many new challenges to the Bureau in the coming months. Against the prevailing issues of data quality, IT capability and the readiness of the MF institutions to join the bureau still remain, Kendra believes that all the microfinance institutions will enhance their data quality and strengthen their MIS system & IT capability in due course of time and join the bureau sooner or later. Tariff issue which is the major concern for the MF institutions will be resolved in due course of time during Pilot run period. A committee will be formed to set up the tariff which will determine the tariff based on the cost of the system operation and Hit patterns of the service.

Kendra intends to organize series of trainings, seminars and talk programs to educate the microfinance institutions about the importance of the bureau and how it is going to help them in making better lending decisions. The program will also focus on how to maintain their data quality and improve on the IT system in order to effectively interface with the bureau's system.

Bureau expects that at the initial phase of the service implementation, the use of STR service will be limited to only banking and the government sectors. As the awareness grows about its use and benefits, the service will pick up its momentum and the subscriber base will slowly increase. In order to generate the awareness about the service, bureau plans to conduct various levels of awareness programs to educate the potential users about the service and its benefits.

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

# REPORT OF THE BOARD OF DIRECTORS

## PRESENTED BY THE CHAIRMAN

### AT 10<sup>TH</sup> ANNUAL GENERAL MEETING

*Dear Shareholders,*

On behalf of the Board of Directors of the company, I would like to welcome you all to this 10th Annual General Meeting of Karja Suchana Kendra Limited.

Please let me have this opportunity to take over this floor to brief you about the operational and financial performance of the company in the year 070/071, its projected accomplishments, ongoing activities, status of the forthcoming new projects and various other issues related with the delivery of credit information services to the member banks and financial institutions of the country.

The Balance Sheet, Profit & Loss Account and Cash Flow Statement for the Fiscal Year 070/071 and report of the Board of Directors are hereby presented to you for the required discussions and approval.

## REVIEW OF LAST YEAR OPERATION

### OPERATIONAL PERFORMANCE REVIEW

During the year under the review, the Kendra put all its efforts to implement the new Commercial Credit Bureau System and Microfinance Credit Bureau System and bring them into service as soon as possible. The Kendra was totally engaged in the installation and commissioning of Application Software, Hardware, 3rd Party software and other Accessories needed to implement the system. Kendra was also engaged in conducting trainings, talk programs and various levels of interaction programs with the representatives of the Banks and Financial institutions (BFIs) and Microfinance Institutions (MFIs) to make them familiar with the new systems and seek suggestions from them to bring more quality on the systems developed.

During the mid of the fiscal year, Kendra was entrusted with the additional responsibility of implementing the Secured Transaction Registry (STR) system. After many years of uncertainties regarding its implementation, Ministry of Finance finally empowered Kendra to implement and operate the system on its own remaining within the confines of and abiding by the Secured Transaction Registry Act of the country. During the period, Kendra completed all the pre-implementation activities (installation & commissioning) related with the operation of the service.



Apart from the new systems, Kendra made all its efforts to maintain the existing system at its best level and provide uninterrupted, secured and best quality service to its users.

## 1 Summary of the operational activities

To put in an encapsulated form, the major operational highlights of the year 070/071 were as follows:

- the installation and commissioning of new Commercial Bureau has been completed. The bureau is in the process of collecting the test data from the Pilot member Banks and Financial institutions (BFIs) based on the new Input File Format and verifying the sanity of those incoming data.
- the installation and commissioning of Microfinance Bureau has been completed. The bureau is in the process of collecting the test data from Microfinance Institutions based on the Input File Format and verifying the sanity of those incoming data. Bureau so far has been successful in collecting the data from thirty Microfinance institutions (MFIs).
- the bureau has completed the development of application software for the implementation of Secured Transaction Registry System. The procurement and installation of Hardware & other Accessories for the system has also been completed. The system is expected to start from the 3<sup>rd</sup> quarter of fiscal year 071/072.
- the Bureau conducted many interaction programs with the representatives of the BFIs and MFIs during the new software customization process and conducted many trainings in order to familiarize them with the new systems.
- Apart from the focus to introduce new systems, the bureau strived hard to maintain the existing system at its best level. The service was provided uninterrupted through out the year. There were no service breakdowns reported in the Primary Site during the period and system availability was 100 percent. The disaster recovery site (DR Site) was put on a warm standby mode to prevent any breakdown in service in case of any system failure in the primary site.
- Security of the data being the prime concern, Kendra implemented very stringent security measures to cocoon the data from the external threats. Because of this, no cases of security breaches in data access, transmission, storage and information dissemination were reported during the period. The physical security of the Data Center was also given the highest priority and was monitored constantly to prevent any unauthorized access into the Data Center. Data Center was put in round the clock surveillance mode.
- There was the further improvement in the response cycle time by 0.5 secs. The response cycle time (the time elapsed between system access and credit report generation) was brought down from the previous year's figure of 4 secs to 3.5 secs this year.
- the Kendra further improved on the searching algorithm by adding few functional parameters. The new searching logic was nearly 100% effective and delivered almost 100% correct identifications of the borrowers. No cases of incorrect identification were reported during the period.
- the Bureau continuously monitored the volume of data collected through both online and off line (FTP) system. The data transmission through FTP server was found to be easy, convenient and most secured and no problems were reported by the users during the period.
- the bureau observed huge improvement in the quality of the data sent by the users. Very effective validation rules and efficient data sanity checks has attributed immensely in improving the quality of the incoming data. Apart from this, the Match and Merge engines also worked perfectly delivering the correct merging of the individuals' records without any defaults.
- Kendra's Help Desk remained very efficient and effective during the period in attending to and addressing the various issues of the users related with the services extended by the bureau. All the users' queries and complaints were timely addressed and closed on time. Kendra took regular feedbacks from the users about the quality of service rendered by the bureau and improved on the services as per the suggestions received.
- Help desk service was further strengthened by effective messaging and emailing component which brought huge efficiency in the dissemination of information and delivery of notices and announcements to the banks and financial institutions.



- The banks & financial institutions located even on remote regions of country could access bureau service easily. Though remote, bureau delivered high quality service to the users of the regions.
- Bureau improved on the users' capacity of the system and granted additional "Users" to many banks and financial institutions during the period.
- the bureau maintained its House Keeping system in perfect order during the period. There were no any technical incidents reported that affected the delivery of the services. House keeping system included daily schedules for

restarting and shutting down of the servers, storing the processing logs, processed data files and rejected data files in specific folders in secured locations in the database server and purging of these data files on a periodic basis.

- the system operations was effectively supervised and monitored through system logs. Any change in events such as configuration updates, system crashes, security profile changes and any/all security related events were monitored through audit logs generated by the system. Every activity performed by a user was logged into the database. Whenever a user was logged to the

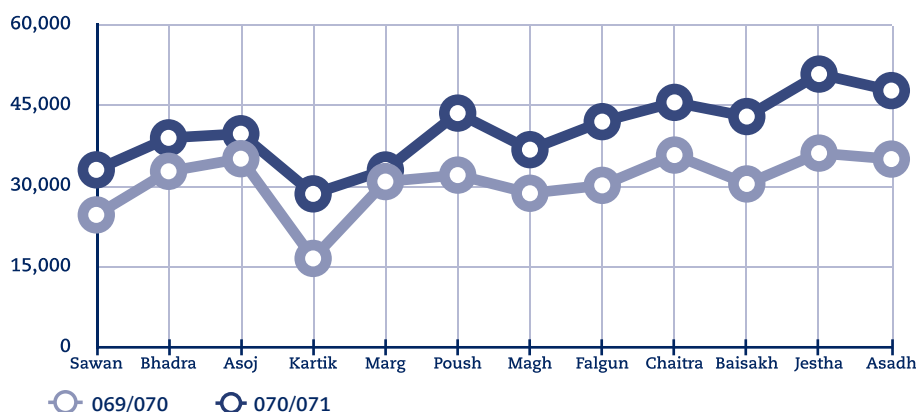
application, all the users operations within the system including changes in the database, transactions and configuration details were logged in the database.

- the bureau further improved on the Graphical User Interface and made it more accessible and user friendly to manage entire bureau configurations and settings related to data processing.
- the bureau also improved on the billing and accounting system that captured the number of enquiries made by the users for the credit reports. The improved system gave correct statistics of the users' accounts.

## 2 Statistics of the Credit Reports

The number of credit reports generated (Information Searches/Hits) increased by nearly 31% this year. The increase in numbers could be attributed to stable economy, stable political climate, improving real state growth, increasing opportunities for business investments and effective supervision by Central Bank. Apart from this, the other factors such as the improved access to bureau's service, quality of credit reports, affordable tariffs with various discount incentives and increasing awareness about the benefits of information sharing has also led to the increase in number of "Hits". The month wise generation of the credit report is not uniform and shows uneven patterns.

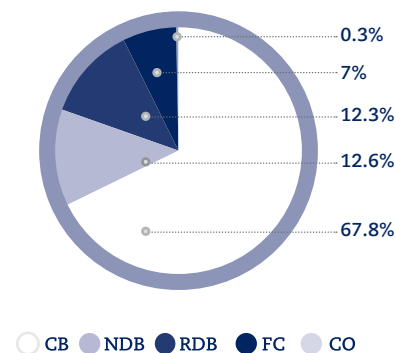
Total "Hits"	Sawan	Bhadra	Asoj	Kartik	Mangsir	Poush	Magh	Falgun	Chaitra	Baisakh	Jesth	Asar
069/070	24,647	32,749	35,091	16,553	30,839	32,043	28,668	30,138	35,769	30,398	36,131	35,022
070/071	33,018	38,969	39,735	28,554	32,998	43,570	36,772	41,984	45,561	42,930	50,822	47,754



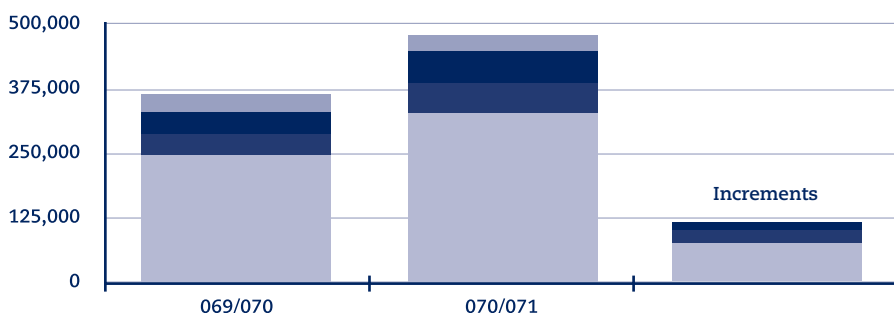
In the month of Jestha, the subscriptions have increased sharply where as in the months of Poush, Falgun, Chaitra and Baisakh it shows average subscriptions. But the month wise generation of credit reports in 070/071 shows similar trend as that in year 069/070 where the "peak & dip" patterns of both the years are virtually similar. Similarly, there has been a month wise increase of 9,550 Hits in year 070/071 as compared to the year 069/070.

As the previous years, Commercial Banks generated highest number of credit reports followed by Regional Development Banks, National Development Banks and Finance Companies. Co-operatives and others were the lowest users of the service. The Commercial Banks generated nearly 68% of the total Credit Reports where as National Development Banks, Regional Development Banks and Finance Companies generated 12.6%, 12.3% and 7% respectively. Co-operatives and others generated only 0.3% of the total.

Categories of Lending Institutions	Credit Reports	Percentage of the Total
	070/071	
Commercial Banks (CB)	327,096	67.8%
Development Banks/National (NDB)	60,940	12.6%
Development Banks/Regional (RDB)	59,284	12.3%
Finance Companies (FC)	33,774	7%
Co-operatives and Others (CO)	1,573	0.3%
<b>Total Searches</b>	<b>482,667</b>	<b>100%</b>



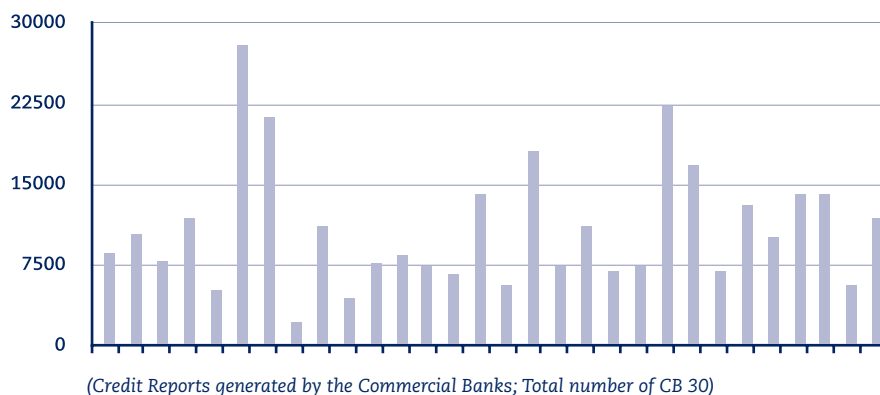
Categories of Lending Institutions	Number of Credit Reports		Increments	% Increments	% of the Total Increments
	069/070	070/071			
Commercial Banks (CB)	248,661	327,096	78,435	31.5%	68.4%
Development Banks/National (NDB)	37,676	60,940	23,264	61.7%	20.3%
Development Banks/Regional (RDB)	45,054	59,284	14,230	31.6%	12.4%
Finance Companies (FC)	35,564	33,774	-1,790	-5%	-1.52%
Co-operatives and Others (CO)	1,093	1,573	480	44%	0.42
<b>Total Credit Reports</b>	<b>368,048</b>	<b>482,667</b>	<b>114,619</b>	<b>31%</b>	<b>100%</b>



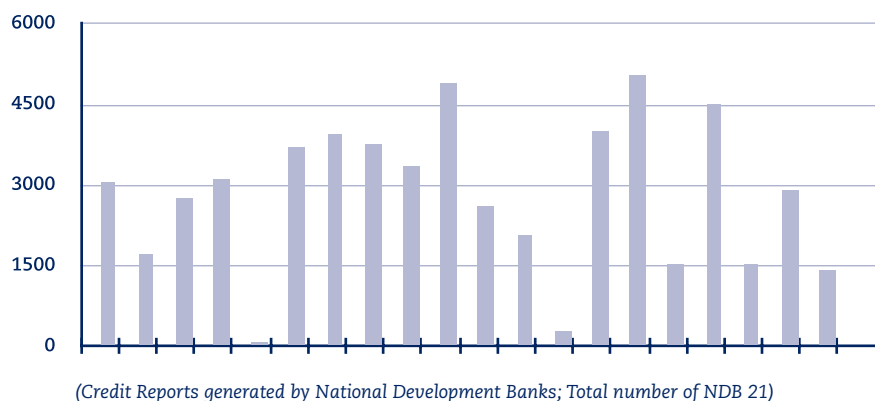
The graph shows that as compared to the year 069/070, the Commercial Banks had the largest increment in the number of credit reports generated (+78,435) followed by National Development Banks (+23,264), Regional Development Banks (+14,230) and Co-operatives (+480). The number of credit reports generated by the finance companies decreased by 1,790 reports in the year 070/071. Percentage wise, National Development had the largest increments followed by Co-operatives, Regional Development Banks and Commercial Banks.

The distribution of credit report generation among different types lending agencies differed quite widely. The Hits of all types of lending institutions were examined and plotted. It was found that some finance companies generated more Hits than Development Banks whereas some Development Banks generated more Hits than Commercial Banks. Some Finance

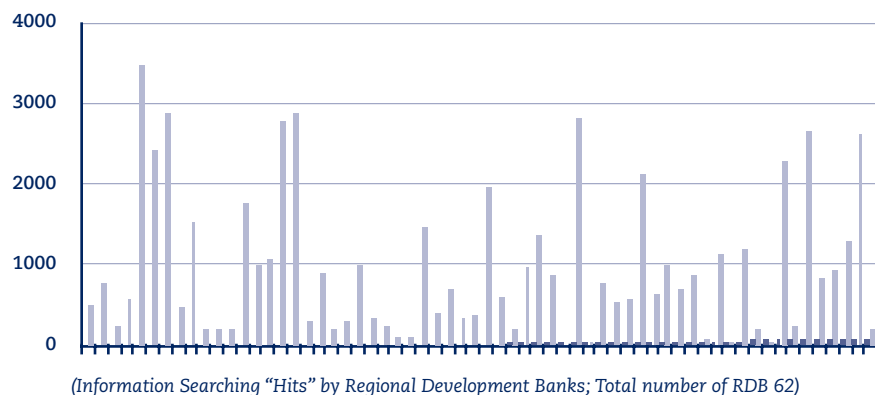
companies were found to be more active and generated Hits even more than Commercial Banks. If “Hits” are any indication of the lending volumes of the institutions, it shows a very alarming trend that some commercial banks doing extremely poor business where as some lower tier financial companies doing quite good business.



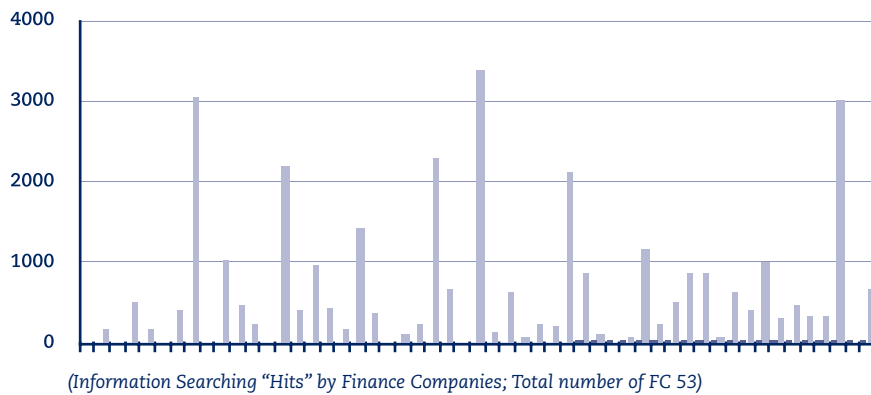
The graph shows that the number of credit reports (Hits) generated by the commercial banks varied between twenty eight thousands credit reports to two thousands credit reports. There were fifteen banks which generated more than ten thousands credit reports where as the remaining generated between five thousands to ten thousands reports except one bank which generated less than five thousands reports. The average number of reports generated by the commercial banks in the year was ten thousands nine hundred reports.



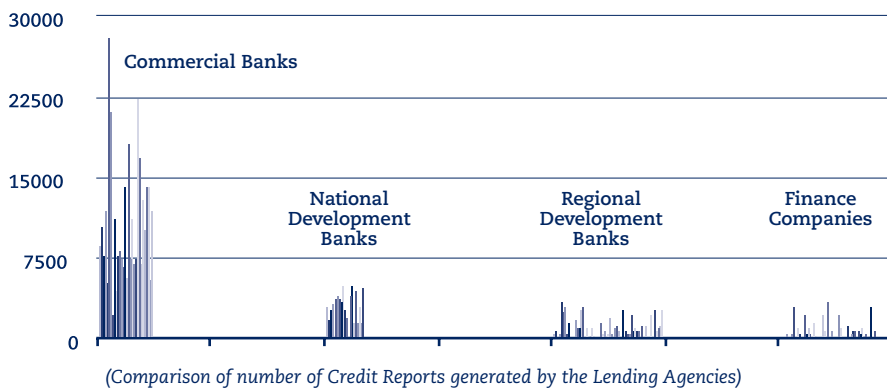
Some National Development Banks (NDBs) generated as high as five thousands credit reports where as some generated as low as ninety five credit reports. Altogether fifteen NDBs generated more than two thousands credit reports. The average number of credit reports generated by the National Development Banks in the year was two thousands nine hundred reports.



Some Regional Development Banks (RDBs) did quite good and generated as high as three thousands five hundred credit reports where as some did quite poorly and generated only two credit reports. Altogether twenty four RDBs generated more than one thousand credit reports where as many others generated between five hundred to one thousand reports. There were also few RDBs which generated less than five hundred reports.



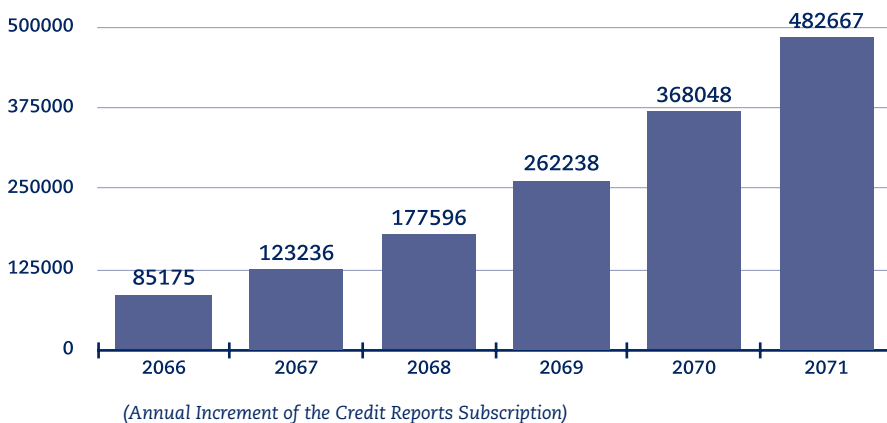
Some Finance Companies were quite aggressive and generated as high as three thousands credit reports where as some did extremely poor and generated only one credit report in the year. Nearly thirty three finance companies generated below five hundred reports. The average credit report generated by the finance companies in the year was nearly six hundred forty reports.



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

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

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



### 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 40.7% from 137,774 in year 069/070 to 193,915 in the year 070/071. The increase in borrowers' records was because of increase in lending of the banks and financial institutions, ease in loading of the borrowers' records online through bureau's system, the improved MIS system of lending institutions and the lowering of collection threshold of credit facilities to Rs. 1 million.

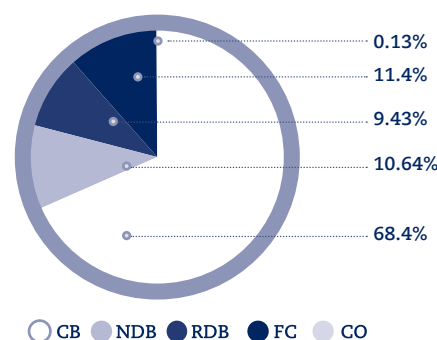
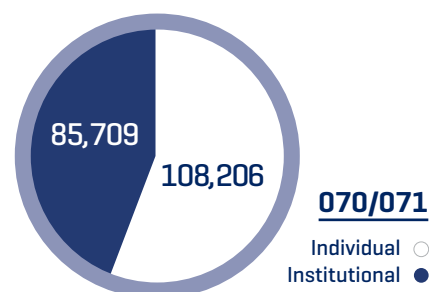
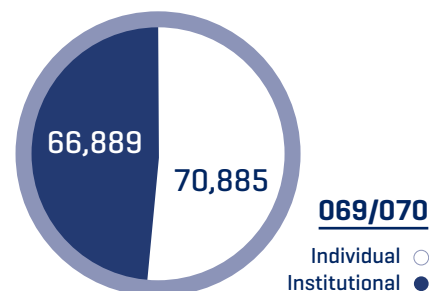
Total borrowers' records include the records of both institutional as well as consumer records. Till the year 069/070, the total numbers of individual and institutional borrowers registered in bureau were 70,885 and 66,889 respectively where as they increased to 108,206 and 85,709 respectively in the year 070/071. Thus there was the increment of nearly 52.6% in individual borrowers and nearly 28.1% in the institutional borrowers leading to the total borrowers' records of 193,915 by the end of the year 070/071.

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

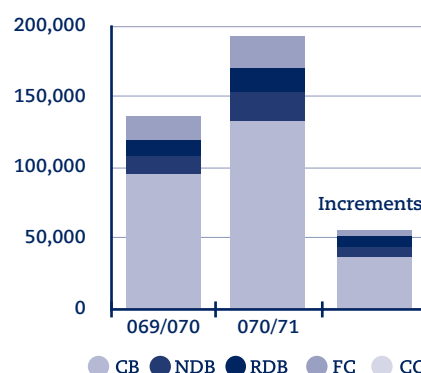
Categories of Lending Institutions	Number of Records	Percentage of the Total
Commercial Banks (CB)	132,650	68.4%
Development Banks/National (NDB)	20,628	10.64%
Development Banks/Regional (RDB)	18,286	9.43%
Finance Companies (FC)	22,091	11.4%
Co-operatives and Others (CO)	260	0.13%
<b>Total Searches</b>	<b>193,915</b>	<b>100%</b>

Commercial Banks have 68.4% of the total records where as Finance Companies, National Development Banks and Regional Development Banks have 11.4%, 10.6% and 9.43% respectively of the total records. The Co-operative and others have the lowest number of records (0.13%).

Categories of Lending Institutions	Number of Records		Total Increments	% Increment	% of Total Increments
	069/070	070/071			
Commercial Banks (CB)	95,230	132,650	37,420	39.3%	66.6%
Development Banks/National (NDB)	13,951	20,628	6,677	47.9%	11.9%
Development Banks/Regional (RDB)	10,274	18,286	8,012	78%	14.3%
Finance Companies (FC)	18,172	22,091	3,919	21.6%	7%
Co-operatives and Others (CO)	147	260	113	76.9%	0.002%
<b>Total Borrowers Records</b>	<b>137,774</b>	<b>193,915</b>	<b>56,141</b>	<b>40.7%</b>	<b>100%</b>



Commercial Banks had the largest increments of records (+37,420) in the year followed by Regional Development Banks (+8,012), National Development Banks (+6,677), Finance companies (+3,919) and Co-operatives (+113). Out of the total increments, CBs occupied 66.6% of the total increments where as Regional Development Banks, National Development Banks and Finance companies occupied 14.3%, 11.9% and 7% respectively of the total increments.



## 4 Statistics of the Blacklisted Borrowers

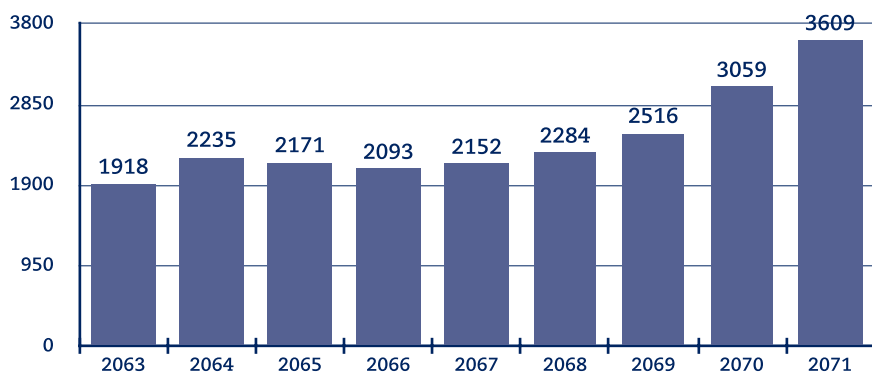
Blacklist Borrowers increased by 550 borrowers in 070/071. Total of 738 borrowers were admitted in the black list where as 188 borrowers were de-listed from the Blacklist giving rise to total

increment of 550 borrowers. This increase could be attributed to the effective supervision by the Central Bank of all the default loans of the Banks & Financial institutions (BFIs) and strict

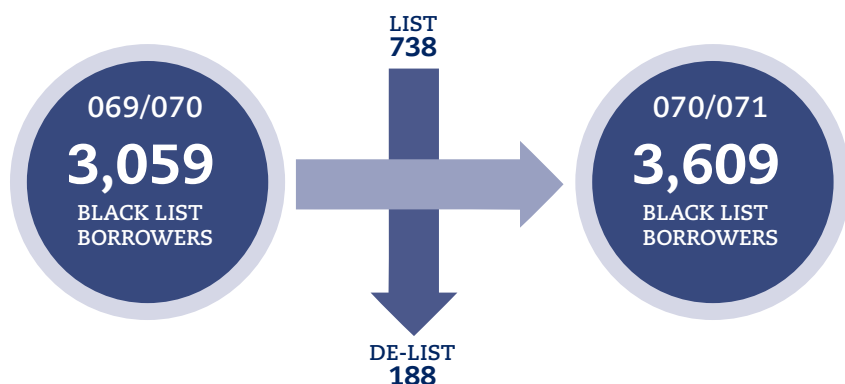
measures imposed by the Bank in case of BFIs failing to report to the Bureau of the blacklist borrowers on the prescribed schedule as dictated by NRB Directive.

### Statistics of the Blacklisted Borrowers

	Till 062/063	063/064	064/065	065/066	066/067	067/068	068/069	069/070	070/071
Added in Blacklist	2,909	430	82	55	171	263	353	690	738
Removed from Blacklist	991	113	146	133	112	131	121	147	188
Total Borrowers in Blacklist at the end of Fiscal Year	1,918	2,235	2,171	2,093	2,152	2,284	2,516	3,059	3,609



(Number of Blacklist Borrowers in CIB Database)



The increase in Blacklist borrowers increased the bad debt amount by Rs. 404 crore. The bad debt amount increased from previous year's figure of Rs. 3,968 crore to Rs. 4,372 crore this year.

## 5 Corporate Governance

The Governing body of the company is the Board of Directors who is entrusted with the responsibility of overseeing the company's operations on behalf of the shareholders and ensuring its prosperity by collectively directing its affairs, whilst meeting appropriate interests of its shareholders and stakeholders. The company adopts best governance practices and strives to satisfy legitimate claims of all stakeholders ensuring transparency and timely financial reporting.

The Board of Directors of the company have committed themselves to ensure that there is effective overseeing of

the Bureau operations and that all such business affairs of the Bureau are conducted adhering to the highest standards of good governance, embracing established best practices.

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

Board appoints Audit Committee, Recruitment Committee and the Internal Auditor. The Statutory Auditor is appointed by the decision of

the shareholders through the Annual General Meeting of the company.

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

## 6 Human Resource

We believe that effective Human Resource Management enables employees to contribute effectively and productively to the overall accomplishment of the company's goals and objectives. We follow to a more open, flexible and caring management style so that the staffs can be motivated to deliver their best to support company's objectives. We have established a very safe, healthy and happy workplace and have built a superior platform for the employees to deliver their best. We believe in openness and transparency and communicate & discuss with employees in open manner. We ensure that employees are well informed on matters concerning them and their job. Formal and informal channels are also employed in communication with employees with an appropriate

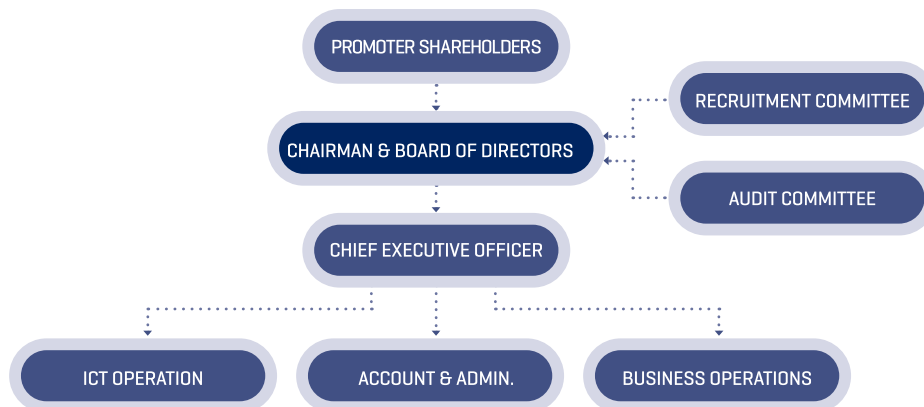
two-way feedback mechanism. We recognize the employee's contributions and achievements and reward them accordingly based on their performances. We train the employees through various programs and motivate them to learn multiple skills.

All the staffs in the key positions are trained and have many years of experience in their respective fields. We have created a small but highly energetic team with smartest people. We believe in developing a small but highly balanced workforce that matches with workloads. No redundancy in workforce is allowed. We are focused to invest in their continuous training and development, providing them with opportunities for both personal and professional enhancement.

The company's HR policy is guided by the company's "Karmachari Sewa Biniyamawali 2064" and is based on best international practices in human resource development and management. As per the Biniyamawali, the Kendra maintains a policy of giving fair consideration to the applications for employment to all the applicants with due regard to their abilities and aptitude. The Kendra's policy prohibits discrimination based on genders, caste & creed, religion etc. in the recruitment, training and career development of its employees.



## 7 Organization Structure



Being a small company, we have a very simple and flat organization structure with fewer management levels with each level controlling broader area of activities. Fewer layers means fewer approvals in decision making, so decisions can be made faster and the company can respond more quickly to new ideas. It leads to better and more frequent communication among all the employees resulting in better understanding of company's operational goals and issues.

Employees are empowered and are expected to take responsibility for a range of decisions in their daily routines. We offer more opportunities for employees to excel while promoting the larger business vision. Since more employees are on a level playing field, more responsibility is placed on each individual creating a situation where innovative and collaborative culture thrives. By giving every one in a company an equal voice in submitting new ideas and feedback on operational processes, we tend to discover new ideas that lead to competitive success.

## 8 Management

Management is run by the CEO and he is in charge of the bureau. CEO has the specific responsibilities as entrusted by the Board of Directors and reports to the Board on a regular basis. CEO oversees the complete operation of the bureau that includes operations, marketing, strategy, financing, creation of company culture, human resource, hiring, firing, compliance with safety

regulation, sales, public relations etc. In short, his responsibilities include managing the overall operation and resource of the company, making major corporate decisions, developing and implementing high level strategies, developing planning recommendations to the Board and acting as the point of communication between the Board and the corporate operations.

CEO is supported by the executives who report to him regularly on various issues. Being a flat structure, CEO is approached by employees of all the levels and report to him issues and problems. Because of the teamwork and collaborative culture, Bureau has managed to implement three national level projects within the short span of few years.

## 9 The Board and the Committees

The Directors of the Board are elected from among the promoter shareholders from Annual General Meeting of the company in every four years. The Board is composed of seven members- four from Commercial Banks (CB), one each from Finance Company (FC), Development Bank (DB) and Nepal Rastra Bank (NRB). The number of representation in the Board from each category is based on the distribution of shares among the categories. Commercial Banks holds 65% stake and has four representations, Development Banks holds 10% stake

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

The current Board of Directors meets all the Qualification Criteria as mentioned in the Article 89 of the Company Act 2063 of the country. All of them possess needed skills, expertise and experience to make required policy decisions and guide the company to make it more

competitive and efficient. The tenure of the Board of Directors is for four years. The term of office of a Director appointed to the office of any director which has fallen vacant before the expiry of his/her term of office shall be the only remainder of the tenure of office of that director whose office has so fallen vacant and whose place one is appointed. In such cases, the Board has the right to select new member from among the promoter shareholders for the remaining period of his/her incumbency.

### a. Changes in the Board of Directors

There were no changes in the Board of Directors during the period.

### b. Board Meetings

There were altogether ten (10) Board meetings held under the Chairmanship of Mr. Tej Bahadur Budhathoki during the period under the review. The numbers of the attendance of the Board members in the Board meetings were as follows:

	Name	Representation from	No. of Meetings held During Tenure	Meetings Attended	% of Attendance
1.	Mr. Tej Bahadur Budhathoki Chairman	Agriculture Development Bank Ltd.	10	10	100%
2.	Mr. Purna Bahadur Khatri Director	Nepal Rastra Bank	10	8	80%
3.	Mr. Ajay Shrestha Director	Bank of Kathmandu Ltd.	10	9	90%
4.	Mr. Jyoti Prakash Pandey Director	Nepal Investment Bank Ltd.	10	6	60%
5.	Mr. Tulasi Ram Gautam Director	Machhapuchhre Bank	10	8	80%
6.	Mr. Bhusan Rana* Director	Yeti Development Bank	10	3	30%
7.	Mr. Rajendra Man Shakya Director	Synergy Finance Limited	10	10	100%

\*Mr. Bhusan Rana could not attend many meetings due to health reasons

As per the Company's Niyamawali 2068, Board must convene for the Board meeting at least six times in a year provided however that the interval between any two meetings shall not exceed three months. No meeting of the Board shall be held unless it is attended by at least fifty one percent of the total number of directors of the company.

### c. Current Board Members

Board elected Mr. Tulasi Ram Gautam as the new Chairman of the Board of Directors of the company for the period till the end of the current tenure of the Board. He replaced the incumbent Chairman Mr. Tej Bahadur Budhathoki who left the Board after he resigned from the CEO of the Agriculture Development Bank. Similarly Mr. Bhusan Rana also left the Board after he resigned from the CEO of the Yeti Development Bank.

Board ratified the name of Mr. Nara Bahadur Thapa, the Executive Director of Nepal Rastra Bank, as the new member of the Board in place of Mr. Purna Bahadur Kahatri who retired from the Bank recently.

### d. Board of Directors Disclosure

#### MR. TULASI RAM GAUTAM CHAIRMAN

Machhapuchchhre Bank Limited

CEO

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

#### MR. NARA BAHADUR THAPA Director

Nepal Rastra Bank

Director

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

#### MR. AJAY SHRESTHA Director

Bank of Kathmandu  
Beed-BOK Venture Limited  
Nepal Bankers Association

CEO  
Chairman  
Executive Member

#### MR. JYOTI PRAKASH PANDEY Director

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

CEO  
Chairman  
Nepal Clearing House Limited

#### MR. RAJENDRA MAN SHAKYA Director

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

CEO  
President  
Executive Member  
Life Member & Advisor  
Life Member

**e. Audit Committee**

Board of Directors forms the Audit Committee and appoints its three members. The audit committee is chaired by a non-executive director of the Board. All the members of the committee have many years of experience and expertise in the field. The committee oversees,

on behalf of the Board, the financial reporting controls implemented by the management and the integrity of the published financial information. In general, the audit committee's role includes the oversight of financial reporting, the monitoring of accounting

policies, the oversight of any external auditors, regulatory compliance, formulation of accounting policy and the discussion of risk management policies with management. It also reviews and supervises the compliance of auditor towards standards, regulations etc.

There were altogether four (4) audit committee meetings held during the period. Audit committee met each quarter to discuss on the audit reports submitted by the internal auditors. There were four internal audit reports submitted to the audit committee.

	Name	Number of Meetings Held During the Tenure	Number of Meetings Attended	% of Attendance
1.	Rajendra Man Shakya, Chairman	4	4	100%
2.	Tulasi Ram Gautam	4	4	100%
3.	Purna Chitra Pradhan	4	4	100%

**f. Recruitment Committee**

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

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

**g. Expenses Incurred on Committees**

Committee	Number of Meetings	Expenses on Committees		
		Meeting Allowance	Other Expenses	Total
1. Board Meetings	10	108,000	15,500	123,500
2. Audit Committee Meetings	4	12,000	2,807	14,807

**h. Disclosures**

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

## i. Compliance Report

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

## 10 Risk Factors Disclosures

It is necessary that the Bureau has a strong and effective risk management structure in which risks are identified, analyzed, communicated, mitigated and managed across the company and across all functions. The Bureau recognizes that risk management is an integral part of sound management practice and good corporate governance as it improves the decision-making and enhances outcomes and accountabilities. The management of Bureau is committed to risk management practices across its business at all times working diligently to follow highest standards and benchmarks as appropriate. The risk management plans are regularly reviewed to ensure that they accurately reflect current potential risks of the bureau's business.

### MAINTENANCE OF DATA SECRECY [TECHNOLOGY RISK]

#### RISK

The Bureau has in its possession a great deal of sensitive and confidential information relating to the borrowers. While such confidential information is stored in safe servers inside the Data center, there is always risk of unauthorized access of the data from the external world. The unauthorized access can be online or physical access to the Data Center.

In short, 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, system software and network sabotage etc. Should such event occur, it will tarnish the image of the Bureau. As confidentiality is paramount, maintaining it at the highest level is a constant challenge that must be met to ensure credibility & trust.

#### RISKS MITIGATION STRATEGIES

The Bureau has employed very robust IT security infrastructure and various layers of system security that could circumvent any external threats. Data Center is fully protected & equipped with access control mechanisms and safety systems. The system has been completely cocooned from external world and has multiple layers of security zones that will have restricted access and can be accessed only through the defined logical rules. Bureau ensures efficiency in IT systems and maximum security in maintaining its database.

The data from the member institutions come in encrypted form. All three layers (Network, Application and Web) of security mechanisms are implemented. Member institutions access the Bureau for information strictly for permissible purposes only. Only authorized member users with approved User ID and Password can access the data.

Bureau ensures that IT staffs are fully aware with the information confidentiality policy and follow them strictly. Only those staffs "who need to know" are provided with access privileges which will be revoked in a timely manner when no longer warranted. Bureau has employed trained staffs for information security who have many years of experience in the field and are capable of dealing with any types of system security problems.

Data Center is subjected to round the clock surveillance and is equipped with highly advanced surveillance tools to monitor the activities inside the Data Center. Unauthorized admission to Data Center is strictly prohibited.

**BUSINESS RISK****RISK**

Decreasing banking business leads to decline in credit information enquiries which lead to reduced revenue for the bureau. Economy or market down turns or poor state of the banking business adversely impacts the bureau's growth potential. Uncertainties in the banking business make it difficult to forecast future levels of bureau's income and earning potentials.

**RISKS MITIGATION STRATEGIES**

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

**OPERATIONAL RISK****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.

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.

**RISKS MITIGATION STRATEGIES**

Bureau has developed a very efficient and effective "Identification Algorithm" that has helped to correctly identify the borrowers. The algorithm is based on borrower's personal identification information and three generation information. The Bureau has taken plenty of technical measures that null the wrong identifications.

Bureau is equally focused to improve the quality of the data and has introduced strong validation rules to check the sanity of data. All the data that do not meet the required quality standards are rejected and sent to the users for the correction. Data quality of the borrowers is maintained at highest level so that the "identification algorithm" functions properly and gives the correct Hits. So far the algorithm has generated 100% correct hits of the borrowers and no wrong identifications are reported.

Bureau has taken all the measures possible to run the system without any service interruption. The system is equipped with redundant power supplies (UPS, Batteries, Generator) that are sufficient to withstand the current power requirements of the system during load shedding hours.

In case of service breaks down in Primary Site due to power or some other Force Majeure reasons, Bureau can provide its service through its Disaster Recovery Site (DR Site) located in National Information Technology Center (NITC) in Singh Durbar. The system is in warm-stand by mode and can be put into service immediately. NITC is equipped with 24x7x365 uninterrupted power supply system.

## OPERATIONAL RISK

### RISK

Risk of Loss or damage to the facility and equipment due to fire, earthquake or other reasons.

Risk of losing IT talents.

### RISKS MITIGATION STRATEGIES

All our Data Center equipments and infrastructures have been safeguarded with adequate insurance coverage.

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.

## FINANCIAL RISK

### RISK

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

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

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

### RISKS MITIGATION STRATEGIES

Bureau has sufficient funds in the form of financial assets, receivables, cash and bank balance, short term deposits and investment incomes to pay back the payables.

The costs incurred for the procurement of Hardware & 3rd Party software for the implementation of MF bureau was borne by the Grant received from the Asian Development Bank. Thus there are no any financial liabilities for the bureau to pay back the cost.

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

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



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

### DATA QUALITY REPORTING AND UPDATES

#### ISSUES & PROBLEMS

The effectiveness of the credit information bureau largely depends on the quality of data stored in it. In order to make the credit report more inclusive, informative & reliable, the collection of correct and current data from the source is necessary.

#### SOLUTION STRATEGIES

Bureau is moving very aggressively in this regard and has been conducting many interaction programs and discussion sessions with the data providers regarding the quality of the data and its timely submissions.

Many Banks have already started upgrading their MIS system and installing required system software to transfer the data on-line to the bureau through the new system. Timeline/Cutoff date has already been given to all the data providers so that their system must be ready by the cut off date and they must submit the data through the new Silver Blade system in a predefined file format as issued by the Bureau since the cut off date onwards. Bureau has further improved on the validation rules to improve on the quality of the data. No data will be entered into the system unless it meets all the data standards as set by the bureau and qualifies validation rules. Match and Merge engines have been further strengthened.

### CREDIT REPORTING THRESHOLD

#### ISSUES & PROBLEMS

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

#### SOLUTION STRATEGIES

The issue has brought to the notice of Central Bank to wipe out the collection threshold and allow the bureau to be more inclusive by collecting all the borrowers' data of the lending agencies irrespective of any threshold. Central Bank is seriously working on it to bring down the collection threshold.

Such practice and policy will enhance the growth of credit market, decreases the probability of multiple lending, makes the credit report more inclusive and is in conformity with the best international practices in credit bureau operation. Apart from this, this practice shortens the data maturity process and expedites the process of the development of value added products and services.

Wiping out the threshold is quite necessary for the growth of the bureau, credit market and the economy of the country as a whole.

## REGULATORY PROVISIONS

### ISSUES & PROBLEMS

Possibility of inaccurate and delayed information due to the lack of effective regulatory framework. Existing punitive measures as mentioned in the NRB Directive is not enough to enforce data providers to submit the data on time.

### SOLUTION STRATEGIES

Bureau should be empowered through regulatory provisions to suspend the service of the data providers in case of delayed or inaccurate submissions. Strong regulatory measures such as suspension of service and membership have to be imposed to enforce data providers to oblige by the principles of information sharing.

The bureau has submitted the request to the Central Bank regarding the same.

## 12 Challenges of New Systems Operation

### MICROFINANCE

#### CHALLENGES

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

#### STRATEGIES

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

The system will be put into Pilot Run initially. The Bureau will study the "Hit Patterns" of the service during the Pilot Run period to determine the tariff structure. A committee comprising of the members from bureau, MF Associations, Ministry of Finance and the Central Bank will be formed to set up the tariff structure which will determine the tariff based on the cost of the system operation and Hit patterns of the service.

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

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

**COMMERCIAL BUREAU (NEW SILVER BLADE SYSTEM)****CHALLENGES**

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

**STRATEGIES**

Bureau has set the cutoff date for all the Banks and Financial Institutions to make their MIS ready and send the Data through the new system. At the same time, Bureau will complete the migration of the existing data to the new system before the cut off date thus making the new system fully equipped with both new and old data before the date. This will solve the problem of using two systems for searching the information to the users.

**SECURED TRANSACTION REGISTRY (STR)****CHALLENGES**

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

**STRATEGIES**

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

Given the nature of the business, it can be assumed that its major users at the initial phase will be banks and financial institutions. Bureau will focus this segment in the initial phase.

## 13 Major Action Plans for the Year 071/072

- Kendra will put all its efforts to operate the new Commercial Bureau System (Silver Blade) by the end 071/072. The existing credit bureau system will be replaced by new system and the service will be provided through it. The installation & commissioning of the system have been completed by now and the migration of the data from the existing system to the new system is expected to be completed by the mid of 071/072.
- Kendra aims to put the Microfinance Credit Bureau service into Pilot Run by the end of 071/072. Immediately after the preliminary checks of the test data from some MFIs are completed, the bureau will start collecting the data from all other microfinance institutions who will be willing to join the bureau. All the incoming data will be subjected to sanity checks which may take few more months to complete. By the end of the year, the MF bureau will be made ready for the Pilot Run.
- Kendra plans to roll out the Secured Transaction Registry service by the 3<sup>rd</sup> quarter of 071/072. All the preliminary activities related with the implementation of the service have been completed. Kendra will put the service into pilot mode for some period to check the bugs and errors before going “on live”.
- Kendra aims to increase the frequency of interaction programs with the Bank and Financial institutions (BFIs) in the year 071/072. Kendra has planned to organize advanced “system based” training to them in order to make them familiar with the system and better understand the credit reports and other MIS reports generated by the new system. Kendra will also conduct the “system based trainings” to the Microfinance Institutions that will enable them to be familiar with the system. Since Secure Transaction Registry is a new service, Kendra plans to implement a series of awareness programs aiming at potential users of the STR service.
- Kendra will focus on capacity building of the IT & Operation staffs in order to effectively operate the new systems. The trainings will be provided locally on the relevant subjects by the technical experts of the vendor. The staffs will be sent abroad to vendor’s Training Academy to have further advanced trainings on the subjects. Apart from the system based training, they will be sent to attend the seminar and talk programs overseas that will help them learn new practices in credit bureau operation.

## 14 Long Term Business Focus and Action Plans

- Organize the Business and its Processes around a strong technology base. Use Technology all across the operations to increase efficiency of service delivery, reduce costs of operations, provide internal support system and manage changes fast etc.
- Enhance the scope of operation by collecting information from all other sources (3<sup>rd</sup> Party) such as utilities, leasing companies, insurance companies, investment funds and other lending institutions. Enrich the quality of data and bring maturity in it by employing advanced data processing techniques. Develop the highly inclusive credit report based on the information received from various sources.
- Bring out various kinds of value added products and service on a phase wise basis within 5 years of the implementation of the new commercial bureau system. This includes the simple products like credit scoring, check return and identification verification in the initial years followed by more complex products such as Fraud Prevention, Marketing Services, Basel II models and Behavioral Statistics in later years.
- Expand microfinance bureau service all across the country within five years period and bring all the microfinance institutions under its umbrella. Develop various kinds of products and services for microfinance institutions including the delivery of the credit report service through mobile phones.
- Contribute in the growth of credit market by making Secured Transaction Registry service available all across the country. Generate wide spread public awareness of the service and bring all the potential users under its umbrella.
- Gain domain expertise and introduce best international practices in system security and data & service quality. Establish Kendra in league with other credit bureau operators of the region in terms of service standards.

## 15 Bureau's Relations with its Stakeholders

- The Kendra defines all of its users (Banks & Financial Institutions), shareholders, employees and external agencies (Central Bank, Ministry of Finance, Donor Agencies etc.) as a whole as stakeholders and make every effort to keep good relations with them. To maintain good relationships with these stakeholders and further strengthen that relationship, Kendra has always maintains an effective two-way communication with them.
- Users: Kendra holds regular meetings with the representatives of the banks and financial institutions to make them aware about the new technologies introduced by the bureau. It regularly imparts trainings to them to make them familiar with the system and capable of using the services efficiently and effectively.
- Shareholders: The Board of Directors always encourages dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company's potential, operating principles and policies, and in order for the board of directors to be aware of the shareholders' views, interests and opinions on the company. Board ensures that the shareholders are fully aware about the business, financial condition, and operating performance and trends. Since shareholders' good views and suggestions are highly valuable, Board aims to translate the shareholders' good views and suggestions into actions. The communications are through annual general meeting, fact books such as annual reports and business reports, investor information through rich website, personal meetings and briefings sessions etc.
- Employees: The Bureau has efficient and effective in-house two-way communication systems which make the employees fully aware about the business and the changes, developments, plans, policies implemented by the company.
- External Agencies: The Kendra ensures that it makes good relations and effective communications with all the Associations of the financial institutions (Nepal Bankers Association, Nepal Development Banks Association, Nepal Finance Companies Association, Microfinance Development Banks Association), Ministry of Finance, Central Bank, government agencies and other external agencies. Management holds formal and informal meetings regularly with the representatives of those institutions and briefs them about the current status of the bureau.

## 16 Corporate Social Responsibility

- Even though a small company with a small turnover & profit, Kendra always intends to devote real time and money in environmental sustainability program, alternate energy and various social welfare initiatives to benefit the community. The company has remained a keen supporter of green environment and is associated with various environmental organizations that are engaged in protecting and improving environment. Bureau has turned itself into a paperless organization with bare minimum consumption of papers through automating all the operating activities and using energy efficient equipment thus saving time and cost and creating a clean environment.
- During the period, Kendra donated four Quintals of rice to a school named "Anaath Balasharm" located in the outskirts of Budhanikanta, Kathmandu. The school is one of its kinds that admit students from the poor and underprivileged section of the society and provide them free education, housing and food. The school is run by the contributions received from the various donors who provide the help and assistance to the school in one form or other.

## FINANCIAL INDICATORS

Statement of Financial Position	069/070	070/071
<b>CAPITAL &amp; LIABILITIES</b>		
Share Capital	103,408,000	103,408,000
Reserve & Surplus	133,501,588	213,507,754
Loan/Funds		231,369,813
Trade & Other Payables	6,614,082	6,785,873
Provisions	10,187,650	12,794,729
<b>Total Liabilities</b>	<b>253,711,320</b>	<b>567,866,169</b>
<b>ASSETS</b>		
Cash & Bank Balance	8,917,584	3,916,287
Investments	217,498,976	265,743,277
Prepaid, Advances, Loans and Deposits	10,561,964	18,669,398
Trade & Other Receivables	9,252,582	10,139,130
Fixed Assets	6,557,550	268,392,073
Deferred Tax Assets	922,663	1006,004
<b>Total Assets</b>	<b>253,711,320</b>	<b>567,866,169</b>

Income Statement	069/070	070/071
<b>INCOME</b>		
Service Charge	112,271,008	140,550,540
Interest	18,375,895	18,535,221
Registration Charge	4,000	1,000
Other Income	50,000	2,500
<b>Total</b>	<b>130,700,903</b>	<b>159,089,261</b>
<b>EXPENDITURE</b>		
Operating Expenses	16,422,452	16,841,909
Non Operating Expenses	374,749	
Depreciation	1,839,552	1,505,339
Provision for Bonus	10,187,650	12,794,729
<b>PROFIT BEFORE TAX (PBT)</b>	<b>101,876,500</b>	<b>127,947,285</b>
Provision For Taxation	25,517,659	32,195,149
Current Tax Expenses	25,762,603	32,278,490
Deferred Tax Expenses	(244,948)	(83,341)
<b>Net Profit Transferred to Accumulated Profit</b>	<b>76,358,841</b>	<b>95,752,135</b>



## FINANCIAL PERFORMANCE REVIEW

- Paid up share capital remained same as previous year where as Reserve & Surplus increased from Rs. 133,501,588 to Rs. 213,507,754 in 070/071 because of the increments in Accumulated Profit, General Reserve and Deferred Tax Reserve. There were no increments in Capital Reserve which remained same as previous year. Company transferred 20% of the net profit amounting to Rs. 19,150,427 to General Reserve this year. Company received the Grant of the amount of Rs. 231,369,813 from the Asian Development Bank under Rural Finance Sector Development Cluster Program II for the implementation of Microfinance Credit Information Bureau System. The amount was expensed for the procurement of Hardware, 3<sup>rd</sup> Party Software and other Accessories needed for the system.

- Company's fixed assets increased manifolds during the year because of the addition of new infrastructures amounting to Rs. 261,113,023 procured for the implementation of MF Bureau system. The new additions included Servers, Storage, Network Security equipments, 3<sup>rd</sup> Party Software and other Accessories for both Primary and DR Site. This also included the cost to upgrade the Data Center which was equipped with back up power supplies, monitoring and surveillance equipments and many other advanced systems. The fixed assets of the company are stated at cost less accumulated depreciation.

- Investments in the form of interest bearing long term and short term deposits at different banks and financial institutions amounted to Rs. 265,743,277 in 070/071 as compared to Rs. 217,498,976 in 069/070. All the earnings after deducting the essentials were invested in various categories of financial institutions that included commercial banks, development banks and finance companies.

- The company also made the investments of Rs. 1 million in ICRA Nepal in 068/069. Investments were made looking at its potential to grow in the future as the leading company

Particulars	069/070	070/071	Increase (Rs.)
<b>CAPITAL &amp; LIABILITIES</b>			
Paid Up Share Capital	103,408,000	103,408,000	0
Reserve & Surplus	133,501,588	213,507,754	80,006,166
Loans/Funds	0	231,369,813	231,369,813
<b>Total</b>	<b>236,909,588</b>	<b>548,285,567</b>	<b>311,375,979</b>

Particulars	069/070	070/071	Increase (Rs.)
<b>RESERVE &amp; SURPLUS</b>			
Capital Reserve	7,299,257	7,299,257	0
General Reserve	43,363,635	62,514,062	19,150,427
Accumulated Profit	81,916,034	142,688,432	60,772,398
Deferred Tax Reserve	922,663	1,006,004	8,3341
<b>Total</b>	<b>133,501,588</b>	<b>213,507,754</b>	<b>80,006,166</b>

Particulars	069/070	070/071	Increase
<b>FIXED ASSETS</b>			
Fixed Assets less Depreciation (Regular)	6,557,550	7,279,050	721,500
Fixed Assets (Infrastructures for MF Bureau)	-	261,113,023	261,113,023
<b>Total</b>	<b>6,557,550</b>	<b>268,392,073</b>	<b>261,834,523</b>

Particulars	069/070	070/071	Increase
<b>INVESTMENTS</b>			
Fixed Deposits at different Banks and Financial Institutions	214,900,000	262,800,000	47,900,000
Citizens Investment Trust	1,598,976	1,943,277	344301
ICRA Nepal	1,000,000	1,000,000	0
<b>Total</b>	<b>217,498,976</b>	<b>265,743,277</b>	<b>48,244,301</b>

in the financial sector of the country. Bureau holds 5% stake in the company and has one representation in its Board. As expected, ICRA is growing very fast and is expected to disburse dividend from the coming fiscal years. Gratuity fund of the employees which has been deposited in Citizens Investments Trust has also been increased because of the annual additions in the fund.



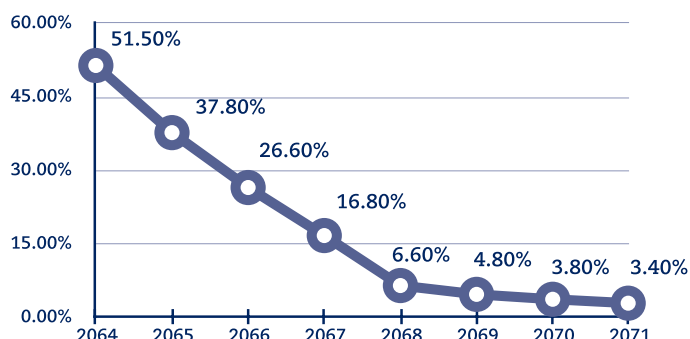
- Trade and Account Receivable which includes Service Charge Receivable and Interest Accrued have increased by Rs. 559,243 and Rs. 327,304 respectively in the year 070/071.

Particulars	069/070	070/071	Increase (Rs.)
<b>TRADE &amp; ACCOUNT RECEIVABLES</b>			
Service Charge	4,250,910	4,810,153	559,243
Interest Accrued	5,001,672	5,328,976	327,304

- The service charge receivable against the total invoice bills decreased from 3.8% in 069/070 to 3.4% in 070/071. 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 bills collection mechanisms, highly focused and dedicated team, technology driven invoice generation and billing mechanisms etc. Average collection period of the invoice bills has been reduced accordingly from 13.8 days to 12.5 days.

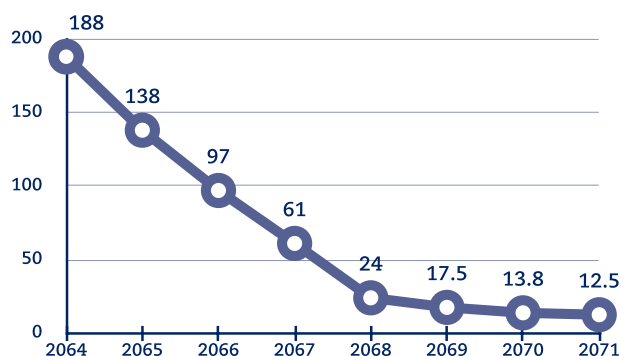
	065/066	066/067	067/068	068/69	069/070	070/071
Total Invoice	29,554,400	42,167,870	64,378,968	8,2933,858	112,271,008	140,550,540
Service Charge Receivable	7,850,600	7,083,868	4,265,269	4,003,328	4,250,910	4,810,153
% Receivable	26.6%	16.8%	6.6%	4.8%	3.8%	3.4%

#### ACCOUNT RECEIVABLE



#### AVERAGE COLLECTION PERIOD

(Days)



- Cash and Bank Balance has been reduced nearly by 56% this year. Company's cash management policy always ensures that all the revenues that are collected are immediately invested as deposits in Banks and Financial Institutions. The deposit account has been reduced by nearly 79% whereas the operating account has been reduced by nearly 40% this year. Only some portion of cash required for regular expenses are maintained in Operations Account.
- There was the heavy increment in Pre-paid, Advances, Loans and Deposits because of the advance

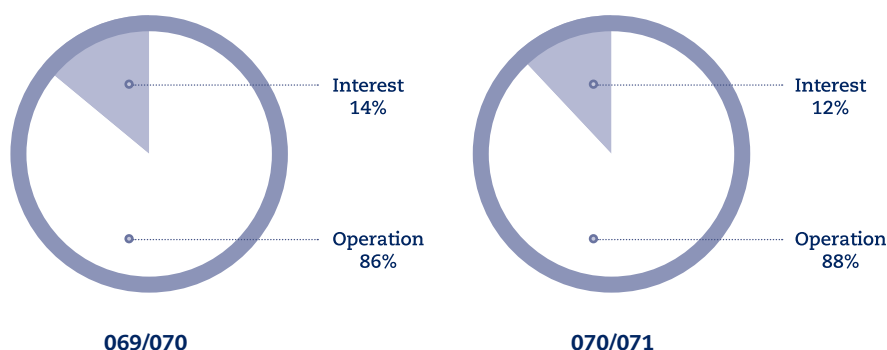
payment of nearly Rs. 8.45 million made to the Application Software vendor as per the contractual terms and conditions signed between the vendor and the company. There were some marginal increments in other components apart from the Advance Tax which increased by nearly 32% this year.

- Trade and other Payables increased by only 2.6% this year. The staff's Gratuity Fund/Retirement Fund increased by Rs. 344,301 where as "others payable" decreased by Rs. 369,255. The Provisions in the form of provision for Bonus increased by 25.6%.

Particulars	069/070	070/071	Increase
Prepaid, Advances, Loans & Deposits	10,561,964	18,669,397	8,107,433
Trade & Other Payables	6,614,082	6,785,873	171,791
Provisions for Bonus	10,187,650	12,794,729	2,607,079

- The service charge, the core revenue generating activity of the company, increased by 25.2% where as the increase in income from interest was virtually negligible. Though the investment amount was increased by Rs. 47,900,000 in 070/071, the lower rate of interest of all the banks and financial institutions in the year affected adversely in the growth of the interest income. There was only one institution registered as a member in the year resulting in the income of Rs.1000 from the registration fee. Other income of Rs. 2,500 was recorded from the sale of the tender bid document for the construction of additional rooms in the office. The revenue from Operation thus was increased by 21.7% this year to the total of Rs. 15.9 crore.

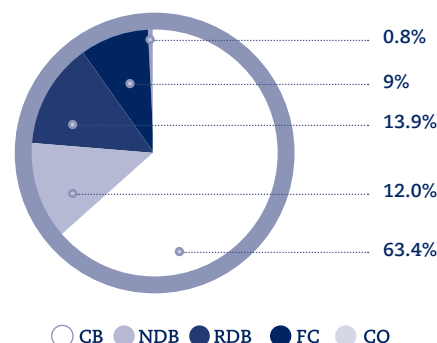
S. No.	Particulars	069/070	070/071	Changes	
<b>INCOME</b>					
1	Service Charge	112,271,008	140,550,540	28,279,532	25.2%
2	Interest	18,375,895	18,535,221	159,326	0.86%
3	Registration Charge	4,000	1,000	(3,000)	(75%)
4	Other Income	50,000	2,500	(47,500)	(95%)
<b>Total</b>		<b>130,700,903</b>	<b>159,089,261</b>	<b>28,388,358</b>	<b>21.7%</b>



The revenue from the service charge contributed nearly 88% of the total operating revenue where as income from the interest contributed only 12%. The increase in number of credit reports by 31% led to the increase in service charge by 25.2%. Though the amount of investments in deposit accounts increased by 22%, the income from the interest increased by only 0.86% because of the lower interest rate of the banks and financial institutions prevailing during the period. The average rate of return of the investment portfolio decreased from 9.4% in 069/070 to 8.6% this year. The company has fixed deposit accounts in 32 different financial institutions. (17 Commercial Banks, 8 Development Banks, 7 Finance Companies)

- The Commercial Banks were the largest contributor of the service charge revenue followed by Regional Development Banks, National Development Banks and Finance Companies. The revenue from the Co-operatives and Others were minimal. Service Charge from the "Others" included the revenue from the official Blacklist Report that bureau generated for the borrower upon their request.

S. No.	Names	Revenue Generated	% of the Total
1.	Commercial Banks (CB)	89,173,800	63.4%
2.	National Development Banks (NDB)	18,193,930	12.9%
3.	Regional Development Banks (RDB)	19,553,020	13.9%
4.	Finance Companies (FC)	12,481,265	9%
5.	Co-operatives & Others (CO)	1,148,525	0.8%
<b>Total</b>		<b>140,550,540</b>	<b>100%</b>



- Company maintained a very effective control on its operating expenses which increased by only 2.5% this year. Salary and staff related expenses increased by 5.9% where as Administrative expenses decreased by 2.2%. Staff related expenses constituted nearly 60.7% of the total expenses where as administrative expenses constituted nearly 39.3% of the total expenses. The average expense utilization was 79% of the budgeted amount and no expense component exceeded the budgeted figure.

S. No.	Particulars	069/070	070/071	Changes	
EXPENDITURE					
1	Operating Expenses	16,422,452	16,841,909	419,457	2.5%
1a.	Salary, Allowance and other Staff related Expenses	9,655,010	10,222,564	567,554	5.9%
1b.	Administrative Expenses	6,767,442	6,619,345	-148,097	-2.2%

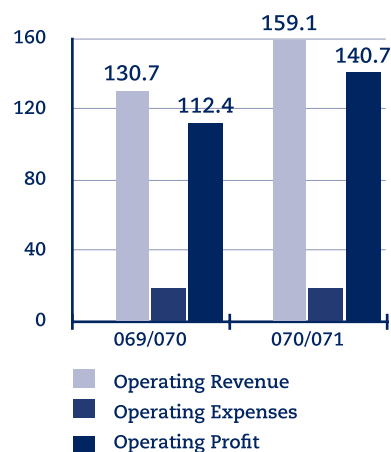
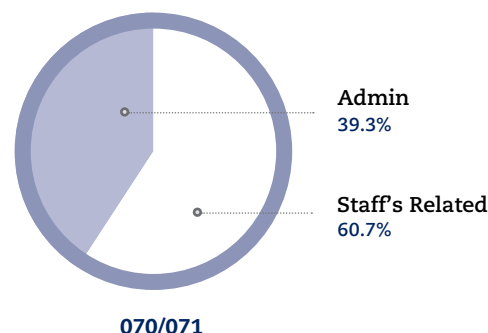
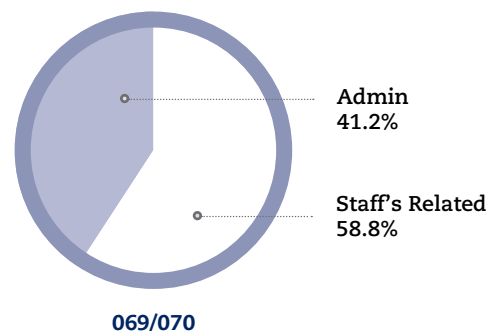
- The new assets worth Rs. 2,226,841 were added in the fiscal year 070/071. The total value of the fixed assets at the cost price amounted to Rs. 23,182,779 where as the total depreciation of the fixed assets till the year-end amounted to Rs. 15,903,730. Thus the remaining fixed asset value of Rs. 7,279,050 was carried forward for the next fiscal year. The depreciation expenses decreased by 18% this year and amounted to Rs. 1,505,339.

The depreciation of the newly acquired fixed assets worth Rs. 261 million has not been accounted for this year. Though deployed, system was not put into operation during the period. Depreciation will be counted from the day the system will be put into commercial use in 071/072.

S. No.	Particulars	069/070	070/071	Changes	
...Expenditure					
3.	Depreciation on Fixed Assets	1,839,552	1,505,339	(334,213)	(18%)

- Company earned the operating profit of Rs. 140.7 million as compared to previous year's earning of Rs. 112.4 million thus increasing the operating profit by Rs. 28.3 million.

Particulars	069/070	070/071	Changes	
Operating Revenue	130,700,903	159,089,261	28,388,358	21.7%
Operating Expenses including Depreciation	18,262,004	18,347,248	85,244	0.47%
Operating Profit	112,438,899	140,742,013	28,303,114	25.2%



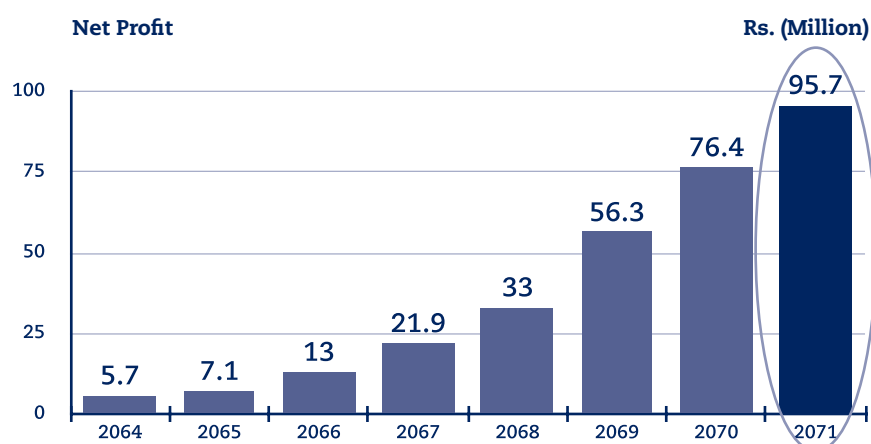
- Provision for Bonus increased by 26.6% from the previous year (069/070) figure of Rs. 10.2 million to 12.8 million this year. Staff Bonus is provided as per Bonus Act, 1974. The Bonus Act requires provision at the rate of 10% on the amount of net profit before tax.
- The company made the pretax profit of Rs. 127,947,285 this year. The provision for Income Tax as per Income Tax Act 2058 for the year amounted to Rs. 32,278,490 which was adjusted against the total tax deposit of Rs. 34,648,924 made during the year. Thus the excess tax deposit of Rs. 2,370,434 was shown as Advance Tax in financial statements.
- Taxable temporary difference of Rs. 4,024,014 on assets resulted in the deferred tax asset of Rs. 1,006,004 this year whereas it was Rs. 922,668 last year. The increase in deferred tax assets of Rs. 83,341 during the year has been adjusted in the Balance Sheet and incorporated in the Income Statement accordingly.

S. No.	Particulars	069/070	070/071	Changes	
...Expenditure					
4.	Provision for Bonus	1,0187,650	12,794,729	2,607,079	25.6%

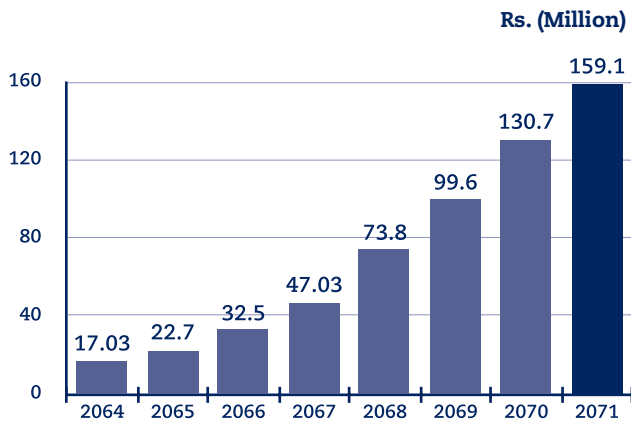
S. No.	Particulars	069/070	070/071	Changes	
...Expenditure					
5.	Profit Before Tax	101,876,500	127,947,285	26,070,785	25.6%
6.	Provision for Taxation (with Deferred Tax)	25,517,660	32,195,150	6,677,490	26.2%
6a.	Current Tax Expenses	25,762,603	32,278,490		
6b.	Deferred Tax Expenses	(244,943)	(83,341)		
	Net Profit	76,358,840	95,752,135	19,393,295	25.4%

Particulars	Deductible Temporary Differences (NRs.)	Taxable Temporary Differences (NRs.)	Net (Rs.)
Fixed Assets	39,072	-	39,072
Retirement Fund (CIT)	1,943,277	-	1,943,277
Leave Fund	2,041,665	-	2,041,665
Total Temporary Difference	4,024,014	-	4,024,014
Deferred Tax Assets (Liability)		-	1,006,004

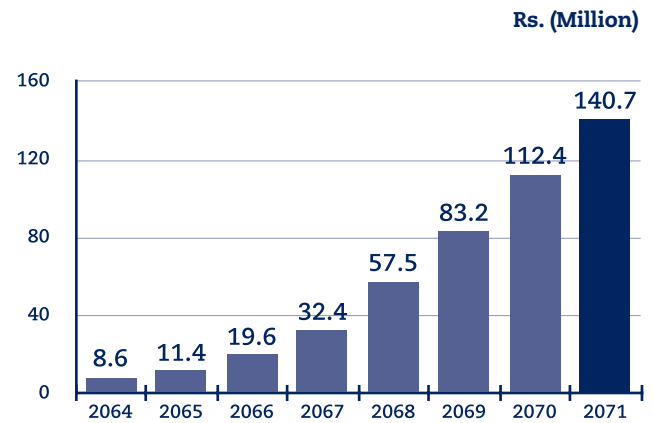
- The company made the net profit of Rs. 95,752,135 this year which is an increment of 25.4% from previous year's profit.



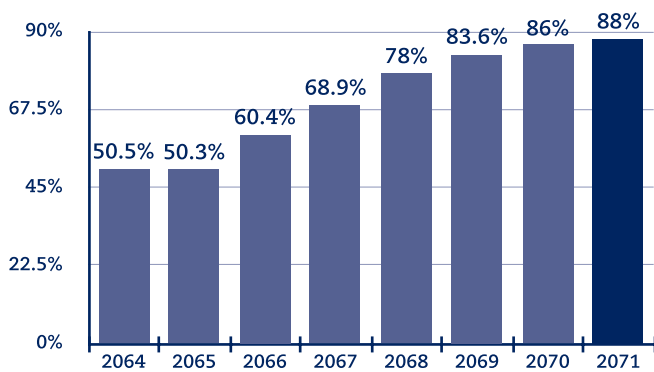
## Operating Income



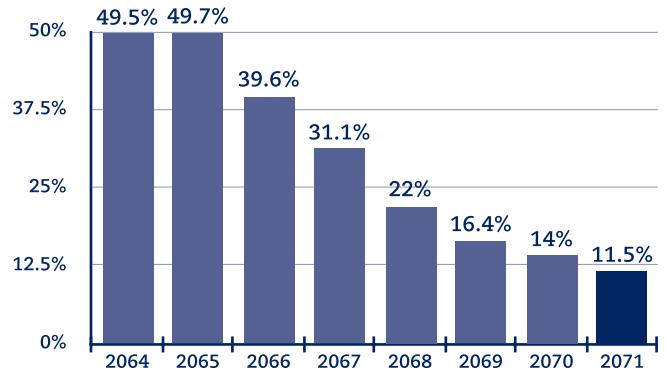
## Operating Profit



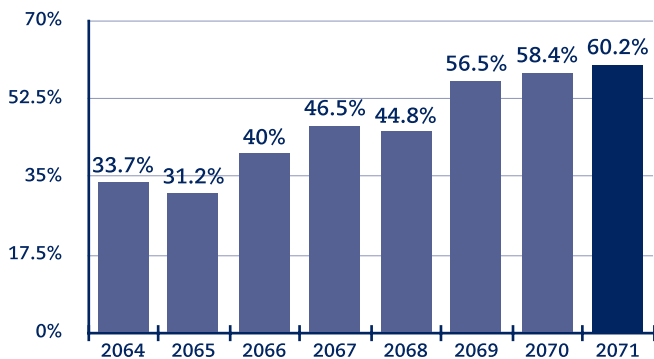
## Operating Profit Margin



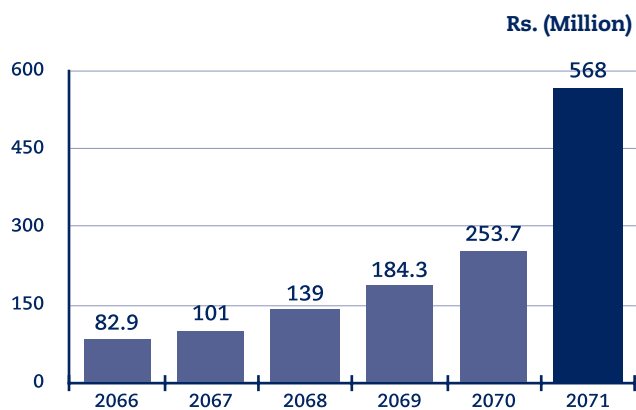
## Cost to Income Ratio



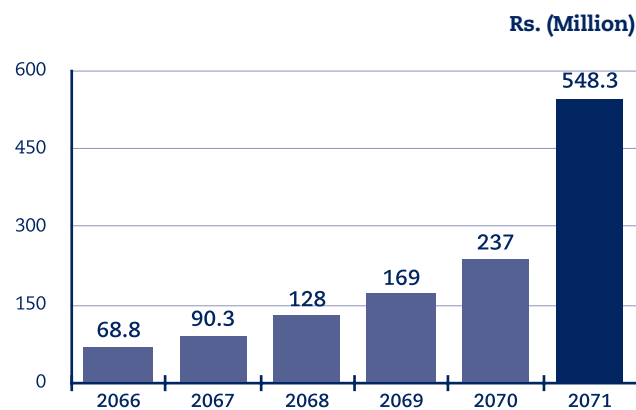
## Net Profit Margin



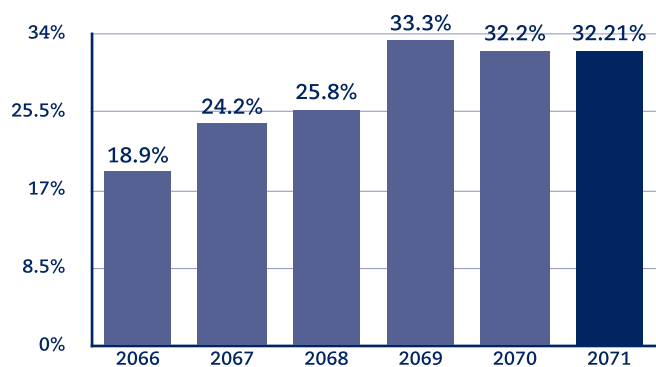
## Assets



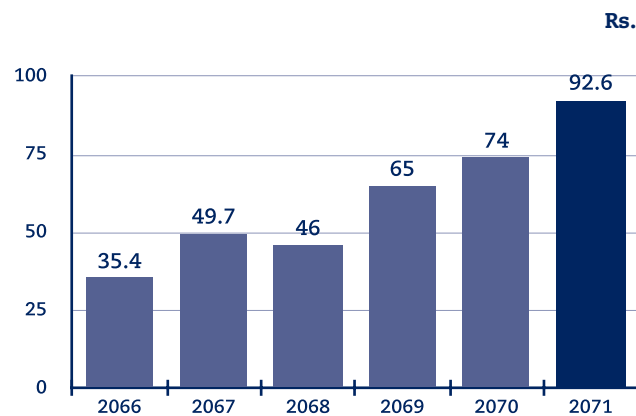
## Shareholders' Funds and Grant



## Return on Equity



## Earning per Share



## INTERNAL CONTROL SYSTEM

- Internal control system refers to the process by which the company maintains the environments that encourage transparency and incorruptibility and deter fraudulent activities in the company. It is aimed at achieving following goals; safeguard company's assets; ensure the reliability and integrity of financial information; ensure compliance; promote efficient and effective operations; and accomplish the goals and objectives of the company.
- The Kendra's framework for internal control system consists of following elements:
  - control environment: this includes a focus on integrity, a commitment to investigating discrepancies, diligence in designing systems and assigning responsibilities.
  - risk assessment: 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.
  - monitoring and reviewing: system of internal control is periodically reviewed by the management. By performing a periodic assessment, management assures 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.
  - information & communication: the Kendra regularly updates plans for communicating information to all the staffs.
- In order to further strengthen the internal control system in accounting and finance, the Board relies on the audit committee and the internal audit reports. The company's periodic internal audit is done on a quarterly basis by the firm "N.K. Joshi & Co., Chartered Accountants", having its principle office in Naxal, Kathmandu where as the annual audit at the end of fiscal year is done by the firm "M.B. Shrestha & Co., Chartered Accountants" having its principle office in Sankhamul Road, New Baneshwor.
- The members of the Audit Committee regularly have formal and informal discussions with internal auditors in connection with the results of reviews undertaken by them and seek clarifications from them on any areas of reviews. The members of the internal audit have direct access to management and the audit committee and regularly bring many pertinent issues or problems for the discussions with them.



# REPORTS OF THE AUDIT COMMITTEE

- The Audit Committee, currently consisting of three members, assists the Board of Directors in fulfilling its supervisory responsibilities for the integrity of the Company's financial statements, the financial reporting process, the system of internal business controls and risk management, the internal and external audit process, the internal and external auditor's findings and recommendations, independence and performance, as well as the Company's process for monitoring compliance with laws and regulations and the general business principles.
- The audit committee met four times during the year to discharge its duties and responsibilities. During the period, the Audit Committee periodically reviewed matters relating to accounting policies, financial risks and compliance with accounting standards. The Committee focused on ensuring that the company's systems and controls are operating effectively, are responsive to the challenges of the external environment and evolving in line with the company's growth. The Bureau's high-risk areas were also regularly reviewed by the Committee to avoid/minimize business risks.

Specially, the committee among other actions:

- reviewed the Kendra's quarterly earnings, consolidated financial statements and other financial reports as submitted by the internal auditor at each quarter. It 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 thereof. The audit committee discussed the report in which the external auditor set forth its findings and attention points and management's responses to those attention points.
- reviewed compliance with statutory and legal requirements and regulations, particularly in the financial domain. Important findings, identified risks and follow up actions were examined thoroughly in order to allow appropriate measures to be taken.

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

After the review of the financial statements for the year ended Asar 31, 2071, the Audit Committee hereby states as follows:

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

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

Audit Committee also recommends the name of M.B. Shrestha & Co. as the external auditor of the company for the year 071/072.

## COMMENTS & OBSERVATION OF THE BOARD ON THE AUDIT COMMITTEE'S REPORT

The Board reviewed the operational and financial performance of the company and took assessment of the company's risks and internal control framework & its effectiveness as presented in the Audit Report submitted by the Audit Committee. Board also went through the Final Audit Report of the company for the year 070/071 as audited by M.B. Shrestha & Co., and submitted by the Audit Committee to the Board.

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 presented to the shareholders in the forthcoming 10<sup>th</sup> Annual General Meeting of the company.

Board at the same time thanked the Audit Committee, Management, Internal Auditor and Statutory Auditor for their cumulative efforts in maintaining the account books correct and transparent and introducing the best practices in internal control system and risk management.

As per the recommendation made by the Audit Committee, Board agreed on the name of M.B. Shrestha & Company as the Statutory Auditor of the company for the fiscal year 071/072. Board will propose the name of Statutory Auditor in the 10<sup>th</sup> Annual General Meeting of the company for its ratification.

# STATEMENT OF THE VALUE ADDED AND ITS DISTRIBUTION

## CONTRIBUTION TO THE NATIONAL EXCHEQUER AND TO THE ECONOMY

The company paid Rs. 32,278,490 as the corporate tax to the Government of Nepal in the year 070/071. Kendra also helped to collect Rs. 95 crores from the serious defaulters (from blacklist borrowers) in the year thus helping the banks and financial institutions reduce their non-performing loans.

## EMPLOYEES SALARY

The total expense incurred by the company in the form of salary, allowance and other facilities to the staffs amounted to Rs. 10,222,564. CEO was paid the total remuneration package of Rs. 3,150,000 and the remaining staffs were paid Rs. 7,072,564. CEO is also provided with vehicle and all its operating costs.

## EMPLOYEES BONUS

Company has allocated Rs. 12,794,729 as the provision for bonus for the year 070/071 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. 95,752,135 to its Accumulated Profit account from the earnings of the fiscal year 070/071.

## ADDITIONAL DETAILS

### LITIGATION CASES

Out of the ten court cases carried forward from the year 069/070, fourteen new cases were registered and five cases were settled by the court during the period. Thus there were only nineteen cases pending at the end of fiscal year 070/071, which will be carried forward in the year 071/072.

### NUMBER OF REGISTERED MEMBERS

Categories of Financial Institutions	Registered Members Till 069/070	Registered Members Till 070/071
Commercial Banks	32	30
National Development Banks	19	20
Regional Development Banks	71	65
Finance Companies	64	52
Others (Rural Development Banks, Microfinance Institutions)	04	04
<b>Total Registered Numbers</b>	<b>190</b>	<b>171</b>

*The year 070/071 saw large drop in the number of financial institutions in the country. Altogether nineteen financial institutions merged with other institutions during the period bringing down the numbers.*

## PROPOSAL FOR THE ISSUE OF CASH DIVIDEND

As per the decision reached by the 84<sup>th</sup> meeting of the Board of Directors of the company, Board decides to disburse 20% cash dividend this year from its earning of the fiscal year 070/071. This will incur the total cash out flow of Rs. 20,681,600 from the company's reserves..

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

## GRATITUDE

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

# LIST OF PROMOTER SHAREHOLDERS AND THEIR SHARES

S.No.	Name of Banks and Financial Institutions	Total Shares
1	Nepal Rastra Bank	103,680
COMMERCIAL BANKS		
1	Nepal Bank Limited	13,724
2	Rastriya Banijya Bank	13,724
3	Nabil Bank	36,599
4	Nepal Investment Bank	42,007
5	Standard Chartered Bank Nepal	36,599
6	Himalayan Bank	39,304
7	Nepal SBI Bank	36,599
8	Nepal Bangladesh Bank	40,448
9	Everest Bank	36,599
10	Bank of Kathmandu	56,414
11	Nepal Credit & Commerce Bank	36,599
12	NIC Asia Bank	42,013
13	Lumbini Bank	16,524
14	Machhapuchhre Bank	39,399
15	Kumari Bank	36,599
16	Laxmi Bank	51,840
17	Siddhartha Bank	41,904
18	Agriculture Development Bank	31,104
19	Grand Bank Nepal	36,512
20	NMB Bank	2,800
21	Prabhu Bank	8,208
Total Commercial Bank		695,519

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

<b>FINANCE COMPANIES</b>		
1	Nepal Aawas Finance	2,800
2	NIDC Capital Market	1,050
3	Narayani National Finance	5,599
4	Nepal Share Markets & Finance	2,800
5	Peoples Finance	2,800
6	Himalaya Finance & Savings	1,050
7	United Finance	2,800
8	Union Finance	2,800
9	Srijana Finance	4,549
10	Kathmandu Finance	7,984
11	Prudential Finance	2,800
12	Nepal Housing & Merchant Finance	1,050
13	Paschimanchal Finance Company	2,800
14	Samjhana Finance	2,800
15	Goodwill Finance	6,134
16	Shree Investment & Finance	8,916

S.No.	Name of Banks and Financial Institutions	Total Share
17	Siddhartha Finance	13,168
18	International Leasing & Finance Company	3,590
19	Mahalaxmi Finance	2,800
20	Progressive Finance	2,800
21	General Finance	2,800
22	Central Finance	2,800
23	Premier Finance	2,800
24	Multipurpose Saving Co-operative	2,800
25	Synergy Finance	20,632
26	Om Finance	1,050
27	World Merchant Banking & Finance	2,800
28	Capital Merchant Banking & Finance	1,050
29	Crystal Finance	2,800
30	Ghuweshwori Merchant Banking & Finance	2,800
31	Patan Finance	1,050
32	Lalitpur Finance	2,800
33	Nepal Finance	4,385
34	Lumbini Finance & Leasing	1,050
Total Finance Companies		132,707





# M.B. SHRESTHA & CO.

Chartered Accountants  
Sankhamul Road  
New Baneshwar

Tel : 4781818  
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E-mail : mbsshrestha@gmail.com  
G.P.O. Box : 720  
Kathmandu, Nepal.

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

### Report on the Financial Statements

We have audited the accompanying financial statements of M/S Karja Suchana Kendra Limited, which comprise of the Balance Sheet as at Ashadh 32, 2071 corresponding to July 16, 2014 and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and notes to accounts.

### Management's responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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



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

#### **Report on Requirement of Company Act**

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

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

#### **Opinion on the Financial Statements**

In our opinion and to the best of our information and according to the explanations given to us, the said financial statements referred to above, read together with the notes attached thereto give a true and fair view of the financial position of the company as of Ashadh 32, 2071 (July 16, 2014), and of the results of its financial performances and its cash flows for the year then ended in accordance with Nepal Accounting Standards in so far as applicable in compliance with the prevailing legislations.



Maheswarendra Bdr. Shrestha, FCA

M.B.Shrestha & Co.

Chartered Accountants

Date: December 10, 2014 (24/08/2071)



**Balance Sheet**

As on Ashad 32, 2071 (Corresponding to July 16, 2014)

Particulars	Schedule	Current Year (NRs.)	Previous Year (NRs.)
<b>CAPITAL AND LIABILITIES</b>			
<b>Share Capital</b>			
Paid up Share Capital	1	103,408,000	103,408,000
<b>Reserve and Surplus</b>			
Reserve Fund and Accumulated Profit	2	213,507,754	133,501,588
<b>Loan/ Funds</b>			
Grant/Fund from Asian Development Bank	3	231,369,813	-
<b>Total</b>		<b>548,285,567</b>	<b>236,909,588</b>
<b>ASSETS</b>			
Fixed Assets less Depreciation	4a	268,392,073	6,557,550
<b>Investments</b>	5	<b>265,743,277</b>	<b>217,498,976</b>
<b>Current Assets (A)</b>			
Trade and Other Receivable	6	10,139,130	9,252,582
Cash and Bank Balances	7	3,916,287	8,917,584
Pre-Paid, Advances, Loans and Deposits	8	18,669,398	10,561,964
<b>Total (A)</b>		<b>32,724,815</b>	<b>28,732,131</b>
<b>Current Liabilities and Provisions (B)</b>			
Trade and Other Payables	9	6,785,873	6,614,082
Provisions	10	12,794,729	10,187,650
<b>Total (B)</b>		<b>19,580,602</b>	<b>16,801,732</b>
<b>Net Current Assets (A - B)</b>		<b>13,144,213</b>	<b>11,930,399</b>
<b>Deferred Tax Assets</b>		<b>1,006,004</b>	<b>922,663</b>
<b>Total</b>		<b>548,285,567</b>	<b>236,909,588</b>
Significant Accounting Policies and Notes	13		
All Schedules form an integral parts of this Financial Statements.		As per our report of even date	

Anil Chandra Adhikari  
Chief Executive OfficerTulasi Ram Gautam  
ChairmanC.A., Maheswarendra B. Shrestha  
M.B. Shrestha & Co.  
Chartered AccountantsAjay Shrestha  
DirectorJyoti Prakash Pandey  
DirectorNara Bahadur Thapa  
DirectorRajendra Man Shakya  
DirectorDate : December 10, 2014  
Place: Kathmandu, Nepal

## Income Statement

For the Period from Shrawan 01, 2070 to Ashad 32, 2071  
(Corresponding Period from July 16, 2013 to July 16, 2014)

Particulars	Schedule	Current Year (NRs.)	Previous Year (NRs.)
<b>A. INCOME :</b>			
1. Service Charge		140,550,540	112,271,008
2. Interest		18,535,221	18,375,895
3. Registration Charge		1,000	4,000
4. Other Income		2,500	50,000
<b>Total</b>		<b>159,089,261</b>	<b>130,700,903</b>
<b>B. EXPENDITURE :</b>			
1. Operating Expenses	11	16,841,909	16,422,452
2. Non Operating Expenses	12	-	374,749
3. Depreciation on Fixed Assets	4	1,505,339	1,839,552
4. Provision for bonus		12,794,729	10,187,650
<b>Profit Before Tax (PBT)</b>		<b>127,947,285</b>	<b>101,876,500</b>
5. Provision for Taxation (with Deferred Tax)		32,195,149	25,517,659
5.1 Current Tax Expenses		32,278,490	25,762,603
5.2 Deferred Tax Expenses		(83,341)	(244,943)
6. Net Profit Transferred to Accumulated Profit		95,752,135	76,358,841
<b>Total</b>		<b>159,089,261</b>	<b>130,700,903</b>

All Schedules form an integral parts of this Financial Statements.

As per our report of even date

Anil Chandra Adhikari  
Chief Executive Officer

Tulasi Ram Gautam  
Chairman

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

Ajay Shrestha  
Director

Jyoti Prakash Pandey  
Director

Nara Bahadur Thapa  
Director

Rajendra Man Shakya  
Director

Date : December 10, 2014  
Place: Kathmandu, Nepal

**Profit and Loss Appropriation Account**

For the Period from Shrawan 01, 2070 to Ashad 32, 2071

(Corresponding Period from July 16, 2013 to July 16, 2014)

Particulars	Current Year (NRs.)	Previous Year (NRs.)
<b>INCOME :</b>		
1 Accumulated Profit up to the Last Year	66,404,833	21,073,903
2 Current Period's Profit	95,752,135	76,358,841
<b>Total</b>	<b>162,156,968</b>	<b>97,432,744</b>
<b>EXPENSES :</b>		
1 Accumulated Loss up to the Last Year	-	-
2 Current Year's Loss	-	-
3 General Reserve	19,150,427	15,271,768
4 Provision for Previous Year Taxation	-	-
5 Capital Reserve	-	-
6 Dividend	-	-
6 Proposed Cash Dividend	20,681,600	15,511,200
7 Bonus Share	-	-
8 Deferred Tax	83,341	244,943
9 Proposed Bonus Share	-	-
10 Prior Period Adjustment	234,769	-
<b>Total</b>	<b>40,150,137</b>	<b>31,027,911</b>
<b>Accumulated Profit/(Loss)</b>	<b>122,006,831</b>	<b>66,404,833</b>

As per our report of even date

Anil Chandra Adhikari  
Chief Executive OfficerTulasi Ram Gautam  
ChairmanC.A., Maheswarendra B. Shrestha  
M.B. Shrestha & Co.  
Chartered AccountantsAjay Shrestha  
DirectorJyoti Prakash Pandey  
DirectorNara Bahadur Thapa  
DirectorRajendra Man Shakya  
DirectorDate : December 10, 2014  
Place: Kathmandu, Nepal



## Cash Flow Statement

For the Period from Shrawan 01, 2070 to Ashad 32, 2071  
(Corresponding Period from July 16, 2013 to July 16, 2014)

Particulars	Current Year (NRs.)	Previous Year (NRs.)
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit as per P&L A/C	95,752,135	76,358,841
Adjustments:		
Interest Income	(18,535,221)	(18,375,895)
Depreciation	1,505,339	1,839,552
Prior Period Adjustment	(234,769)	-
Operating Profit Before Working Capital Changes	78,487,485	59,822,498
Change in Working Capital		
Increase/(Decrease) in Provision	2,607,079	2,640,949
Increase/(Decrease) in Trade and Other Payables	88,451	(985,709)
(Increase)/Decrease in Advances, Loans & Deposits	(8,107,433)	(8,500,848)
(Increase)/Decrease in Trade & Other Receivables	(886,548)	(1,576,813)
Total (A)	72,189,033	51,400,078
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets	(31,970,051)	(514,357)
Sale of Fixed Assets		
Investments	(48,244,301)	(70,381,190)
Interest Income	18,535,221	18,375,895
Total (B)	(61,679,131)	(52,519,652)
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issue of Share Capital (Except Bonus Share)		
Dividend Paid	(15,511,200)	(8,617,260)
Total (C)	(15,511,200)	(8,617,260)
Net Cash Increase/Decrease (A+B+C)	(5,001,298)	(9,736,834)
Add: Opening Cash & Bank Balance	8,917,584	18,654,418
Closing Cash & Bank Balance	3,916,287	8,917,584

Anil Chandra Adhikari  
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Director

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Director

Nara Bahadur Thapa  
Director

Rajendra Man Shakya  
Director

Date : December 10, 2014  
Place: Kathmandu, Nepal



**Statement of Changes in Equity**

For the Period from Shrawan 01, 2070 to Ashad 32, 2071  
(Corresponding Period from July 16, 2013 to July 16, 2014)

(Amount in NRs.)						
Particulars	Share Capital	Accumulated Profit/Loss	General Reserve	Capital Reserve	Deferred Tax Reserve	Proposed Cash Dividend
Opening Balance	103,408,000	66,404,833	43,363,635	7,299,257	922,663	-
Adjustments						
Current Year's Net Profit	-	95,752,135	-	-	-	-
General Reserve	-	(19,150,427)	19,150,427	-	-	-
Right Share	-	-	-	-	-	-
Issue of Bonus Share	-	-	-	-	-	-
Proposed Cash Dividend	-	(20,681,600)	-	-	-	20,681,600
Deferred Tax Income/Expenses	-	(83,341)	-	-	83,341	-
Issue of Undistributed Share	-	-	-	-	-	-
Proposed Bonus Share	-	-	-	-	-	-
Prior Period adjustment	-	(234,769)	-	-	-	-
Closing Balance	103,408,000	122,006,831	62,514,062	7,299,257	1,006,004	20,681,600
						316,915,754

As per our report of even date

Anil Chandra Adhikari  
Chief Executive Officer

Tulasi Ram Gautam  
Chairman

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

Ajay Shrestha  
Director

Jyoti Prakash Pandey  
Director

Nara Bahadur Thapa  
Director

Rajendra Man Shakya  
Director

Date : December 10, 2014  
Place: Kathmandu, Nepal

## Schedules to Balance Sheet

As at Ashad 32, 2071

### SHARE CAPITAL

Schedule -1

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

### RESERVE & SURPLUS

Schedule -2

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Capital Reserve	7,299,257	7,299,257
General Reserve	62,514,062	43,363,635
Accumulated Profit	122,006,831	66,404,833
Deferred Tax Reserve	1,006,004	922,663
Proposed Cash Dividend	20,681,600	15,511,200
<b>Total</b>	<b>213,507,754</b>	<b>133,501,588</b>

### GRANT/FUND

Schedule -3

Particulars	Current Year (NRs.)	Previous Year (NRs.)
From Asian Development Fund	231,369,813	-

**FIXED ASSETS AND DEPRECIATION**

For the period from Shrawan 01, 2070 to Ashad 32, 2071

Schedule - 4									
COST PRICE				DEPRECIATION				WDV	
Pool	Particulars	Dep. Rate	Previous Year (NRs.)	Addition Current Year (NRs.)	Sales Adjust-ment	Balances (NRs.)	Previous Year (NRs.)	Current Year (NRs.)	Previous Year (NRs.)
A	Building, Structures and similar Works of Permanent Nature	5%	949,427	1,663,333	-	2,612,760	131,443.78	87,326	-
B	Computers, Furniture & Fixtures and Office Equipment	25%	10,065,629	563,508	-	10,629,136	7,373,888.73	721,738	-
C	Vehicle	20%	5,027,429	-	-	5,027,429	2,988,006.65	408,443	-
D	Plant and Machinery	15%	1,263,080	-	-	1,263,080	564,959.67	104,861	-
E	Other Intangible Assets	20%	3,650,374	-	-	3,650,374	3,340,091.74	182,970	-
Balance of Current Year			20,955,939	2,226,841	-	23,182,779	14,398,391	1,505,339	-
FIXED ASSETS PENDING CAPITALIZATION (HARDWARE & THIRD PARTY SOFTWARE)									
COST PRICE				DEPRECIATION				WDV	
Pool	Particulars	Dep. Rate	Previous Year (NRs.)	Addition Current Year (NRs.)	Sales Adjust-ment	Balances NRs.	Previous Year (NRs.)	Current Year (NRs.)	Previous Year (NRs.)
E	Hardware & Third party Software	20%		261,113,023	-	261,113,023	-	-	-
Total Fixed Assets			20,955,939	263,339,864	-	284,295,802	14,398,391	1,505,339	-
								268,392,073	6,557,550

## Schedules to Balance Sheet

As at Ashad 32, 2071

### INVESTMENTS

Schedule - 5

Particulars	Current Year (NRs.)	Previous Year (NRs.)
<b>Investments</b>		
Fixed deposit at Different Bank and Financial Institution	262,800,000	214,900,000
Citizen Investment Trust	1,943,277	1,598,976
ICRA Nepal	1,000,000	1,000,000
<b>Total</b>	<b>265,743,277</b>	<b>217,498,976</b>

### TRADE AND OTHER RECEIVABLE

Schedule - 6

Particulars	Current Year (NRs.)	Previous Year (NRs.)
<b>Receivables</b>		
Service Charge	4,810,153	4,250,910
Interest Accrued	5,328,977	5,001,672
<b>Total</b>	<b>10,139,130</b>	<b>9,252,582</b>

### CASH AND BANK BALANCE

Schedule - 7

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Cash in Hand	-	-
Nepal Rastra Bank	52,768	52,468
Bank of Kathmandu	996,877	4,702,195
Nabil Bank	2,450,181	4,105,613
Nabil Bank (Leave Deposit)	142,622	9,604
Civil Bank Ltd. - Current A/C	273,839	47,704
<b>Total</b>	<b>3,916,287</b>	<b>8,917,584</b>

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

Schedule - 8

Particulars	Current Year (NRs.)	Previous Year (NRs.)
National Life Insurance (Loan Deposit)	410,579	374,039
Nepal Telecommunication	23,060	23,060
Staff Loan and Advances	224,251	292,757
Advance Tax	2,352,329	1,781,341
Cheque in Hand	7,202,435	7,812,925
Other receivable and advance	8,456,745	277,842
<b>Total</b>	<b>18,669,398</b>	<b>10,561,964</b>

**TRADE AND OTHER PAYABLES**

Schedule - 9

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Auditors Fee	192,469	176,469
Telephone Charge (Payable)	746	5,957
Others Payable	2,443,835	2,813,090
Advance Received of Service Charges	142,695	60,477
Gratuity Fund/Retirement Fund (CIT)	1,943,277	1,598,976
Leave Fund	2,041,665	1,908,647
TDS Payable	-	-
Deposit of Bid Bond	-	-
NLG Insurance Payable	-	-
Bonus Payable	21,186	50,466
Dividend Payable	-	-
<b>Total</b>	<b>6,785,873</b>	<b>6,614,082</b>

**PROVISIONS**

Schedule - 10

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Provision for Income Tax	-	-
Provision for Bonus	12,794,729	10,187,650
<b>Total</b>	<b>12,794,729</b>	<b>10,187,650</b>

## Schedules to Income Statement

For the Period from Shrawan, 2070 to Ashad 32, 2071

### OPERATING EXPENSES

Schedule -11

#### A. Staff Related Expenses

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Salary & Allowances	10,148,844	9,583,675
Uniform Expenses	73,720	71,335
<b>Sub - Total A</b>	<b>10,222,564</b>	<b>9,655,010</b>

#### B. Administrative Expenses

Particulars	Current Quarter (NRs.)	Previous Year (NRs.)
Printing and Stationery	197,989	128,555
Fuel Expenses	280,780	202,998
Postal Charge	5,440	5,435
<b>Repair and Maintenance</b>		
a) Repair Expenses	63,008	129,338
b) Maintenance Expenses	751,430	239,223
<b>Meeting Expenses</b>		
a) Meeting Allowances	144,000	178,000
b) Other Meeting Expenses	18,307	18,223
Telephone Charge	70,093	79,976
Training Expenses	56,339	44,846
Travelling Expenses	477,796	370,084
Insurance Premium	75,142	90,378
<b>Auditor Expenses</b>		
a) Auditor's Fee	178,843	178,843
b) Other Auditor's Expenses	22,728	20,582
<b>Water, Electricity and Others</b>		
a) Electricity Expenses	530,923	442,422
b) Drinking Water	40,784	45,640
c) Others	57,639	55,472
<b>Legal Expenses</b>		
a) Legal Fee	17,647	
b) Other Legal Expenses	35,855	70,180
Books and Periodicals	450	8,225
Web Charges	552,570	480,985
Paper and Publication	99,720	37,782
Office Rent, Security and Other Expenses	1,957,950	1,811,280
Miscellaneous Expenses	181,458	143,612
Agm Expenses	449,339	271,043
Furniture and Equipment Expenses	81,887	73,984
Business Expenses	200,000	100,000
Festival and Ceremony Expenses	71,229	19,334
IFC Intervention Expenses	-	1,521,000
<b>Sub - Total B</b>	<b>6,619,345</b>	<b>6,767,442</b>
<b>Grand Total</b>	<b>16,841,909</b>	<b>16,422,452</b>

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



## Significant Accounting Policies and Notes to Account

For the period ended on Ashad 32, 2071

Schedule - 13

### 1. General

Incorporation and Legal form of the Company:

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

### 2. Nature of Business

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

### 3. Accounting convention

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

### 4. Basis of Accounting

Income and Expenses have been accounted for on Accrual basis.

### 5. Fixed Assets and Depreciation

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

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

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

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

### 6. Provision for Income tax

The provision for Income Tax has been calculated at the rate applicable for that year in accordance with Income Tax Act and Rules. The Provision for Income Tax as per Income Tax Act 2058 for the year is NRs. 32,195,149. The amount has been adjusted against the Advance Tax.

### 7. Deferred Tax

Nepal Accounting Standard 09, "Income Taxes" has been complied with from the fiscal year 064/065. The details of deferred tax assets and liabilities for the year 070/071 are as follows:-

Particulars	Deductible Temporary Differences (NRs.)	Taxable Temporary Differences (NRs.)	Net (NRs.)
Fixed Assets	39,072	-	39,072
Retirement Fund (CIT)	1,943,277	-	1,943,277
Leave Fund	2,041,665	-	2,041,665
Total Temporary Difference	4,024,014	-	4,024,014
Deferred Tax Assets (Liability)	1,006,004	-	1,006,004

The deferred tax asset arising due to the temporary difference amounts to NRs. 1,006,004 this year whereas it was NRs. 922,663 in previous year. The increase in deferred tax assets by NRs. 83,341 during the year has been added to the previous years' balance of the deferred tax assets in the Balance Sheet and incorporated as the deferred tax expense in the Income Statement of the current year.

### 8. Provision for Staff Bonus

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

**9. General Reserve**

As per the provision of the Articles of Association, 20% of the current year's profit amounting to NRs. 19,150,427 has been transferred to General Reserve.

**10. Investments**

Investments have been recorded at Cost Price.

**11. Loan to Staff**

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

**12. Cash Dividend and Bonus Share**

Board has decided on its 84th Board Meeting dated December 10, 2014 to disburse 20% Cash Dividend to its existing shareholders subject to the approval from the forthcoming 10th Annual General Meeting of the Company. Proposed cash dividend amounting to NRs. 20,681,600 has been set aside through Profit and Loss Appropriation Account.

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

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

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