



KARJA SUCHANA KENDRA LIMITED

# Board of Directors Report

► Fiscal Year 069/070

# Board of Directors



**MR. TEJ BAHADUR BUDHATHOKI**  
Chairman



**MR. AJAY SHRESTHA**  
Director



**MR. JYOTI PRAKASH PANDEY**  
Director



**MR. PURNA BAHADUR KHATRI**  
Director



**MR. TULASI RAM GAUTAM**  
Director



**MR. RAJENDRA MAN SHAKYA**  
Director



**MR. BHUSAN RANA**  
Director

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# Message from the Chairman



TEJ BAHADUR BUDHATHOKI  
Chairman

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

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

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

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

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

The activities of Kendra will increase manifold once MF bureau comes into operation. For few years, both bureaus will run independently of each other but will be merged into one once the MF bureau database is

matured. With both the bureaus running together under its one umbrella, Kendra will be the largest repository of credit data in the country with the information of all credits, big or small, extended in the economy being collected and recorded in its database. This will make Kendra a most vital institution in the growth of credit market in the country and make it a “one window solution provider” for diverse areas of banking business.

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

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

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

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

## Foreword by CEO



ANIL CHANDRA ADHIKARI  
CEO

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

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

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

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

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

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

At the end, I would like to thank to all the member banks and financial institutions for their continued support to the Bureau and for their regular suggestions and feedbacks on our services. Their suggestions always keep us on toes to keep on improving and perform better. I also extend my deep appreciation to the company's Board of Director for their guidance and support to us all the time during the period. As a matter of fact, it would not have been possible for us to implement the new projects without their active support and encouragement. At the end, I would like to thank all my colleagues who supported me all the way to take this company to new heights. ■

# Report of the Board of Directors Presented by the Chairman At Ninth Annual General Meeting

## Dear Shareholders,

**O**n behalf of the Board of Directors of the company, I would like to welcome you all to this 9<sup>th</sup> 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 069/070 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 2069/2070 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

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

### 1. Summary of the System Performance

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

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



- the validation mechanisms were made stronger to check the sanity of the incoming data from the banks and financial institutions. The improved validation rules coupled with effective matching and merging techniques further enhanced the quality of the incoming data and the system's database.
- the searching logics delivered the correct identifications of the borrowers and no cases of incorrect identification were reported.
- the bureau's service was available to all the banks and financial institutions located all across the country. The service coverage was hundred percent.
- the data collected through FTP server were constantly monitored for its accuracy and efficiency. No errors were observed and the users were successful in sending large volumes of data to bureau without any difficulties. Submission of data files through FTP server was found to be most secured, easy and convenient for the transmission of the data to the bureau.
- the bureau further improved on the guideline documents to make House Keeping system very effective. This included the daily schedules for restarting and shutting down of the servers, storing the processing logs, processed data files and rejected data files in specific folders in secured locations in the database server and purging of these data files on a periodic basis.
- the company's Help Desk remained very effective during the period in attending to and resolving the issues with respect to the services extended by the bureau. The new Help Desk tools were developed for service desk management and the trainings were given to the staffs to utilize the tools for delivering the services effectively.
- Because of the further improvements made in the audit trail system in the year, all user activities and system processes were correctly captured by the system. The system was successful in maintaining an effective running log or journal of transactions relating to functions or processes thus helping to monitor the performance of system correctly.
- the further improvements in messaging and emailing component were made which brought huge efficiency in the dissemination of information and delivery of notices and announcements to the banks and financial institutions.
- the frequency of the interaction programs with the banks and financial institutions were increased to enhance the quality of the service rendered by the bureau.

## 2. Major Operational Achievements of the Year

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

The details of the activities are presented below:

- Kendra and Application Vendor worked together to finalize the customization of Application Software for new Commercial Bureau. Kendra made a Pilot Team comprising of the representatives from six leading banks and two developments banks and got them involved in the customization process. Kendra and the vendor also visited many banks and financial institutions to take stock of their Core Banking System and discussed how the interface can be best developed to transfer the data from the interface to the bureau's new system.
- Kendra & Application Vendor worked together with the Microfinance Institutions to develop the system specifications for the MF bureau. A team comprising of the representatives from the microfinance associations were thoroughly involved since the beginning in finalizing the system specifications. The team was also involved in preparing the "Regulation" for the operation of the bureau.
- Some additional provisions were made in the existing data center. The area of the server room was extended to accommodate additional server racks, precision ACs and other accessories. A new terminal



room and battery room was constructed. The new provisions in the Data Center included raised floor system, suspended ceiling, wall cladding, access control, thermal insulation, reliable power solution (UPS), fire detection & alarm system, cooling system, environmental monitoring system, IP surveillance cameras and others.

- The Hardware & 3rd Party software are in a process of installation both at Primary & DR site.

- The bureau increased its interactions with the banks and financial institutions during the year and also increased its frequency of trainings to them to make them aware about the new system. The trainings focused on all the major functional modules of the new system such as security protocols, credit reports, collection & updating of data, information access, MIS reports etc.

### 3. New Credit Bureau System: Benefits to Kendra

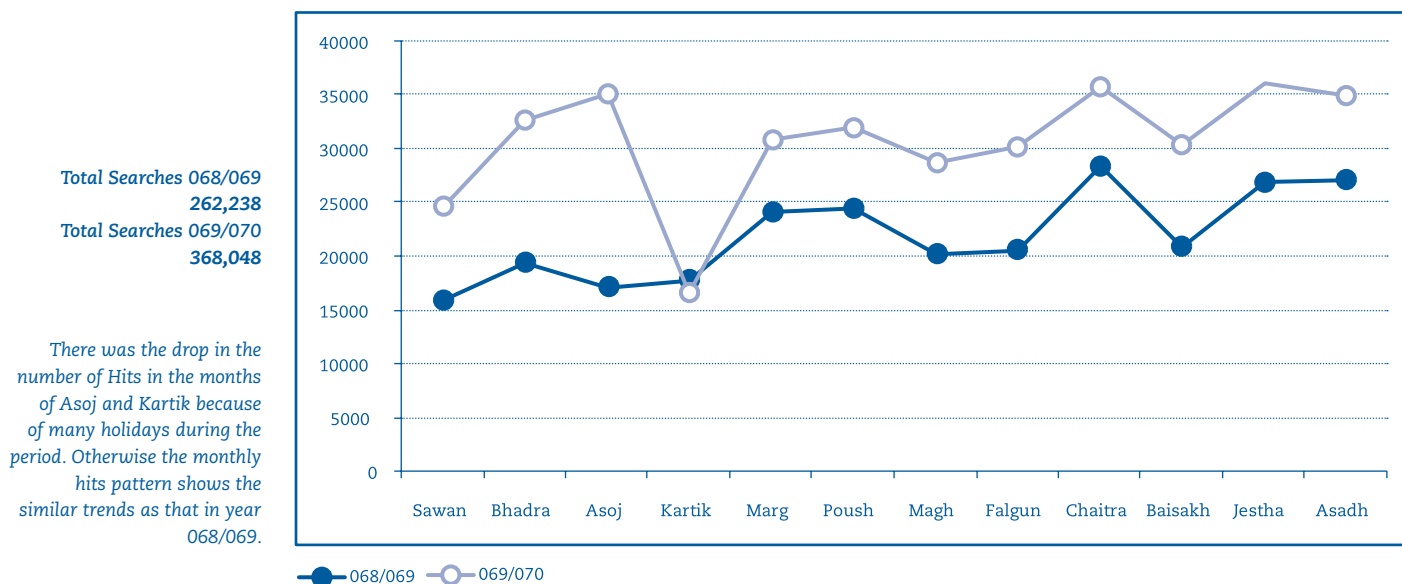
- "Silver Blade" is highly advanced credit bureau software which has been developed by Dun & Bradstreet after many years of its experience in the credit bureau business as the manufacturer and operator of credit bureau systems. D&B has unparalleled knowledge and experience in handling and managing various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

## 4. Generation of Credit Reports

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

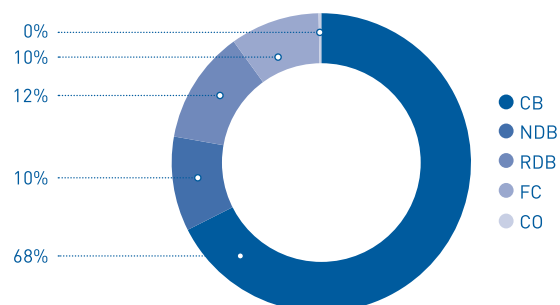
reports of the borrowers before making any lending to them. Apart from this, the other factors such as improved access to service, quality of the credit report, affordable tariffs and discount offerings seem to have contributed in the increase.

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



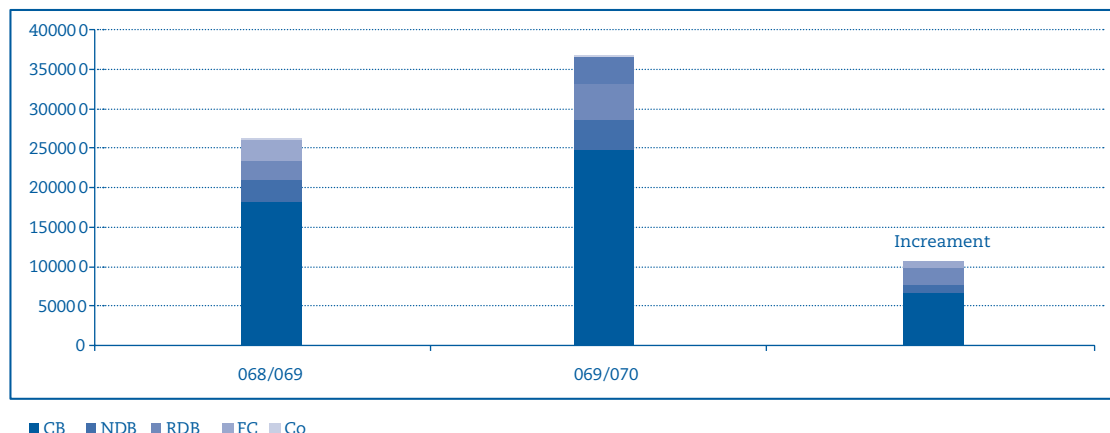
- Commercial Banks generated the highest number of Credit Reports (67.6%) followed by Regional Development Banks (12.2%), National Development Banks (10.2%) and Finance Companies (9.7%). Co-operatives and others were the lowest users of the service (0.30%).

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



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

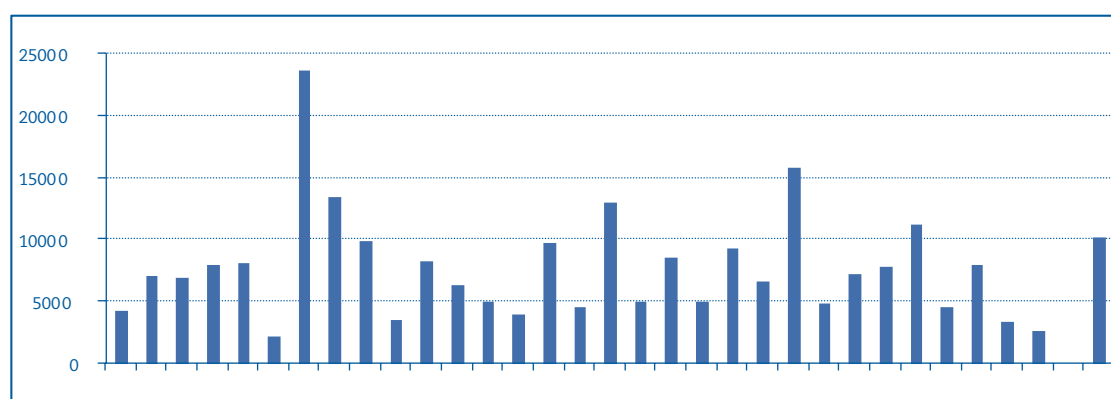
Commercial Banks had the largest increments in the number of credit reports generated followed by Regional Development banks, National Development Banks and Finance Companies. Commercial banks shared 63.2% of the total increments followed by RDB 19.9%, NDB 9.1% and FC 8.8%.



- If the generation of credit reports or Hits were any indications of the lending patterns of the banks & financial institutions, it showed some peculiar trends as some Development Banks generated more credit

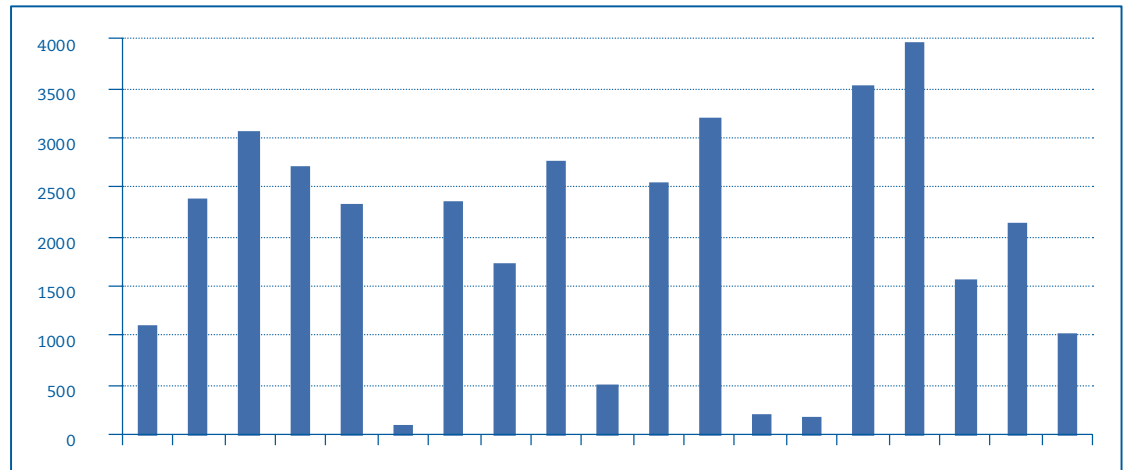
reports than some Commercial Banks. Some Finance companies were way ahead of some Commercial Banks and Development Banks in the number of credit reports generated.

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



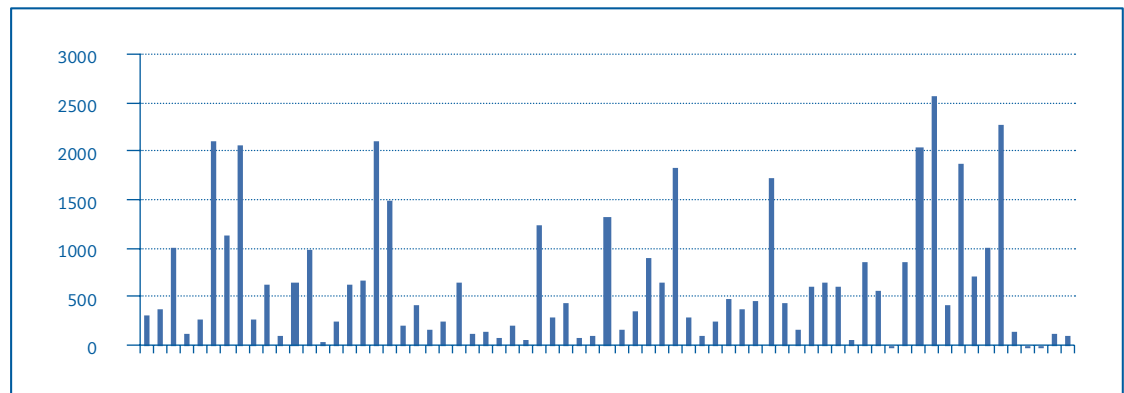
(Credit Reports generated by the Commercial Banks/ Total number of Banks 32)

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



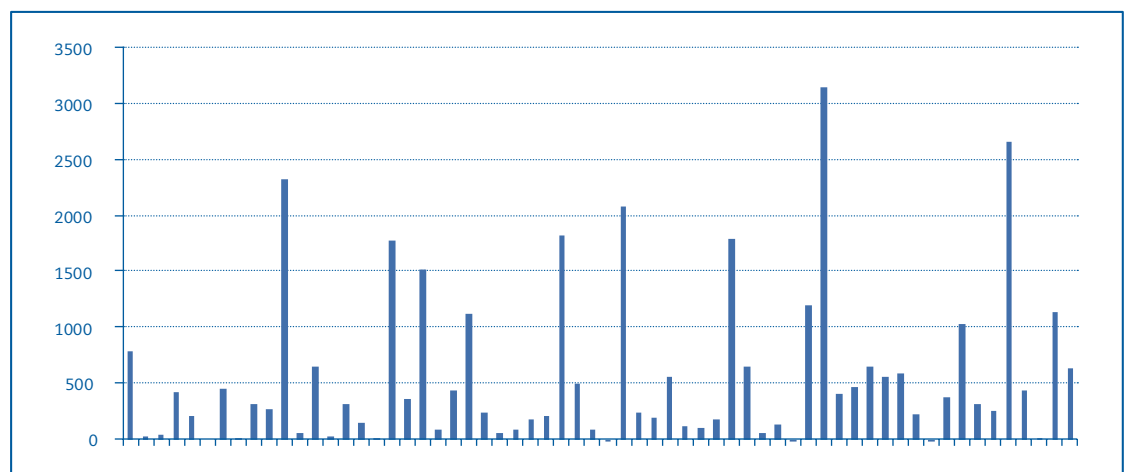
(Credit Reports generated by National Development Banks; Total number of NDB 19)

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



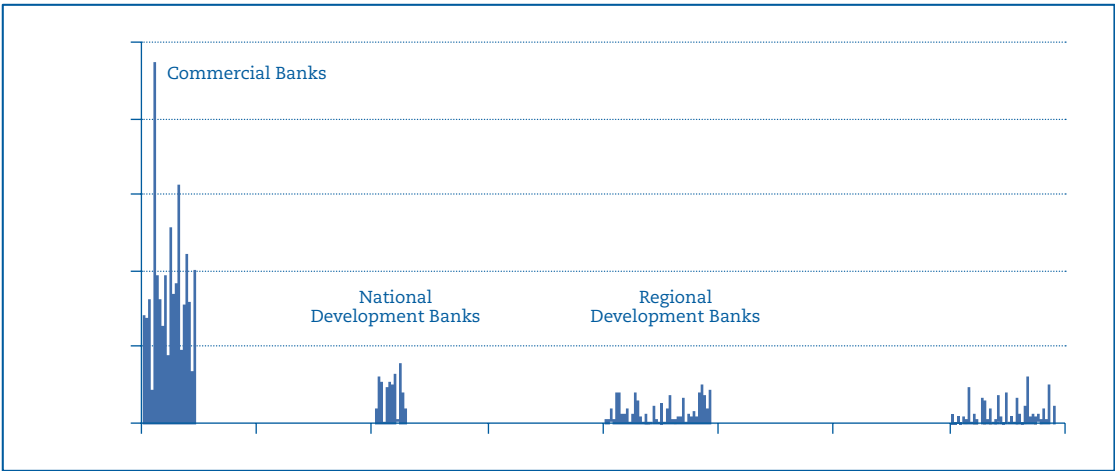
(Information Searching "Hits" by Regional Development Banks; Total number of RDB 71)

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



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

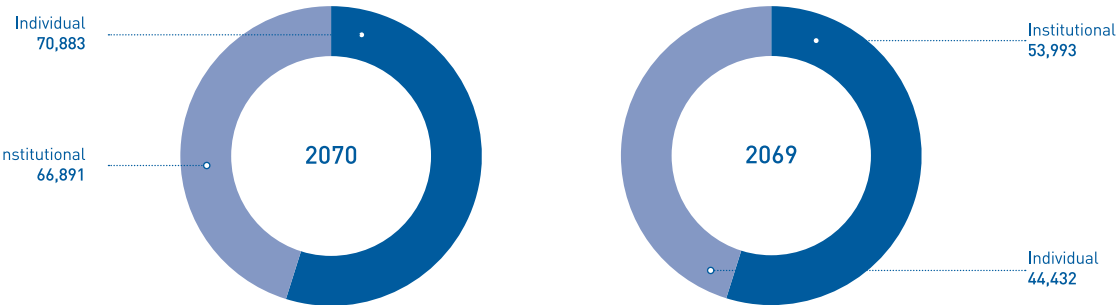
The graph encapsulates all the above graphs and compares the credit reports generated by all four categories of Banks and Financial Institutions.



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

### 5. New Borrowers Records

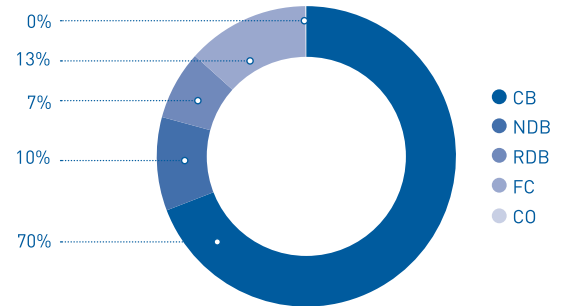
- Borrowers' records, which indicate the total number of borrowers who were extended the loans by the banks and financial institutions increased by 40% this year as compared to previous year's increment of 18%. The reason for this high increase was attributed to the new provision issued by the Nepal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



- Borrowers' records distribution shows similar pattern as that of credit reports. As per the statistics available with the Kendra till the year end,

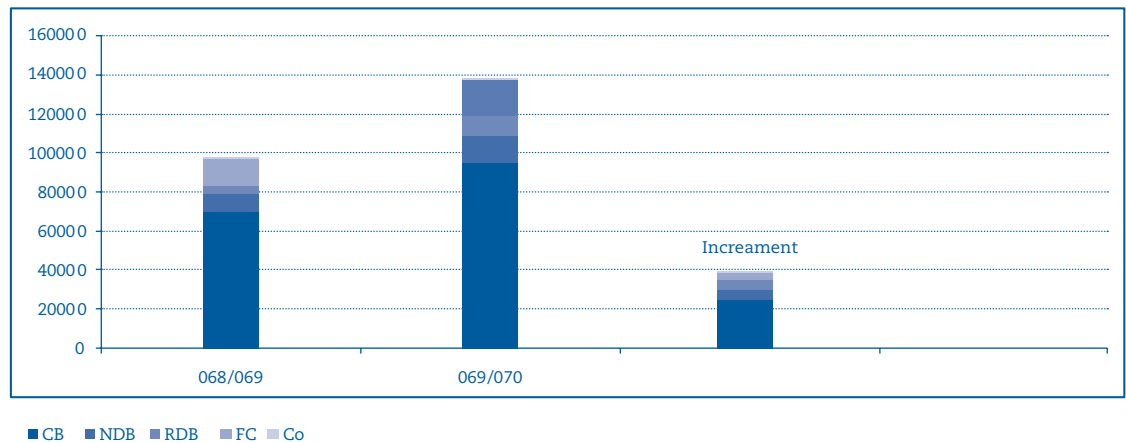
Commercial banks have the largest number of borrowers' records followed by Finance Companies and National & Regional Development Banks.

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



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

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

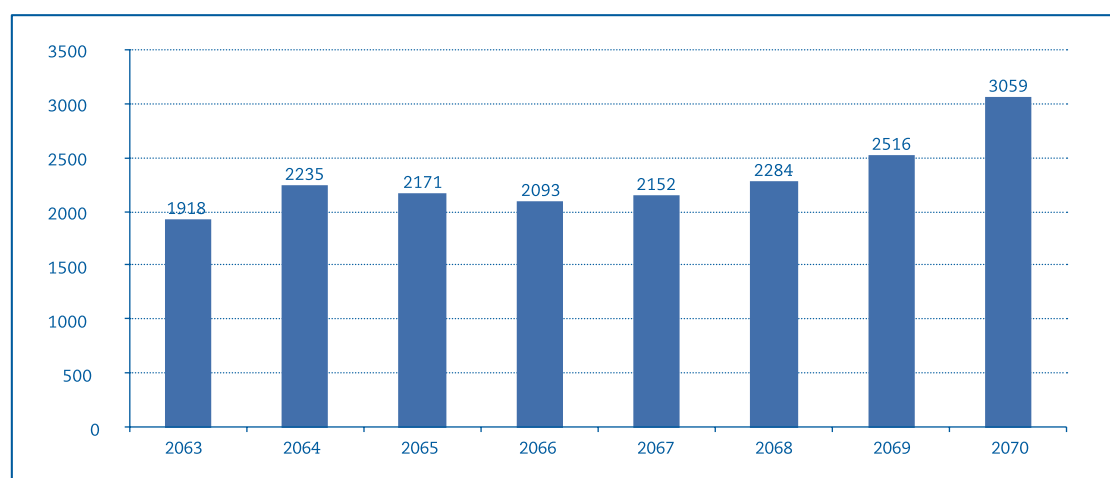


## 6. Blacklist Statistics

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

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

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



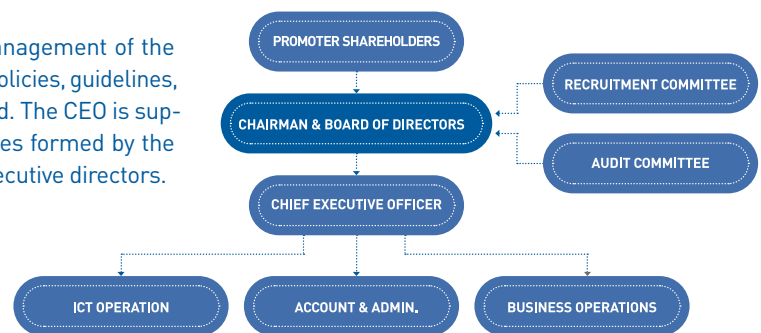
- As per the statistics available with the Kendra, the total amount of the outstanding dues to be recovered from Blacklist borrowers amounted to Rs. 3,259 crore by the end of fiscal year 068/069. Because of the addition and release of the blacklist borrowers in the year 069/070, the dues of Rs. 855 crore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



## 7. Corporate Governance

- Kendra adopts best governance practices and ensures accountability, fairness and transparency in the Kendra's relationship with all its stakeholders. The Governing body of the company is the Board of Directors who is entrusted with the responsibility of overseeing the company's operations on behalf of the shareholders and makes major policy decisions to effectively run and manage the company. Board of Directors is responsible for balancing and protecting the interests of, as well as to create value for, all stakeholders that include promoter shareholders, management, member institutions, government and community.
- The Board of Directors of Bureau have committed themselves to ensure that there is effective oversee-
- Board appoints CEO for the management of the company and for implementing policies, guidelines, strategies approved by the Board. The CEO is supported by the various committees formed by the Board and chaired by its non executive directors.

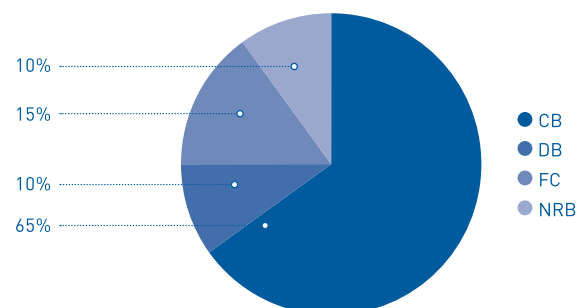
ing of the Bureau operations and to ensure that all such business affairs of the Bureau are conducted adhering to the highest standards of good governance, embracing established best practices. Compliance with all applicable legislations, regulations, standards and codes has remained an essential characteristic of the company's corporate culture. The company is subject to and fully complies with, all but not limited to, the Company's Act 2063, Company's Articles of Association, regulatory requirements of Banks and Financial Institutions Act 2063, Directives and Circulars issued by Nepal Rastra Bank, various guidelines from the Government of Nepal and other international credit bureau agencies devising policies on corporate governance.



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

## 8. The Board & the Committees

- The Directors of the Board are elected from among the promoter shareholders from Annual General Meeting of the company in every four years. The Board is composed of seven members-four from Commercial Banks (CB), one each from Finance Company (FC), Development Bank (DB) and Nepal Rastra Bank (NRB). The number of representation in the Board from each category is based on the distribution of shares among the categories. Commercial Banks holds 65% stake and has four representations, Development Banks holds 10% stake and has one representation, Finance Companies holds 15% stake and has one representation and Nepal Rastra Bank holds 10% stake and has one representation.



- The members of the Board possess the required expertise, skill and experience to effectively manage and direct the Bureau in order to maintain highest standards of good governance and attain the organizational goals. The tenure of the Board of Director is for four years. In case of resignation or demise of

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

### a) Changes in the Board of Directors

- There were few changes in the Board of Directors in the year 069/070. Mr. Min Bahadur Shrestha was replaced by Mr. Purna Bahadur Khatri with effective from 2069/11/3 and Mr. Ram Bahadur Khadka was replaced by Mr. Tej Bahadur Budhathoki with effective from 2069/11/8. Mr. Ram Bahadur Khadka resigned from his post where as Mr. Min Bahadur Shrestha was replaced as per the letter issued by Nepal Rastra Bank (NRB).
- Mr. Kamal Prasad Gnawali, Director submitted his resignation from the Board member with effective from 2070/03/16. No replacement was made till the end of Asar, 2070.
- Mr. Siddhant Raj Pandey submitted his resignation from the Chairman of Board with effective from 2070/03/31. No replacement was made till the end of Asar, 2070.

### b) Board Meeting 069/070

- There were altogether eight (8) Board meetings held under the Chairmanship of Siddhant Raj Pandey during the period under the review. The number of the attendances of the Board members in the Board meetings were as follows.

Name	Representation from	No. of Meetings held during Tenure	Meetings Attended	% of Attendance
1. Mr. Siddhant Raj Pandey, Chairman	Ace Development Bank Ltd.	8	8	100%
2. Mr. Ajay Shrestha, Director	Bank of Kathmandu Ltd.	8	8	100%
3. Mr. Jyoti Prakash Pandey, Director	Nepal Investment Bank Ltd.	8	4	50%
4. Mr. Kamal Prasad Gnawali, Director	KIST Bank	6	3	50%
5. Mr. Ram Bahadur Khadka, Director	Agriculture Development Bank Limited (ADBL)	4	4	100%
Mr. Tej Bahadur Budhathoki	ADBL (069/11/8 onwards)	4	4	100%
6. Mr. Rajendra Man Shakya, Director	Synergy Finance Ltd.	8	7	87.5%
Dr. Min Bahadur Shrestha	Nepal Rastra Bank (NRB)	4	0	0%
7. Mr. Purna Bahadur Khatri, Director	NRB (069/11/3 onwards)	4	3	75%

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

### c) Current Board Composition

- Board nominated two new members in the Board from among the promoter shareholders to fill up the posts that remained vacant after the resignation of Mr. Siddhant Raj Pandey and Mr. Kamal Prasad Gnawali.
- Board also elected Mr. Tej Bahadur Budhathoki as the Chairman of the Board for the period till the end of the current tenure of the Board.

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

**d) Board of Directors Disclosure****Mr. Tej Bahadur Budhathoki**

Chairman

*Agriculture Development Bank*

CEO

*He has not been associated with any institutions other than Agriculture Development Bank.***Mr. Purna Bahadur Khatri**

Director

*Nepal Rastra Bank*

Director

*He has not been associated with any institutions other than Nepal Rastra Bank.***Mr. Ajay Shrestha**

Director

*Bank of Kathmandu*

CEO

*Beed-BOK Venture Limited*

Chairman

*Nepal Bankers Association*

Executive Member

**Mr. Jyoti Prakash Pandey**

Director

*Nepal Investment Bank Limited*

CEO

*NIBL Capital Markets Limited*

Chairman

*Nepal Clearing House Limited*

Member, Board of Directors

**Mr. Tulasi Ram Gautam**

Director

*Machhapuchchhre Bank Limited*

CEO

*He has not been associated with any institutions other than Machhapuchchhre Bank Limited.***Mr. Bhusan Rana**

Director

*Yeti Development Bank*

CEO

*Nepal Karate Maha Sangh*

Vice President

**Mr. Rajendra Man Shakya**

Director

*CMB Finance Limited*

CEO

*Nepal Finance Companies Association*

President

*FNCCI Commodities Council*

Executive Member

*Nepal Red Cross Society*

Life Member &amp; Advisor

*Nepal Baudhha Parishad*

Life Member

**e) Audit Committee**

- Board forms the audit committee and appoints its members. Audit Committee comprises of three members and is headed by one member of the Board of Directors.
- The audit committee has a direct relationship with the Board as it assists the board in its general oversight of the company's financial reporting and disclosure process, internal controls, accounting policies & principles, regulatory compliance and performs other oversight functions as requested by the Board. It oversees the performance of the internal audit functions and ensures open communication among management, internal auditors, external auditors, and audit committee on any matters that will have significant effect on the company's financial reporting. It performs its duties by maintaining effective working relationships with the board, management, internal and external auditors. It provides suggestions, recommendations to the management and the auditors on various financial and accounting matters as deemed necessary.
- There were altogether four (4) audit committee meetings conducted during the period. Audit committee met each quarter to discuss on the audit reports submitted by the internal auditors. There were four internal audit reports submitted to the audit committee.

Name	Number of Meetings held during the Tenure	Number of Meetings Attended	% of Attendance
1. Rajendra Man Shakya, Chairman	4	4	100%
2. Ram Bahadur Khadka, Member	2	2	100%
Kamal Gnawali, Member	2	1	50%
3. Purna Chitra Pradhan, Member Secretary	4	4	100%

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

**f) Current Audit Committee**

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

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

**g) Recruitment Committee**

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.

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

**h) Expenses incurred on committees**

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

**i) Disclosures**

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

**j) Compliance Report**

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

**9. Management**

- CEO is the highest ranking executive in the bureau and oversees the complete operation of the bureau. CEO has the specific responsibilities as entrusted by the Board of Directors and reports to the Board on a regular basis. CEO formulates policies and planning recommendations to the Board, implements those policies & plans after the Board's approval and manages physical and financial resources of the company. CEO is supported by the executives who report to him regularly on various issues.
- Being a small company, the organization structure is somewhat flat with fewer management levels. This structure empowers the employees and

provides more autonomy to them and helps them to make their own decisions rather than adhering to the chain of commands. By encouraging autonomy and self-direction, flat structures attempt to tap into employees' creative talents and to solve problems by collaboration. It offers more opportunities for employees to excel while promoting the larger business vision of the bureau.

- The Kendra ensures that employees are well informed on matters concerning them and their job. Formal and informal channels are also employed in communication with employees with an appropriate two-way feedback mechanism.

**10. Human resource**

- We believe that successful organization can not owe their success solely to market realities and sustainable competitive advantages. Actually, there is lot more. Successful companies are those that consider their human capital as their most important asset. The bureau also recognizes the importance of absorbing people with the required talent, aptitude and mind set to achieve the forecasted development and growth over the coming years. We focus on recruiting the best people, train them, develop them and motivate them by providing good working environment and treating each employee as the valuable resource of the company. Our committed and competent staffs have always being our strength. Our emphasis has always been on quality in our journey towards excellence.
- We have maintained a small team of high caliber staffs. The recruitment is balanced and is always as per the work load requirements. No redundancy is allowed. Because of the complete automation of the credit bureau system and its operation, the bureau

has only few but competent staffs in IT, Operations and other departments. All the staffs are trained in Nepal or overseas and have many years of experience in their respective fields. We are focused to invest in their continuous training and development, providing them with opportunities for both personal and professional enhancement. The company's HR policy is guided by the company's "Karmachari Sewa Biniyamawali 2064" and is based on best international practices in human resource development and management.

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

## 11. Risk Factors Disclosures

### Technological & Information Management Risk

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

### Business Risk

- The growth of Banking and Finance sector has been quite uneven and gone through many ups and downs in the last few years. They had to cope with multiple challenges - liquidity crisis, declining deposits, inflated interest rate, real state collapse, loan recovery problems and others. Economy or market down turns or poor state of the banking business adversely impacts the bureau's growth potential. Decreasing banking business leads to decline in credit information enquiries which lead to reduced revenue for the bureau. Uncertainties in the banking business make it difficult to forecast future levels of bureau's income and earning potentials.
- Bureau has developed the plans for the placements of value added products and services for the banking and finance sector based on certain assumptions of the banking sector growth and demand potentials. Given the uncertainties looming large on the sector growth, products placements may be ill-timed or the market may not be ready to absorb the products incurring high cost to income ratio for the bureau.

### Operational Risk

- Because of the lack of any reliable instrument for correctly identifying the borrower, credit bureau is always exposed to the risks of incorrect borrower identification and profile matching. Coupled with this, many financial institutions still have poor and inadequate information about the borrowers which makes it further difficult for the bureau to correctly identify the borrowers. Wrong identification leads to wrong credit report which further leads to poor lending decisions by the lending agencies incurring huge losses to them. This may have adverse impact on the credibility of the bureau.
- Credit Bureau operation is a very specialized field of activity primarily focused on IT and Operations. Being an IT driven company, it needs to have a very strong IT & Operations workforce who are skilled, talented and have expertise on the system. Such people are very limited in number and very hard to find by in the job market. Recruiting the talented people and training them to make them expert on the system takes time and incurs cost. Once trained, bureau runs the risk of losing them in such a fiercely competitive market of IT. Under such conditions, bureau may face the risk of HR crunch to man its operations.
- Irregular & unreliable commercial power supply and long load shedding hours in the country may pose serious problem for the bureau to provide uninterrupted credit bureau services to the users. Bureau may risk of losing the confidence of the users if it fails to provide reliable and uninterrupted service to them as required.

### Financial Risk

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

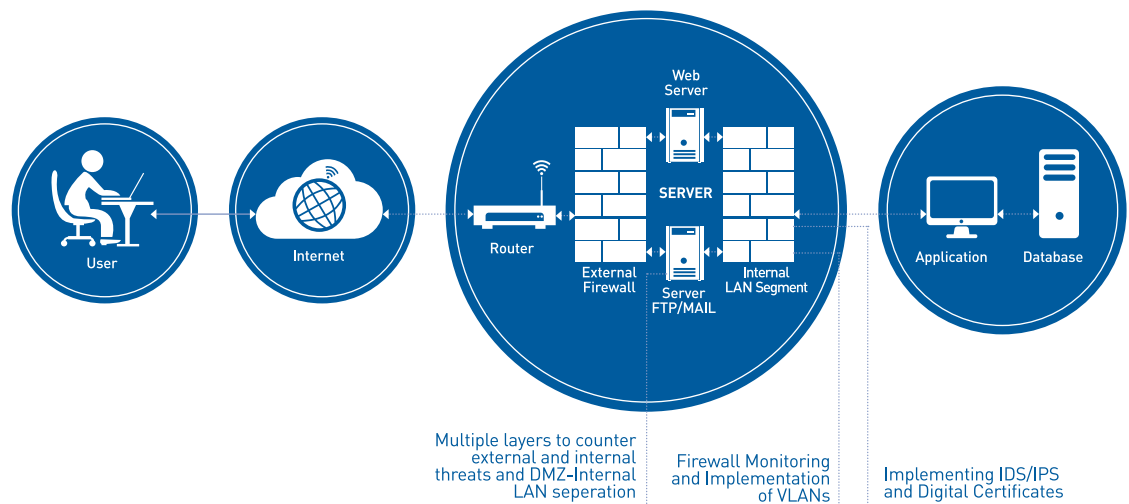
- Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Since the customers of the Bureau are all banks & financial institutions, it is exposed to minimum credit risk.
- All the costs related with the implementation of the new commercial bureau and MF bureau is borne

by the Grant received from the Asian Development Bank with no financial and commercial pre-conditions attached with it for its repayment. Thus there are no any financial risks involved for the company in this transaction.

## 12. Risk Management

- The Bureau has employed robust IT security infrastructure and various layers of system security that could circumvent any external threats. Data Center is fully protected & equipped with access control mechanisms and safety systems. Unauthorized admission in Data Center is strictly prohibited.

*New System that will be deployed soon will be equipped with very sophisticated security mechanisms that will be capable of countering any scale of internal or external security threats to the system. The system will be completely cocooned from external world and will have multiple layers of security zones that will have restricted access and can be accessed only through the defined logical rules*



- Bureau ensures that IT staffs are fully aware with the information confidentiality policy and follow them strictly. Only those staffs "who need to know" are provided with access privileges which will be revoked in a timely manner when no longer warranted. Bureau has employed trained staffs for information security who have many years of experience in the field and are capable of dealing with any types of system security problems.
- In order to prevent the risk of service breakdowns, Bureau has housed its Disaster Recovery Site in National Information Technology Center in Singh Durbar which will be brought into operation once Primary Site shuts down due to technical failure or any other Force Majeure reasons. All the primary site equipments have been arranged in failover mode.
- All our Data Center equipments and infrastructures including our staffs have been safeguarded with adequate insurance coverage.
- Although the Bureau carefully monitors the impacts of economic changes in the banking sector, it can do least to avoid business risks which are culminated from the factors external to the Bureau. Though the number of "Information Hits" generated by the banks and financial institutions remained quite uneven during the period of the review because of sector specific issues, the bureau maintained its revenue growth on an even level by increasing the "Hits" through the expansion of the service coverage.
- In order to eliminate the risk of wrong identification, Bureau has developed a very effective algorithm based on borrower's personal identification information



and three generation information. Data quality of the borrowers is maintained at highest level so that the algorithm functions properly and gives the correct Hits. So far the algorithm has given the hundred percent correct hits of the borrowers.

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

from this, the Bureau motivates its employees by providing them the trainings, attractive remuneration packages, incentive schemes and other benefits based on their performance and contribution made to the company.

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

## ISSUES & PROBLEMS AFFECTING THE SERVICE OF THE BUREAU

- **Data Quality/Reporting & Updates:** The effectiveness of the credit information bureau largely depends on the quality of data stored in it. In order to make the credit report more inclusive, informative & reliable, the collection of correct and current data from the source is necessary. In spite of the mandatory requirement as per the NRB Directive and regular reminders and follow ups by the Kendra, many banks and financial institutions still fail to send the data on a periodic basis. Collection of both primary (initial data) and secondary data (periodic updates) has remained a problem.
- **Collection Threshold:** Kendra is always of the view that collection threshold should not exist since it eliminates the information of all the SME lending which constitute major portion of banks' lending portfolio. Such practice and policy restrains the growth of credit market, increases the probability of multiple lending, prevents the credit report from being more inclusive and disregards the best international practices in credit bureau operation. Apart from this, this practice delays the data maturity process and sets back the schedule for the development of value added products and services. Implementing such policy is quite detrimental to the growth of the bureau, credit market and the economy of the country as a whole.
- **System Mismatch and IT Incompatibility:** Because of the large volumes of data to be uploaded to the bureau on a regular and timely basis, there is the need that banks and financial institutions upgrade their IT Systems accordingly in order to have good interface with the bureau's system. Since most of data required by the bureau has to be extracted from the Core Banking System (CBS) of the banks which differ widely across the banks, many

financial institutions are still finding difficulties in developing the required interface to facilitate the transfer of the data to the bureau. Lack of this is going to affect the timely collection of the data from the lending institutions.

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

**NRB Unified Directive 2070, Clause 17(6):** कर्जा सूचना इकाई : इजाजतपत्रप्राप्त संस्थाहरूले केन्द्रीय रुपमा कर्जा सूचना इकाई गठन गरी केन्द्र तथा अन्य निकायमा पठाउनु पर्ने कर्जासूचना सम्बन्धी सम्पूर्ण कार्यहरू सो इकाईबाट मात्र गर्नु/गराउनु पर्नेछ । केन्द्रसँग गरिने सम्पूर्ण कार्यको लागि इकाईका जनशक्तिलाई तोक्नु पर्नेछ र सोको जानकारी सम्बन्धित इजाजतपत्रप्राप्त संस्थाले केन्द्रलाई उपलब्ध गराउनु पर्नेछ । साथै, तोकिएको इकाईले इजाजतपत्रप्राप्त संस्था र केन्द्रबीच हुने पत्राचारको प्रमाणित अभिलेख अद्यावधिक गरी राख्नु पर्नेछ ।

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

## CORRECTIVE MEASURES TO BE IMPLEMENTED

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

## CHALLENGES & STRATEGIES VIS. A VIS. NEW SYSTEM OPERATION

### Challenge 1

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

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

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

### Challenge 2

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

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

### Challenge 3

- The operation of Microfinance Bureau will pose a huge challenge for the Bureau. Many microfinance institutions suffer from inaccurate & incomplete data, poor IT capability, unskilled staffs and lack of awareness about the bureau which may make the operation of the MF Bureau very difficult. The success of the MF bureau will also depend on the tariff since high tariff may discourage many MF institutions from joining the bureau. Low tariff may make the operation of

the MF bureau unsustainable. Challenge exists in developing a reasonable balance between low tariffs and bureau's operation costs.

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

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

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

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

**Tariff:** Kendra has set up a committee comprising of the representatives from Microfinance Associations, International Finance Corporation and Kendra to work upon the tariff structure that will sustain the operation of the bureau and at the same time be acceptable to all the microfinance institutions. The involvement of Microfinance Associations in setting up the tariff is the key element for the successful implementation of the MF Bureau service.

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

**Principle of Reciprocity:** This is a very effective tool to encourage and compel the MFIs to join the bureau if they want to have the access of the credit report

from the bureau. Only those institutions that share their information with the bureau will be entitled to have access of the bureau's information.

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

**Phase I (Year 1)**

All Microfinance Development Banks, Savings & Credit Co-operatives & NGOs as regulated by NRB. (Top Tier)

**Phase II (Year 2)**

All micro-credit institutions located in Kathmandu Valley.

**Phase III (Year 3)**

All micro-credit institutions located in Regional Centers and Towns

**Phase IV (Year 4&5)**

All micro-credit institutions across the country. (Complete Coverage)

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

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

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

## MF BUREAU SERVICE IMPLEMENTATION

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

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

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

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

PUSH

### Education and Awareness Building (Phase I- Phase IV)

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

PULL

### Tariff

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

PULL

### Principle of Reciprocity

- provide data = access to data.

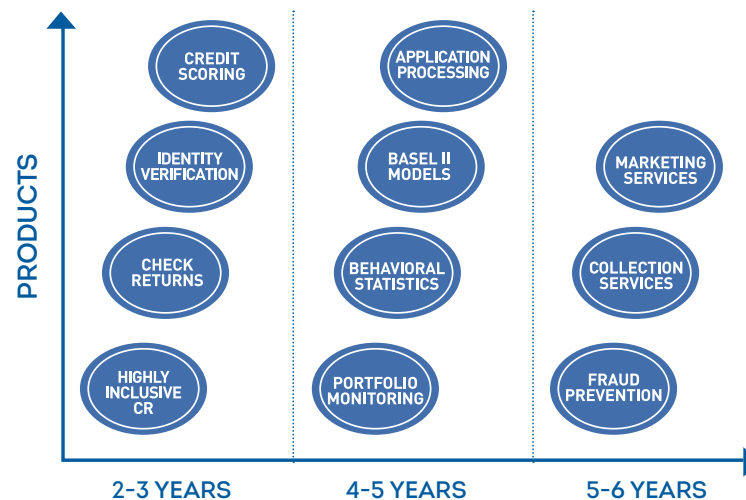
PUSH

## ACTION PLANS FOR THE YEAR 070/071

- New Commercial Credit Bureau System (Silver Blade) will be put into operation in the year 070/071. The existing credit bureau system will be replaced by new system and the service will be provided through it. The major pre-commencement activities such as verification, validation of the data and its migration from the existing system to the new system will be completed prior to the operation of the new system. Disaster Recovery Site will also be equipped with the new system and put into warm recovery mode.
- The Kendra intends to collect all the data available with the banks and financial institutions in the year 070/071. The bureau will work with them to improve on the connectivity, data quality, data uploads or other issues related with the operation of the bureau.
- Kendra will increase the frequency of the interaction programs with the users of the service. Kendra has planned to organize advanced “system based” trainings to the IT and Credit officers of the financial institutions in the near future. Kendra will also continue its user awareness programs country-wise facilitating credit officers and other staff of lending institutions to better understand the credit reports and other MIS reports generated by the new system for their lending decisions.
- Kendra will start providing the services to the microfinance institutions as well. The Microfinance Credit Bureau will be put into operation in parallel to the commercial bureau. But it will operate independently of commercial bureau and will have separate access, tariff, data structures and credit report. In its first year of operation, Kendra will focus on the microfinance institutions regulated by the Nepal Rastra Bank.
- Regulatory Framework for MF Bureau operations is also expected to be approved by the MOF/NRB in the year 070/071. Kendra will work together with Microfinance Associations and Nepal Rastra Bank to make the Regulation ready before the implementation of MF Bureau service.
- One of the major challenges in IT driven companies is to keep the IT staffs always equipped with new skill-sets and knowledge to keep pace with the rapidly changing systems and technology. Every day new problems emerge in the IT systems that are exposed to internet and other external systems. Thus the regular trainings to the IT staffs are necessary to cope up with such external threats.
- The capacity building of the staffs has always remained a major focus area of the company. Kendra has extensive plans to train its IT and Operations staffs in various areas of credit bureau operations and management in 070/071. Apart from the system based training, they will be sent to attend the seminar and talk programs overseas that will help them to learn about the best international practices in credit bureau operation.
- Secured Transaction Registry Project is still at tenderhooks because of some legal bottlenecks in the Act that has prevented the bureau from implementing the system. Kendra will work with Ministry of Finance to find ways to solve the legal bottlenecks and allow Kendra to undertake the project. ■

## LONG TERM BUSINESS FOCUS AND ACTION PLANS

- Organize the Business and its Processes around a strong technology base. Transform the bureau into a nimble and focused ICT operational Organization.
- Enhance the scope of operation by collecting information from all other sources such as utilities, leasing companies, insurance companies, investment funds and other lending institutions. Enrich the quality of data and bring maturity in it by employing advanced data processing techniques.
- Focus on R&D and Innovate and Implement new products and services on a timely basis that are highly desired by the lending institutions. Work closely with them to work on their product requirements and add value in their credit risk assessments process.



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

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

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



## IMPACTS OF INTERNATIONAL TRENDS IN CREDIT BUREAU DEVELOPMENT IN NEPAL

- Last decade saw tremendous growth of credit bureaus in Asia, Africa and other parts of the world. Between 1990 and 2011, the number of credit bureaus in the world almost tripled. In Asia many markets turned toward private sector reporting after the financial crisis in the late 1990s. The financial crisis led to an urgent call for credit information sharing among financial institutions in many countries in the Asia-Pacific region. After the crisis, several local and foreign-based credit bureaus were created, with the countries' central banks being the key drivers. New developments in credit reporting are underway in Central Asia and other parts of Asia. From the early 1990s to the late 2000s, a significant number of credit bureaus emerged in Eastern Europe. Over the past few years, the Middle East and North African region has been growing interest in credit reporting, with credit bureaus established in Morocco and Egypt, and new developments taking place in North African countries. There are also many new developments in Sub-Saharan Africa, with the launch of the credit bureaus in Ghana, Uganda, Kenya, Rwanda, Botswana and other countries.
- The reasons for this unprecedented growth can be attributed to high growth of retail credit in emerging markets, move towards more responsible lending following various consumer loan crises, increased awareness of credit reporting, falling start up costs for credit bureaus with decreasing costs of database management software and growing competition in banking and finance sector. The recent 2007–2008 financial crisis, has given greater impetus for broad reform efforts at the national level as authorities in developed and emerging markets realize the need for strengthening and improving financial infrastructure, including credit reporting systems. Many reformed oriented governments are supporting the development of credit reporting services in conjunction with the broader reforms for greater access to finance and promotion of responsible lending practices. According to the World Bank report, approximately 134 countries out of 183 countries surveyed had either a credit bureau or credit registry at the end of 2012.
- In our SAARC region, the countries like India, Pakistan Sri Lanka, Maldives & Bhutan have already established the credit bureaus systems manufactured by world's leading vendors. All these countries have been strongly supported by their governments who have helped them develop the strong regulatory framework for their credit bureau operations. Many credit bureaus have their own Statutory Act which has empowered them with all the rights and responsibilities to operate the service effectively.
- The establishment of new commercial bureau and microfinance bureau will put Nepal in a same league as that of other SAARC countries in terms of quality of system and service. But we still lag behind in having a strong regulatory framework that addresses the issues such as rights and responsibilities of borrowers and lenders, collection of data from 3<sup>rd</sup> party sources, penalties for no or late data submissions or poor quality of submissions etc. Unless the Kendra is empowered with the required legal provisions, it can not be strong and effective in delivering its services.
- As per the "Doing Business Report", the credit information index of Nepal which measures the rules and practices affecting the coverage, scope, accessibility of credit information available through the credit bureau is only 3 as compared to 5 of other SAARC countries (in scale of 0 to 6). This low index is because of the high collection threshold, lack of borrower's right to access the credit report and no provision for collecting the data from utilities and other 3<sup>rd</sup> party sources. Thus there is the need to address these three issues on an immediate basis to increase the credit information index and be at par with the other bureaus of the region.
- Since the discussions to set up the SAARC Credit Bureau is still going on, the new system will enable Kendra to have smooth interface and integration with the SAARC Central Credit Bureau System that will be designed in spoke & wheel architecture and will be located in any of the SAARC countries. ■

## BUREAU'S RELATIONS WITH ITS STAKEHOLDERS

- Kendra has always maintained good relations with its stakeholders and aims to improve its relations with them all the time. Kendra holds a regular forum to brief the member banks and financial institutions on operations of the bureau and holds briefing sessions to update them about the new developments and state of the business. It regularly imparts training on the credit bureau technology and service to make them capable of using the service efficiently and effectively.
- Kendra maintains an effective communication with its shareholders which enables them to understand

the bureau's business, financial condition, and operating performance and trends. Apart from our annual reports and accounts, we maintain a rich website (with suggestion boxes) that provides information on wide range of issues for all stakeholders. The Kendra is closely associated with Nepal Bankers Association, Nepal Development Banks Association, Nepal Finance Companies Association, Microfinance Development Banks Association, Ministry of Finance and other government agencies and has maintained good relations with all of them. ■

## CORPORATE SOCIAL RESPONSIBILITY

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

## FINANCIAL INDICATORS

Statement of Financial Position	069/070	068/069
<b>Capital &amp; Liabilities</b>		
Share Capital	103,408,000	86,172,600
Reserve & Surplus	133,501,593	82,995,407
Loan Funds		
Trade & Other Payables	6,614,082	7,599,791
Provisions	10,187,650	7,546,701
<b>Total Liabilities</b>	<b>253,711,326</b>	<b>184,314,499</b>
<b>Assets</b>		
Cash & Bank Balance	16,730,510	18,654,419
Investments	217,498,976	147,117,786
Prepaid, Advances, Loans and Deposits	2,749,039	2,061,117
Trade & Other Receivables	9,252,582	7,920,713
Fixed Assets	6,557,550	7,882,744
Deferred Tax Assets	922,688	677,720
<b>Total Assets</b>	<b>253,711,326</b>	<b>184,314,499</b>
<b>Income Statement</b>	<b>069/070</b>	<b>068/069</b>
<b>Income</b>		
Service Charge	112,271,008	82,933,858
Interest	18,375,895	15,444,374
Registration Charge	4,000	4,000
Other Income	50,000	1,191,137
<b>Total</b>	<b>130,700,903</b>	<b>99,573,369</b>
<b>Expenditure</b>		
Operating Expenses	16,422,452	13,580,873
Non Operating Expense	374,749	226,812
Depreciation	1,839,552	2,751,976
Provision for Bonus	10,187,650	7,546,701
<b>Profit before Tax (PBT)</b>	<b>101,876,500</b>	<b>75,467,007</b>
Provision For Taxation	25,517,655	19,168,612
Current Tax Expenses	25,762,603	18,980,230
Deferred Tax Expenses	[244,948]	188,382
<b>Net Profit Transferred to Accumulated Profit</b>	<b>76,358,846</b>	<b>56,298,396</b>

## FINANCIAL PERFORMANCE REVIEW

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

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

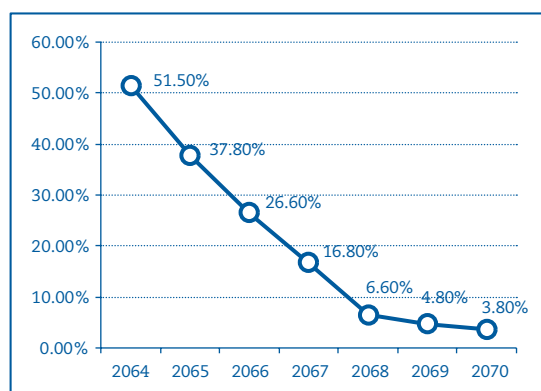
- Company's fixed assets include software applications, hardware, office equipments, furniture, vehicles and assets under construction or work in progress. The fixed assets of the company are stated at cost less accumulated depreciation. The assets worth Rs. 514,355 were added during the period on the opening written down value of Rs. 7,882,748 giving rise to the current years' depreciation of Rs. 1,839,552 and fixed asset less depreciation of Rs. 6,557,550.
- Investments in the form of interest bearing long term and short term deposits at different banks and financial institutions amounted to Rs. 217,498,976 in 069/070 as compared to Rs. 147,117,786 in 068/069. Investments were made in various categories of financial institutions that included commercial banks, development banks and finance companies. In spite of the lower interest rates prevailing during the period, the company maintained a balanced portfolio of short term and long term investments giving rise to the average rate of return of 9.5% on portfolio.
- Company, in the year 2011 (068/069), made the investments of Rs. 1 million in ICRA Nepal which is the subsidiary of ICRA Limited (ICRA) of India and is the first credit rating agency in the country. It was incorporated on November 11, 2011 and granted license by the Securities Board of Nepal (SEBON) on October 3, 2012. Company holds 5% stake in ICRA Nepal. Gratuity Fund of the staffs has been invested in Citizens Investments Trust which has been increased by 57% this year because of the increase in base salary of the staffs.
- Trade and Account Receivable which includes Service Charge Receivable and Interest Accrued have increased by 6.2% and 27.7% respectively in the year 069/070.

Particulars	069/070	068/069	Increase	% Increase
<b>Trade &amp; Account Receivables</b>				
Service Charge	4,250,910	4,003,328	247,582	6.2%
Interest Accrued	5,001,672	3,917,385	1,084,287	27.7%

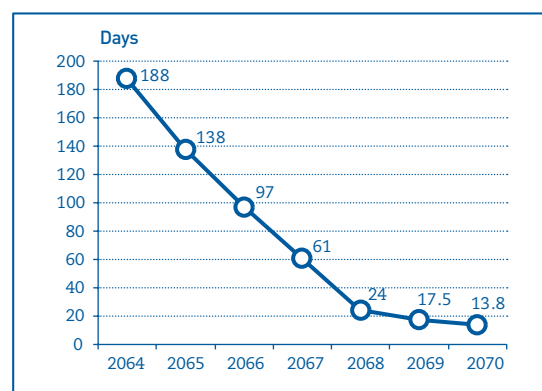
	065/066	066/067	067/068	068/069	069/070
Total Invoice	29,554,400	42,167,870	64,378,968	82,933,858	112,271,008
Service Charge Receivable	7,850,600	7,083,868	4,265,269	4,003,328	4,250,910
% Receivable	26.6%	16.8%	6.6%	4.8%	3.8%

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

#### Account Receivable



#### Average Collection Period



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

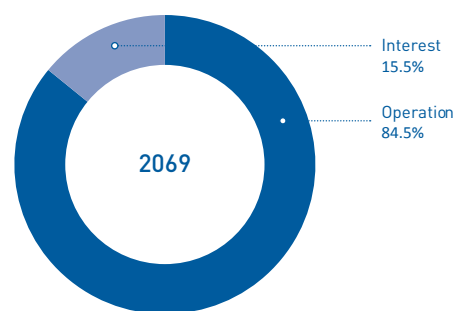
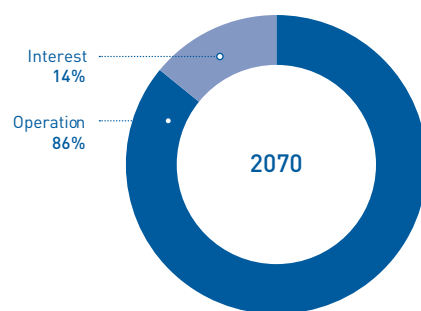
Particulars	069/070	068/069	Increase	% Increase
Prepaid, Advances, Loans & Deposits	2,749,039	2,061,117	687,922	33.4%
Trade & Other Payables	6,614,082	7,599,791	(985,709)	(13%)
Provisions	10,187,650	16,163,961	(5,976,311)	(37%)

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

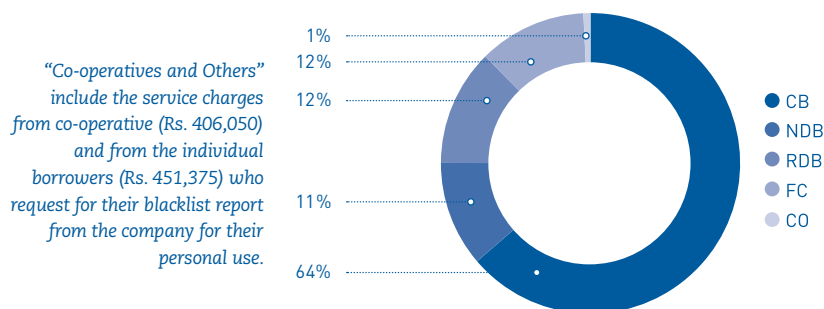
The revenue from the Service Charge & others contributed 86% where as the revenue from Interest contributed 14% to the total revenue of the company.

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

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



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

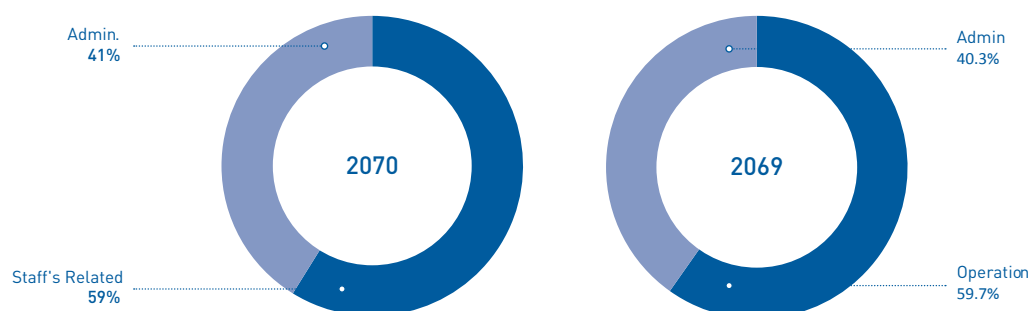


“Co-operatives and Others” include the service charges from co-operative (Rs. 406,050) and from the individual borrowers (Rs. 451,375) who request for their blacklist report from the company for their personal use.

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

- The total operating expense increased by nearly 21% mainly due to the payment of Rs.1.5 million to International Finance Corporation (IFC). The major expense item was Salary and Allowance which increased by 19% where as the administrative expenses increased by 23.8% giving rise to the total increment of Rs. 2,841,579 in operating expenses. Without the IFC expense, the administrative expense was quite under control and decreased by 4%. The average expense utilization was 83.4% of the budgeted amount and no expense component exceeded the budgeted figure.

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



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

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



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

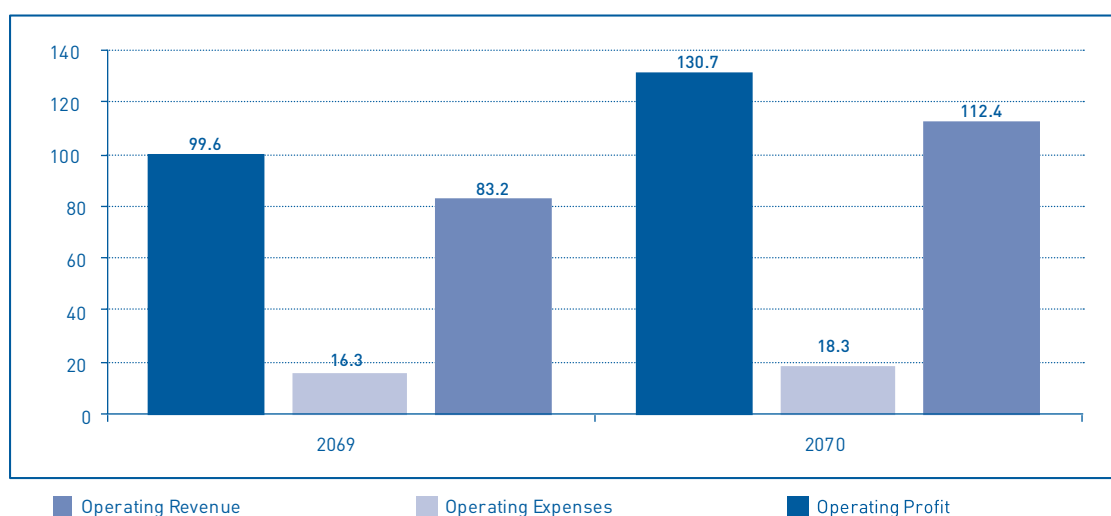
S. No.	Particulars	069/070	068/069	Changes	
..Expenditure					
3.	Depreciation on Fixed Assets	1,839,552	2,751,976	(912,424)	(33%)

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

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

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

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



- Staff Bonus is provided as per Bonus Act, 1974. The Bonus Act requires provision at the rate of 10% on the amount of net profit before tax. Because of the increase in operating profit, the bonus amount increased by 35% from Rs. 7,546,007 in 068/069 to Rs. 10,187,650 in 069/070.

S. No.	Particulars	069/070	068/069	Changes	
...Expenditure					
4.	Provision for Bonus	10,187,650	7,546,007	2,641,643	35%

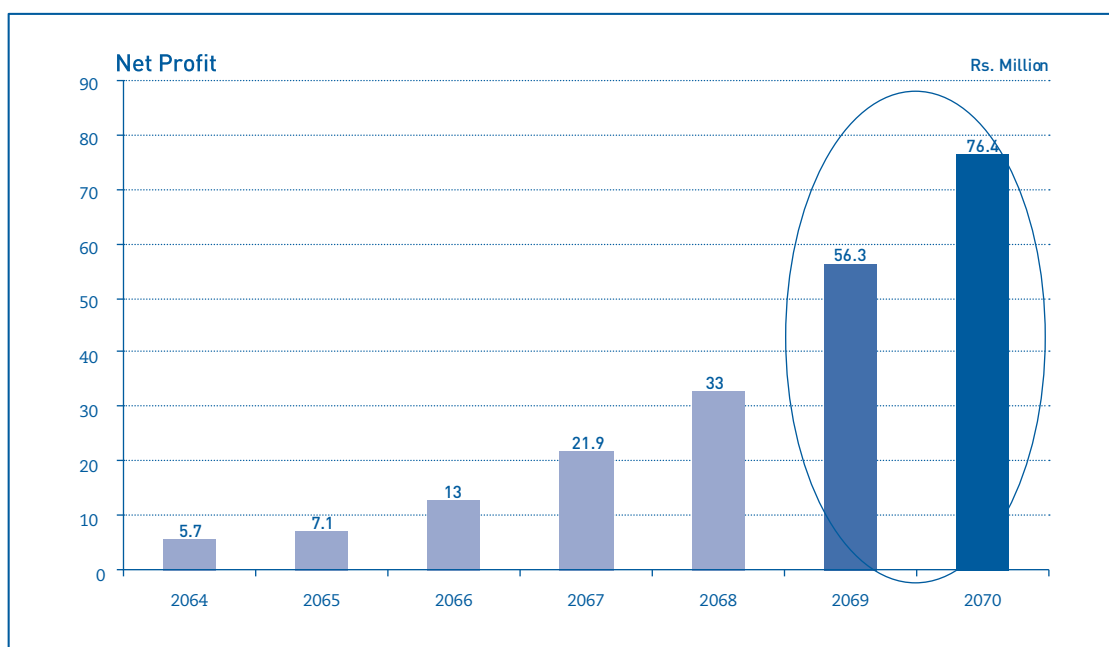
- The company made the pretax profit of Rs. 101,876,500 this year. The provision for Income Tax as per Income Tax Act 2058 for the year amounted to Rs. 25,762,603 which was adjusted against the total tax deposit of Rs. 27,543,943 made during the year. Thus the excess tax deposit of Rs. 1,781,341 was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

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

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

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

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



## INTERNAL CONTROL SYSTEM

- Kendra's internal control system is very effective and is aimed at achieving following goals; safeguard company's assets; ensure the reliability and integrity of financial information; ensure compliance; promote efficient and effective operations; and accomplish the goals and objectives of the company.
- Kendra's framework for internal control system consists of regular monitoring and reviewing of activities; regularly communicating updates of policies and procedures to the staffs through emails, staff meetings; and periodically assessing risks to protect company's assets.
- In order to guarantee adequacy and effectiveness of operation of the Internal Control System, the Board relies on the audit committee and the internal audit reports. The company's periodic internal audit is done on a quarterly basis by renowned Chartered Accounting firm BRS Neupane & Co., an independent correspondent firm to Deloitte Touche Tohmatsu, having its principle office in Kumari Marg, Naxal.

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

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

## REPORT OF THE AUDIT COMMITTEE

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

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

- reviewed and discussed with management and the internal auditor Kendra's quarterly earnings, consolidated financial statements, and any related periodic reports.
- reviewed with management, the internal auditor, and the independent auditor management's assessment of the effectiveness of the Kendra's internal control over financial reporting
- reviewed with the independent auditor, management, and the internal auditor, as appropriate, the audit scopes and plans of both the independent auditor and internal auditor.

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

After the review of the financial statements for the year ended Asar 31, 2070, the Audit Committee hereby states as follows:

- the scope and planning of the audit were adequate in committee's opinion;
- the accounting and reporting policies of the company confirmed with the statutory requirements and agreed ethical practices;
- the Internal Control and Internal Audit Functions were operating effectively; and
- the external auditor's findings as stated in the audit report were being dealt by the management satisfactorily.

The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the financial position of the Bureau is well monitored and assets are safeguarded. Audit Committee thus recommends for the submission of the Consolidated Financial Statement to Board of Directors for its approval and for its filing to the Inland Revenue Department of the Ministry of Finance for the tax purposes and the copies sent to Company Registrar office and Nepal Rastra Bank for their reference. ■

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

**T**he Board reviewed the operational and financial performance of the company and took assessment of the company's risks and internal control framework & its effectiveness as presented in the Audit Report submitted by the Audit Committee. Based on the review of the Report, Board concluded that the Committee has presented a balanced report and given a fair assessment of the company's risks, performance, its position and prospects. Board thus approved the consolidated financial statement of the company and gave its approval for its inclusion into the Annual Report 069/070 to be presented to the shareholders in the forthcoming 9<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 070/071. Board will propose the name of Statutory Auditor in the Annual General Meeting for its ratification. ■

## STATEMENT OF THE VALUE ADDED AND ITS DISTRIBUTION

### Contribution to the National Exchequer and to the Economy

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

### Shareholders as Dividend

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

### Employees Salary

The total expense incurred by the company in the form of salary, allowance and other facilities to the staffs amounted to Rs. 9,655,010. CEO was paid the total remuneration package of Rs. 3,150,000 and the remaining staffs were paid Rs. 6,505,010. CEO is also provided with vehicle and all its operating costs.

eration package of Rs. 3,150,000 and the remaining staffs were paid Rs. 6,505,010. CEO is also provided with vehicle and all its operating costs.

### Employees Bonus

Company has allocated Rs. 10,187,650 as the provision for bonus for the year 069/070 to be distributed to its staffs. Bonus will be paid to all its staffs as per the provisions made in the Labor Act of the country. The amount left after making the bonus payment, 30% will be deposited in the National Staff Welfare Fund and the remaining 70% will be deposited in Staff Welfare Fund of the company.

### Retained by the Entity

Company has transferred Rs. 76,358,846 to its Accumulated Profit account from the earnings of the fiscal year 069/070. ■

## ADDITIONAL DETAILS

### Litigation Cases

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

### Number of Registered Members

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

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

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

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

## PROPOSAL FOR THE ISSUE OF CASH DIVIDEND

**A**s per the decision reached by the 76th meeting of the Board of Directors of the company, Board decides to disburse 15% cash dividend this year from its earning of the fiscal year 069/070. This will incur the total cash out flow of Rs.15,511,200/- from the company's reserves..

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

**F**inally, I would like to express my sincere gratitude to all the promoter shareholders of Kendra for their unflinching support and unquestioning trust extended to us all the time. I also would like to thank all the member banks & financial institutions for being with us in our difficult times and supporting us all through out. We are grateful to Nepal Rastra Bank, our Regulator, and all other concerned agencies for their valuable support and assistance extended to us during the period. At the end, our success would not have been possible without the unwavering determination and fortitude of the management of the company. ■

## List of Promoter Shareholders and their Shares

S. No.	Name of Banks and Financial Institutions	Total Shares
1	Nepal Rastra Bank	103,680
<b>Commercial Banks</b>		
1	Nepal Bank Limited	13,724
2	Rastriya Banijya Bank	13,724
3	Nabil Bank	36,599
4	Nepal Investment Bank	42,007
5	Standard Chartered Bank Nepal	36,599
6	Himalayan Bank	39,304
7	Nepal SBI Bank	36,599
8	Nepal Bangladesh Bank	40,448
9	Everest Bank	36,599
10	Bank of Kathmandu	56,414
11	Nepal Credit & Commerce Bank	36,599
12	NIC Asia Bank	42,013
13	Lumbini Bank	13,724
14	Machhapuchhre Bank	39,399
15	Kumari Bank	36,599
16	Laxmi Bank	51,840
17	Siddhartha Bank	41,904
18	Agriculture Development Bank	31,104
19	Grand Bank Nepal	36,512
20	NMB Bank	2,800
21	Kist Bank	8,208
<b>Total Commercial Banks</b>		<b>692,719</b>

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

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E-mail: csc@cscnepal.com  
Web: www.cscnepal.com

To the Shareholders of Karja Suchana Kendra Limited

## **Financial statements and management's responsibility**

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

## **Auditor's responsibility**

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

## **Report on the requirements of Company Act 2063**

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

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

## **Opinion**

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

Date: 23 Mangsir, 2070  
Place: Kathmandu



LD Mahat  
Partner  
CSC & Co.  
Chartered Accountants

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**KARJA SUCHANA KENDRA LTD.****Balance Sheet**

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

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	86,172,600
<b>Reserve and Surplus</b>			
Reserve Fund and Accumulated Profit	2	117,990,388	74,378,147
<b>Loan Funds</b>			
Secured Loans	3	-	-
<b>Total</b>		<b>221,398,388</b>	<b>160,550,747</b>
<b>ASSETS</b>			
Fixed Assets less Depreciation	4	6,557,550	7,882,744
<b>Investments</b>	<b>5</b>	<b>217,498,976</b>	<b>147,117,786</b>
<b>Current Assets (A)</b>			
Trade and Other Receivable	6	9,252,582	7,920,713
Cash and Bank Balances	7	16,730,510	18,654,419
Pre-paid, Advances, Loans and Deposits	8	2,749,039	2,061,117
<b>Total (A)</b>		<b>28,732,131</b>	<b>28,636,249</b>
<b>Current Liabilities and Provisions (B)</b>			
Trade and Other Payables	9	6,614,082	7,599,791
Provisions	10	25,698,850	16,163,961
<b>Total (B)</b>		<b>32,312,932</b>	<b>23,763,752</b>
<b>Net Current Assets (A - B)</b>		<b>(3,580,801)</b>	<b>4,872,497</b>
<b>Deferred Tax Assets</b>		<b>922,663</b>	<b>677,720</b>
<b>Total</b>		<b>221,398,388</b>	<b>160,550,747</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 OfficerTej Bahadur Budhathoki  
ChairmanAjay Shrestha  
DirectorCA L. D. Mahat  
Partner  
CSC & Co.  
Chartered AccountantsJyoti Prakash Pandey  
DirectorTulasi Ram Gautam  
DirectorPurna Bahadur Khatri  
DirectorBhusan Rana  
DirectorRajendra Man Shakya  
DirectorDate: Mangsir 23, 2070  
Place: Kathmandu, Nepal

**KARJA SUCHANA KENDRA LTD.****Income Statement**

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

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

All Schedules form an integral parts of this Financial Statements.

As per our report of even date

**Anil Chandra Adhikari**  
Chief Executive Officer

**Tej Bahadur Budhathoki**  
Chairman

**Ajay Shrestha**  
Director

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

**Jyoti Prakash Pandey**  
Director

**Tulasi Ram Gautam**  
Director

**Purna Bahadur Khatri**  
Director

**Bhusan Rana**  
Director

**Rajendra Man Shakya**  
Director

Date: Mangsir 23, 2070  
Place: Kathmandu, Nepal

**KARJA SUCHANA KENDRA LTD.****Profit and Loss Appropriation Account**

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

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

As per our report of even date

**Anil Chandra Adhikari**  
Chief Executive Officer

**Tej Bahadur Budhathoki**  
Chairman

**Ajay Shrestha**  
Director

**CA L. D. Mahat**  
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Director

**Bhusan Rana**  
Director

**Rajendra Man Shakya**  
Director

Date: Mangsir 23, 2070  
Place: Kathmandu, Nepal

**KARJA SUCHANA KENDRA LTD.****Cash Flow Statement**

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

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

As per our report of even date

**Anil Chandra Adhikari**  
Chief Executive Officer

**Tej Bahadur Budhathoki**  
Chairman

**Ajay Shrestha**  
Director

**CA L. D. Mahat**  
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**Jyoti Prakash Pandey**  
Director

**Tulasi Ram Gautam**  
Director

**Purna Bahadur Khatri**  
Director

**Bhusan Rana**  
Director

**Rajendra Man Shakya**  
Director

Date: Mangsir 23, 2070  
Place: Kathmandu, Nepal



**KARJA SUCHANA KENDRA LTD.****Statement of Changes in Equity**

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

Particulars	Share Capital	Accumulated Profit/Loss	General Reserve	Capital Reserve	Deferred tax Reserve	Proposed Bonus Share	Total Amount
<b>Opening Balance</b>	86,172,600	21,073,903	28,091,867	7,299,257	677,720	17,235,400	160,550,747
<b>Adjustments</b>							
Current Year's Net Profit	-	76,358,841	-	-	-	-	76,358,841
General Reserve	-	(15,271,768)	15,271,768	-	-	-	-
Right Share	-	-	-	-	-	-	-
Issue of Bonus Share	17,235,400		-	-		(17,235,400)	-
Proposed Cash Dividend		(15,511,200)					(15,511,200)
Deferred Tax Income	-	(244,943)			244,943		-
Issue of Undistributed Share	-						-
Proposed Bonus Share	-	-	-	-	-	-	-
<b>Closing Balance</b>	<b>103,408,000</b>	<b>66,404,833</b>	<b>43,363,635</b>	<b>7,299,257</b>	<b>922,663</b>	<b>-</b>	<b>221,398,388</b>

As per our report of even date

**Anil Chandra Adhikari**  
Chief Executive Officer

**Tej Bahadur Budhathoki**  
Chairman

**Ajay Shrestha**  
Director

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

**Jyoti Prakash Pandey**  
Director

**Tulasi Ram Gautam**  
Director

**Purna Bahadur Khatri**  
Director

**Bhusan Rana**  
Director

**Rajendra Man Shakya**  
Director

Date: Mangsir 23, 2070  
Place: Kathmandu, Nepal

**KARJA SUCHANA KENDRA LTD.**

Schedules to Balance Sheet As at Ashad, 2070

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

<b>Reserve &amp; Surplus</b>		<b>Schedule - 2</b>	
Particulars	Current Year (NRs.)	Previous Year (NRs.)	
Capital Reserve	7,299,257	7,299,257	
General Reserve	43,363,635	28,091,867	
Accumulated Profit	66,404,833	21,073,903	
Deferred Tax Reserve	922,663	677,720	
Proposed Bonus Share	-	17,235,400	
<b>Total</b>	<b>117,990,388</b>	<b>74,378,147</b>	

<b>Secured Loans</b>		<b>Schedule - 3</b>	
Particulars	Current Year (NRs.)	Previous Year (NRs.)	
Loan from Banks	-	-	

**KARJA SUCHANA KENDRA LTD.****Fixed Assets and Depreciation**

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

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

**KARJA SUCHANA KENDRA LTD.**

Schedules to Balance Sheet As at Ashad, 2070

<b>Investments</b>		<b>Schedule - 5</b>
Particulars	Current Year (NRs.)	Previous Year (NRs.)
<b>Investments</b>		
Fixed Deposit at Different Bank and Financial Institution	214,900,000	145,100,000
Citizen Investment Trust	1,598,976	1,017,786
ICRA Nepal	1,000,000	1,000,000
<b>Total</b>	<b>217,498,976</b>	<b>147,117,786</b>

<b>Trade and Other Receivable</b>		<b>Schedule - 6</b>
Particulars	Current Year (NRs.)	Previous Year (NRs.)
<b>Receivables</b>		
Service Charge	4,250,910	4,003,328
Interest Accrued	5,001,672	3,917,385
<b>Total</b>	<b>9,252,582</b>	<b>7,920,713</b>

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

<b>Pre-paid, Advances, Loans and Deposits</b>		<b>Schedule - 8</b>
Particulars	Current Year (NRs.)	Previous Year (NRs.)
National Life Insurance (Loan Deposit)	374,039	-
Nepal Telecommunication	-	23,060
Staff Loan and Advances	292,757	770,689
Advance Tax	1,781,341	923,229
Others	300,902	344,138
<b>Total</b>	<b>2,749,039</b>	<b>2,061,117</b>

**KARJA SUCHANA KENDRA LTD.**

Schedules to Balance Sheet As at Ashad, 2070

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

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

**KARJA SUCHANA KENDRA LTD.**

Schedules to Income Statement for the period from Shrawan, 2069 to Ashad, 2070

**Operating Expenses****Schedule - 11****A. Staff Related Expenses**

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

**B. Administrative Expenses**

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

**Non Operating Expense****Schedule - 12**

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

**KARJA SUCHANA KENDRA LTD.****Significant Accounting Policies and Notes to Account**

for the period ended on 31 Ashad, 2070

Schedule - 13

**1. General**

Incorporation and Legal form of the Company:

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

**2. Nature of Business**

The primary objective of the company is to provide credit information to Banks and Financial Institutions.

**3. Accounting convention**

The Financial Statements have been prepared under the historical cost convention and comply with Nepal Accounting Standards.

**4. Basis of Accounting**

Income and expenses have been accounted for on accrual basis.

**5. Fixed Assets and Depreciation**

The fixed assets of the company are stated at cost less accumulated depreciation. Depreciation is charged to the Profit & Loss Account using the following rates and methods:

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

**6. Provision for Income tax**

The provision for Income Tax has been calculated at the rate applicable for that year in accordance with Income Tax Act and Rules. The Provision for Income Tax as per Income Tax Act 2058 for the year is NRs. 25,517,659.00. The amount has been adjusted against the Advance Tax.

**7. Deferred Tax**

Nepal Accounting Standard 09, "Income Taxes" has been complied with from the fiscal year 2064/65. The details of deferred tax assets and liabilities for the year 069/070 are as follows:-

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

The deferred tax asset arising due to the temporary difference amounts to NRs. 922,663 this year whereas it was NRs. 677,720 in previous year. The increase in deferred tax assets by NRs. 244,943 during the year has been added to the previous years' balance of the deferred tax assets in the Balance Sheet and incorporated as the deferred tax expense in the Income Statement of the current year.

### **1. Provision for Staff Bonus**

Staff bonus is provided at 10% of net profit before tax.

### **2. General Reserve**

As per the provision of the Articles of Association, 20% of the current year's profit amounting to NRs. 15,271,768 has been transferred to General Reserve.

### **3. Investments**

Investments have been recorded at cost price.

### **4. 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.

### **5. Cash Dividend and Bonus Share**

Board has decided on its 76th Board Meeting dated December 08, 2013 to disburse 15% Cash Dividend to its existing shareholders subject to the approval from the forthcoming 9th Annual General Meeting of the Company. Cash dividend amounting to NRs. 15,511,200 has been adjusted in the provision account of the financial statements.

### **6. 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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