

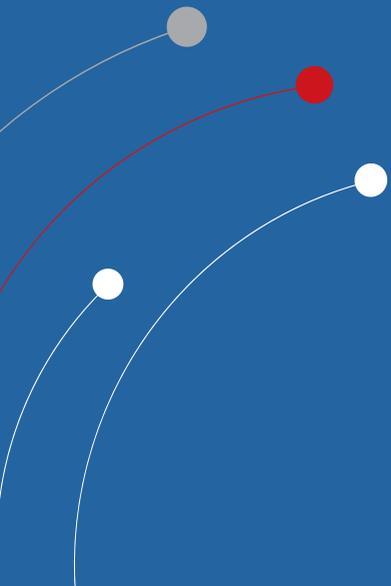


# Annual Report

2074/75 (2017/18)

COMMITTED  
TOWARDS  
NATIONAL  
PAYMENTS  
INFRASTRUCTURE  
DEVELOPMENT





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# O1 OVERVIEW

## Corporate Information

### Company Name

**Nepal Clearing House Limited (NCHL)**

**Url:** www.nchl.com.np

### Head Office

3<sup>rd</sup> Floor, Kamaladi Complex,  
Kamaladi, Kathmandu, Nepal.

Tel: +977-1-4232386

Fax: +977-1-4255309

Email: info@nchl.com.np

### Operations Office

2<sup>nd</sup> Floor, DD Plaza, Shanta Marg,  
Kamaladi, Kathmandu, Nepal.

Tel: +977-1-4255306

Helpdesk Support: Ext: 102, 103, 104 and 110

Email: support@nchl.com.np

### Legal Form

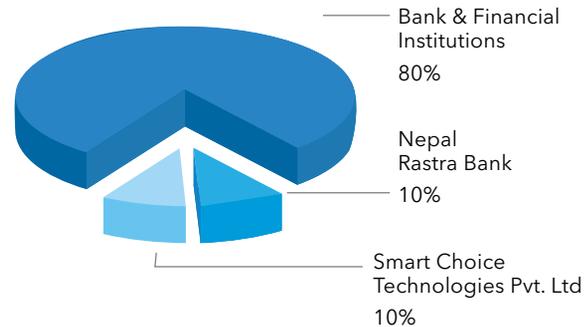
Incorporated as a public limited company under the sub-section 1 of Section 5 of Company Act (1<sup>st</sup> Amendment 2074) on 8<sup>th</sup> Poush 2065 (23<sup>rd</sup> December 2008).

### Licenses/ Certifications

- Licensed by Nepal Rastra Bank as Payment System Operator (PSO)
- ISO 27001 certification for NCHL-ECC and NCHL-IPS Systems

### Ownership Structure

Nepal Clearing House Limited, established under the leadership and guidance of Central Bank of Nepal has holding of 10% by Nepal Rastra Bank, 80% by various Banks and Financial Institutions and 10% by Smart Choice Technologies Pvt. Ltd. The banks and financial institutions include Commercial Banks, Development Banks and Finance Companies.



### External Auditor

Joshi & Bhandary  
Kosi Compound, Dillibazar  
Kathmandu, Nepal  
Tel: +977-1-4419364, 4423550  
Fax: +977-1-4413038  
Email: jb@jb.com.np

### Internal Auditor

M.B. Shrestha & Company  
Sankhamul Road, Naya Baneshwor  
Kathmandu, Nepal  
Tel: +977-1-4781818

### ISO 27001 Auditor

URS Nepal P. Ltd.  
Rani Marg, Lazimpat  
Kathmandu, Nepal  
Tel: 009-771-4386324

### Principal Activities

1. Clearing and settlement of cheques, payment instruction, interbank payments, secured transactions and other payment instruments issued by banks, financial institutions and other licensed institutions.
2. Establish payment switch for payment transactions processed through mobile and other channels.
3. Establish clearing houses for clearing and settlement through electronic means.

## List of the shareholders and their equity ownership as at Ashad end 2075

S. No.	Shareholder's Name	No. of Shares	Amount in NPR
1	Nepal Rastra Bank	180,000.00	18,000,000.00
2	Nepal Bank Limited	30,000.00	3,000,000.00
3	Rastriya Banijya Bank	30,000.00	3,000,000.00
4	Nabil Bank Limited	30,000.00	3,000,000.00
5	Nepal Investment Bank Limited	60,000.00	6,000,000.00
6	Standard Chartered Bank Nepal Limited	30,000.00	3,000,000.00
7	Himalayan Bank Limited	30,000.00	3,000,000.00
8	Nepal SBI Bank Limited	30,000.00	3,000,000.00
9	Nepal Bangladesh Bank Limited	30,000.00	3,000,000.00
10	Everest Bank Limited	30,000.00	3,000,000.00
11	Bank of Kathmandu Limited	64,218.00	6,421,800.00
12	Nepal Credit and Commerce Bank Limited	49,538.00	4,953,800.00
13	NIC Asia Bank Limited	60,000.00	6,000,000.00
14	Machhapuchchhre Bank Limited	30,000.00	3,000,000.00
15	Kumari Bank Limited	47,720.00	4,772,000.00
16	Laxmi Bank Limited	31,200.00	3,120,000.00
17	Siddhartha Bank Limited	41,102.00	4,110,200.00
18	Global IME Bank Limited	77,170.00	7,717,000.00
19	Citizens Bank International Limited	35,418.00	3,541,800.00
20	Prime Commercial Bank Limited	31,200.00	3,120,000.00
21	Sunrise Bank Limited	35,418.00	3,541,800.00
22	Agricultural Development Bank Limited	5,530.00	553,000.00
23	Century Commercial Bank Limited	21,964.00	2,196,400.00
24	Civil Bank Limited	61,564.00	6,156,400.00
25	Janata Bank Nepal Limited	50,303.00	5,030,300.00
26	Prabhu Bank Limited	66,067.00	6,606,700.00
27	Mega Bank Nepal Limited	27,631.00	2,763,100.00
28	NMB Bank Limited	50,376.00	5,037,600.00
29	Sanima Bank Limited	27,631.00	2,763,100.00
30	Alpine Development Bank Limited	2,476.00	247,600.00
31	Bhargav Bikash Bank Limited	4,951.00	495,100.00
32	Om Development Bank Limited	12,842.00	1,284,200.00
33	Excel Development Bank Limited	1,200.00	120,000.00
34	Gandaki Bikas Bank Limited	14,329.00	1,432,900.00
35	Garima Bikas Bank Limited	7,424.00	742,400.00
36	Lumbini Bikas Bank Limited	28,578.00	2,857,800.00
37	Kamana Sewa Bikas Bank Limited	7,351.00	735,100.00
38	Jyoti Bikas Bank Limited	10,607.00	1,060,700.00
39	Kailash Bikas Bank Limited	16,672.00	1,667,200.00

S. No.	Shareholder's Name	No. of Shares	Amount in NPR
40	Kankai Bikas Bank Limited	1,200.00	120,000.00
41	Mission Development Bank Limited	2,476.00	247,600.00
42	Miteri Development Bank Limited	5,656.00	565,600.00
43	Muktinath Bikas Bank Limited	3,600.00	360,000.00
44	Deva Bikas Bank Limited	11,102.00	1,110,200.00
45	Shangri-la Development Bank Limited	11,100.00	1,110,000.00
46	Arun Finance Limited	1,200.00	120,000.00
47	Central Finance Limited	8,436.00	843,600.00
48	Crystal Finance Limited	1,200.00	120,000.00
49	General Finance Limited	1,200.00	120,000.00
50	Goodwill Finance Limited	23,102.00	2,310,200.00
51	Guheswori Merchant Banking & Finance Limited	4,218.00	421,800.00
52	Himalaya Finance Limited	1,200.00	120,000.00
53	ICFC Finance Limited	4,218.00	421,800.00
54	Janaki Finance Co. Ltd	4,218.00	421,800.00
55	Jebil's Finance Limited	4,218.00	421,800.00
56	Gurkhas Finance Limited	1,200.00	120,000.00
57	Lalitpur Finance Limited	4,218.00	421,800.00
58	Reliance Lotus Finance Limited	12,994.00	1,299,400.00
59	Mahalaxmi Bikas Bank	50,812.00	5,081,200.00
60	Multipurpose Finance Co. Limited	1,200.00	120,000.00
61	Nepal Finance Limited	13,577.00	1,357,700.00
62	Nepal Share Markets & Finance Limited	1,200.00	120,000.00
63	Pokhara Finance Limited	4,218.00	421,800.00
64	Progressive Finance Limited	1,200.00	120,000.00
65	Seti Finance Limited	1,200.00	120,000.00
66	Shree Investment & Finance Co. Limited	5,418.00	541,800.00
67	Srijana Finance Limited	1,200.00	120,000.00
68	Synergy Finance Limited	23,102.00	2,310,200.00
69	Union Finance Limited	4,219.00	421,900.00
70	United Finance Limited	4,218.00	421,800.00
71	World Merchant Banking & Finance Limited	1,200.00	120,000.00
72	Smart Choice Technologies Pvt. Limited	180,000.00	18,000,000.00
	<b>Total</b>	<b>1,800,000.00</b>	<b>180,000,000.00</b>

## Vision

'To be a leading provider of electronic payment and settlement services'

## Mission

The missions of NCHL are to:

- Establish and operate national systems for clearing, payments and settlements;
- Facilitate the development of secure & trusted new payment methods and technologies in Nepal;
- Protect and increase shareholders' value;
- Establish as an organization of choice for the employees.

## Values

NCHLs' core values are:

- Highest standards of ethics, integrity and teamwork.
- Commitment towards the members, shareholders, partners and employee.

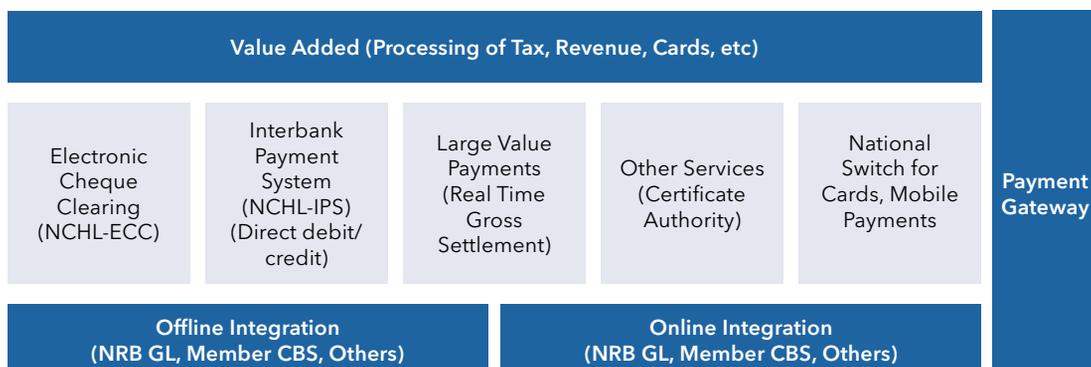
## Code of Conduct Principles

NCHL shall conduct its business in a highly professional and transparent manner to ensure that:

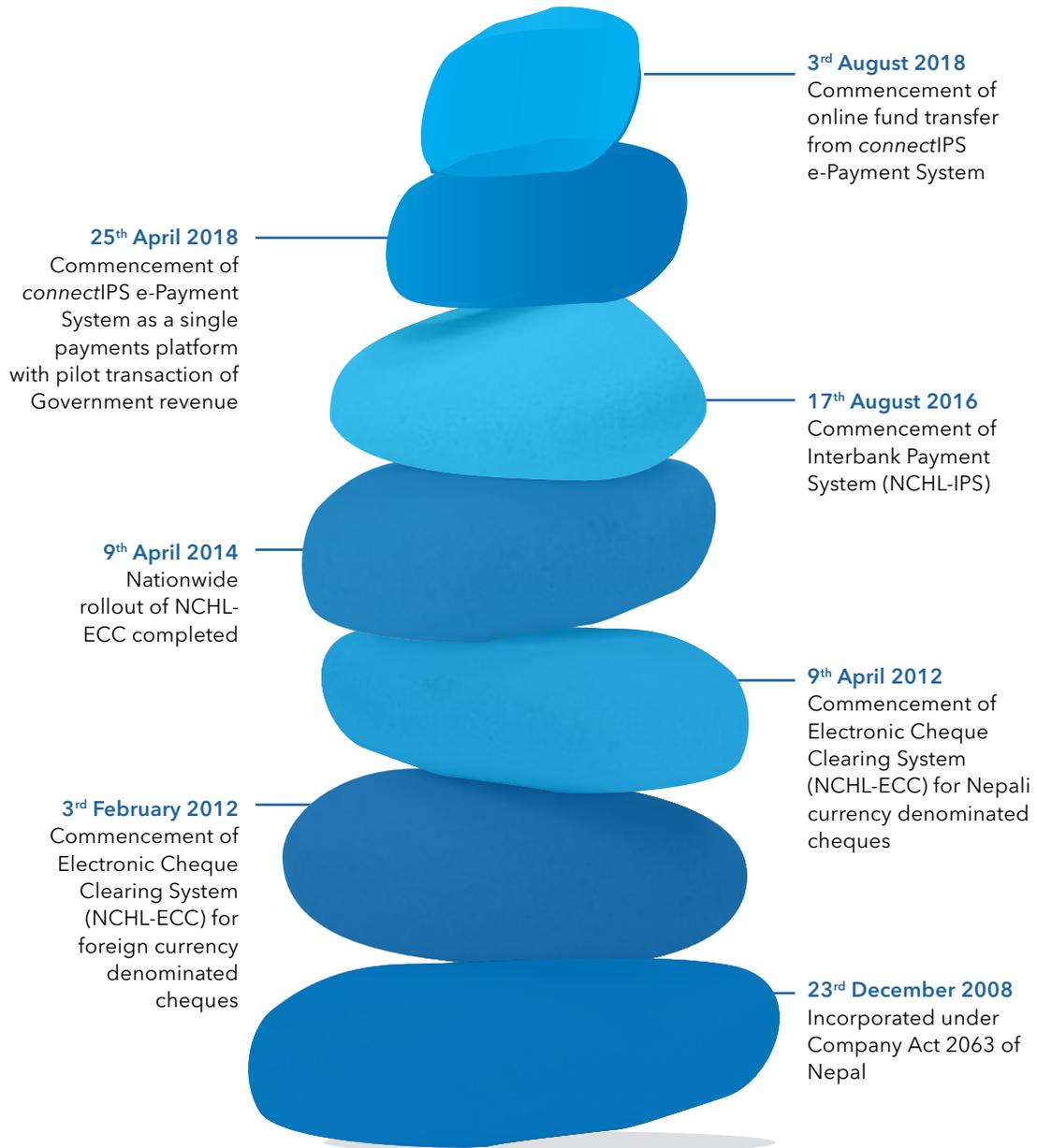
- Every member of NCHL shall deal with professionalism, honesty, integrity and with high moral and ethical standards. Such conduct shall be fair and transparent.
- NCHL is committed to enhance shareholder's value and comply with all regulations and laws that govern shareholders' rights and conduct its business affairs in accordance with the rules, regulations and the guidelines prescribed by Nepal Rastra Bank (NRB) and other regulatory authorities.
- NCHL shall market its products and services on their intrinsic merits and shall not make unfair and misleading statements about competitors' products and services.

## Strategic Objectives

The strategic objective of NCHL is to implement multiple payments, clearing and settlement systems to facilitate development of electronic payments in Nepal. Hence, it intends to establish the payment systems and process for multiple financial instruments and channels thereby leveraging and reinvesting into national payments infrastructures.



## Major Milestones

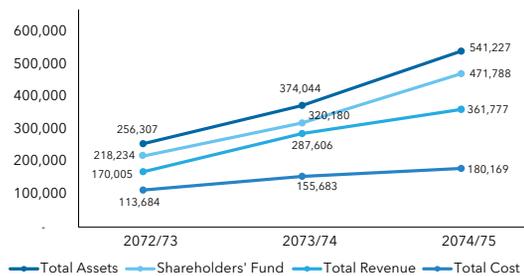


## Principal Products/Brands

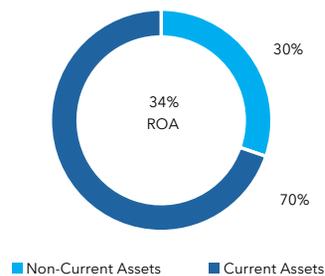


## Financial Highlights

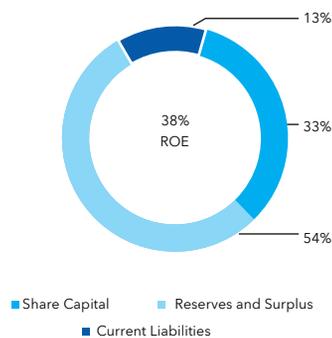
### Financial Summary in '000



### Total Assets Distribution FY 2074/75



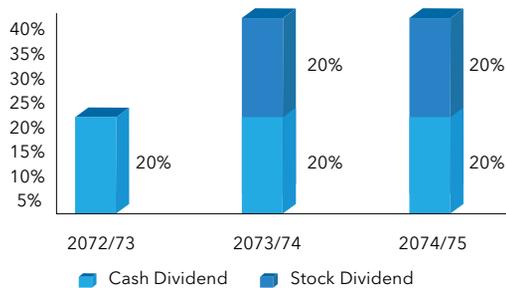
### Total Equity/Liabilities Distribution FY 2074/75



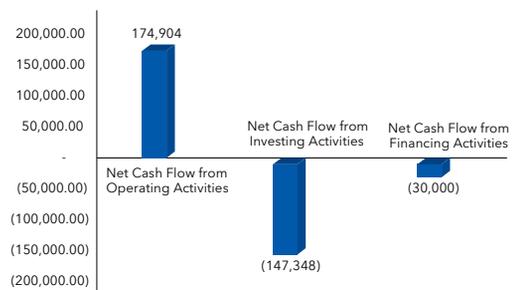
### Reserves in '000



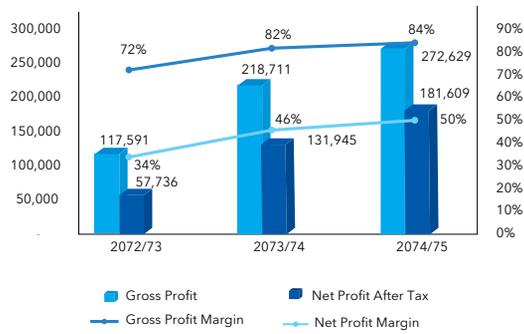
### Dividend Distribution



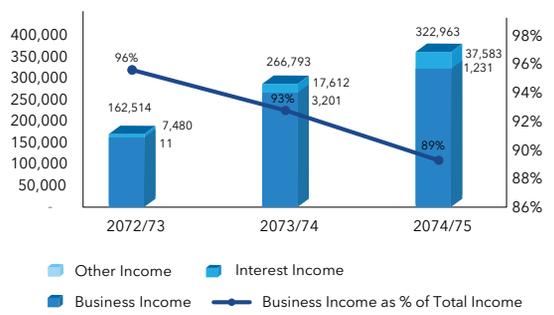
### Cash Flows FY 2074/75 in '000



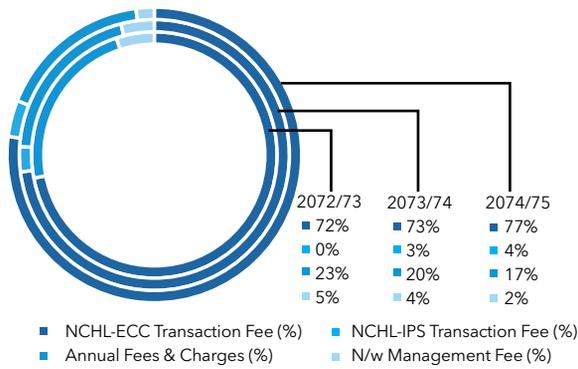
### Profitability Analysis in '000



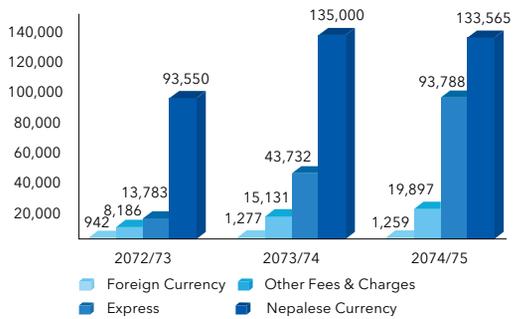
### Revenue Analysis in '000



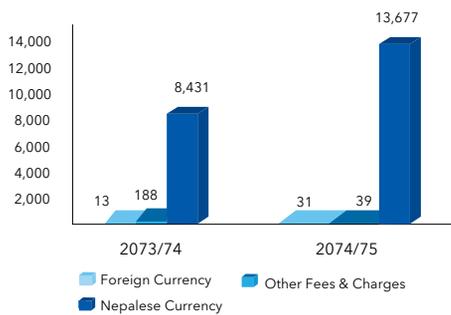
### Business Revenue Mix



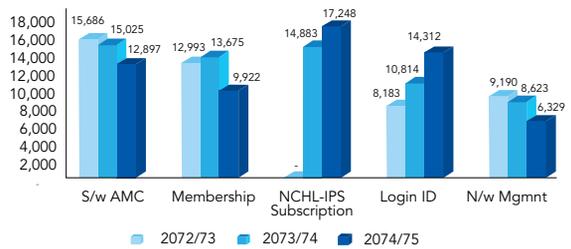
### NCHL-ECC Transactions Fees in '000



### NCHL-IPS Transactions Fees in '000

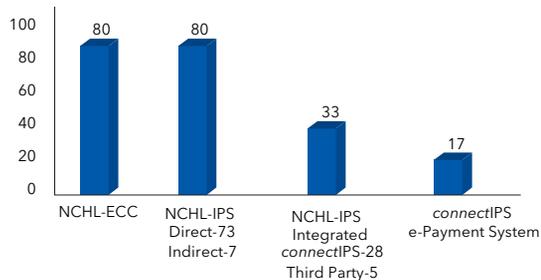


### Annual Fees and Charges in '000

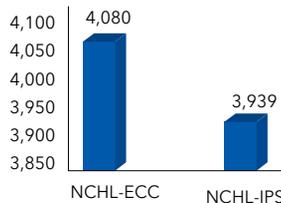


## Operational Highlights

### NCHL Members



### NCHL Members Branch Network

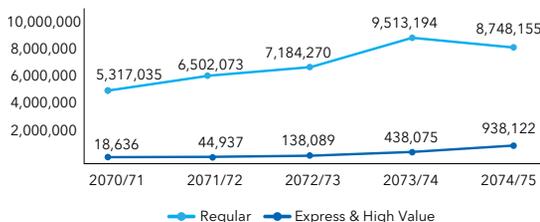


## Snapshots of NCHL-ECC Transactions

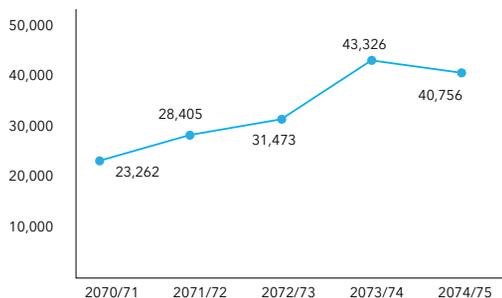
### Transaction Count in '000



### Regular and Express Clearing



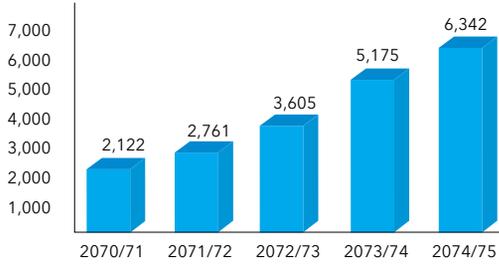
### Average Daily Cheque Volume



### Average Cheque Return in %



### NPR Cheque Transaction Value (in Billions)

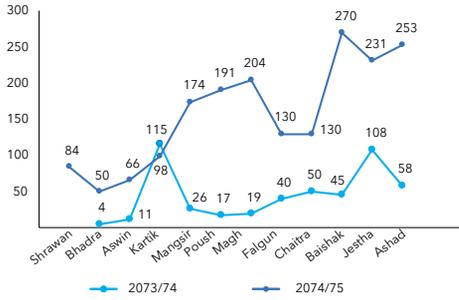


### FCY Cheque Transaction Value (in Millions)

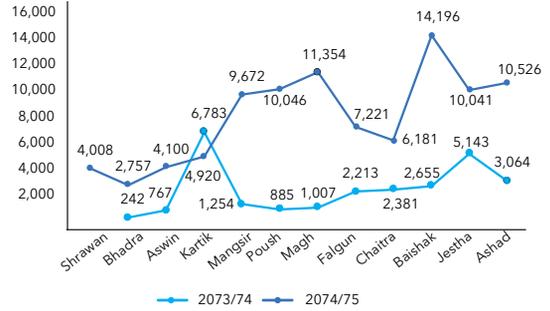


### Snapshots of NCHL-IPS Transactions

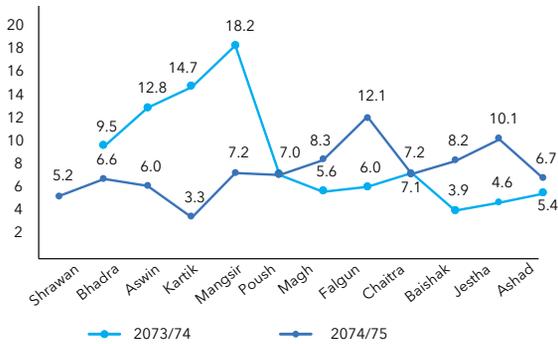
#### Monthly Total Transaction Volume in '000



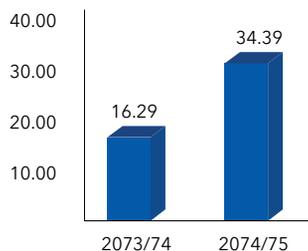
#### Month wise Average Daily Transaction Volume



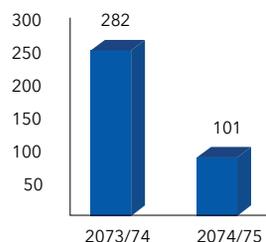
#### Month wise Average Transaction Return %



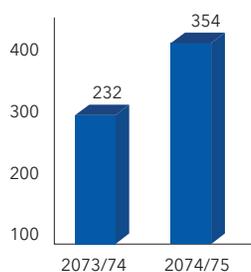
### USD Transaction Value (in Millions)



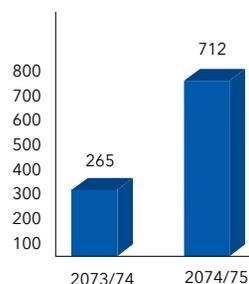
### GBP Transaction in '000



### EUR Transaction Value (in '000)



### NPR Transaction Value (in Billions)





**connect IPS**  
pay direct from bank

**Single Payments Platform**



**Online Fund Transfer**  
[www.connectips.com](http://www.connectips.com)

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**Tax/Revenue Payments**  
[www.revenue.fcgo.gov.np](http://www.revenue.fcgo.gov.np)  
[www.rajaswa.fcgo.gov.np](http://www.rajaswa.fcgo.gov.np)  
[www.ird.gov.np](http://www.ird.gov.np)

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**Enrollment Process:**

- ▶ Create user from connectIPS portal.
- ▶ Link your bank account.
- ▶ Verify (one-time) from your bank.

# Message From Chairman

Dear Shareholders,

It is with great pleasure to welcome all the shareholders in the 7th Annual General Meeting of Nepal Clearing House Ltd. (NCHL) and to present the Annual Report and the Financial Statements of NCHL for the fiscal year 2074/75 (2017/18).

The last fiscal year has been an exciting year for the payments industry and for NCHL. The industry has seen issuance of multiple licenses and letter of intent to various institutions by Nepal Rastra Bank (NRB). The Government of Nepal has extended its G2B payments and has categorically included in its policy that all Government payments and collections will be processed through electronic channels. The facilitating role that NCHL has played in this regards has helped NCHL to remain at the center stage of various divisions/ departments of the GoN, NRB, and other large institutions. It is worth mentioning the strategic support that NCHL has been providing to NRB for the implementation of RTGS in Nepal. These recent developments are expected to improve the entire payment ecosystem in Nepal thereby providing extensive opportunities for NCHL, both for supporting GoN's initiatives of e-payment and for collaborating with the newly licensed PSPs/ PSOs for electronic payment ecosystem development.

NCHL is a joint initiative of NRB and the banks and financial institutions (BFIs) to establish and operate multiple national payments and settlement systems in Nepal. With the recent launching of *connectIPS* e-Payment System, as a single payments platform for Nepal, NCHL now has presence in clearing and settlements systems for paper based instruments, direct credit, direct



debit and online payment instruments. As the part of the new initiatives, we have strategic plans to implement a generic switch/system for supporting real-time retail payment system through multiple channels. We are now working towards extending the overlaying services that will help establish multiple payment system use cases.

We are pleased to highlight that NCHL has played a key role in expanding non-cash transactions in Nepal through its NCHL-ECC and NCHL-IPS systems in the last fiscal year. The total number of transactions processed through our systems has crossed 11.5 million transactions with settlement value of over 6.6 trillion (for NPR transactions only).

The fiscal year 2074/75 (2017/18) has been an outstanding year in contemplating the growth

of the company, whereby NCHL has extended electronic cheque clearing (NCHL-ECC) and interbank payment system (NCHL-IPS) and also went live with its *connectIPS* e-Payment System. This is the first full year for the operation of NCHL-IPS system, which has seen average daily transaction volume of 8,001 (as against 2,413 in the last year). Although the average daily cheque volume has reduced, the value of cheque transactions has increased considerably to NPR 6,342 billion as against NPR 5,175 billion (for NPR denominated cheques) in the previous year. *connectIPS* e-Payment System that was extended as a single payments platform to support online fund transfer and payment processor services has also been taken very positively by the industry. Account to account based transfers and government e-payment of revenue have already started through this system.

By the end of the last fiscal year, membership base remained at 80, 75 and 17 for NCHL-ECC, NCHL-IPS and *connectIPS* e-Payment systems respectively. NCHL-IPS includes 73 BFIs (as direct members) and 2 other institutions (as indirect/technical members). They have nationwide network coverage with listing of over 4,080 branches in NCHL-ECC and over 3,939 branches in NCHL-IPS. With the continuous trend of merger and acquisition of the BFIs, the number of members has reduced considerably, however, the revenue impact of such mergers is expected to compensate through indirect/technical members of NCHL-IPS and *connectIPS* e-Payment System. Further, considering the current trends of technology based payment services by the BFIs and other institutions in Nepal, we believe that it will provide ample opportunities for NCHL to introduce other payment and settlement systems.

With the increase in the express cheque clearing and the increase of NCHL-IPS transactions, the operating profit and the net profit of the company in the last fiscal year has increased by over 32% and 38% respectively. We have been able to

book the net profit of NPR 181,608,708.92 for the FY 2074/75 (2017/18), from which the Board has proposed 20% of bonus share and 20% of cash dividend on the paid-up capital. We have continued with our policy of re-investment of profit into the development of national payments infrastructures by means of implementing different payment systems from the profit earned and also appropriating the profit into special technology enhancement reserves. The reserve will be used for major enhancement/upgrade of the systems and/or for funding of new payment and settlement systems in future.

Given the size of the transaction value and the number of members associated with NCHL, the level of resilience and information security required in our infrastructure is of prime importance to avoid any possible systemic risk. Hence, as the part of our prudent risk management strategy, we will continue to invest in strengthening the information security management system including upgrades of existing systems to keep them secure and reliable.

Lastly, on behalf of the Board of Directors and myself, I wish to express sincere gratitude to Nepal Rastra Bank, other regulatory bodies, our shareholders as well as other stakeholders for their continuous support and cooperation. I congratulate and thank the management and the entire team for their excellent performance in the fiscal year 2074/75 (2017/18). I also thank the members of the Board of Directors for their engagement, support and challenge. I am confident that similar support will be extended by all the stakeholders in creating NCHL as a valuable institution. And we look forward to an exciting and challenging year in the FY 2075/76.

I would like to thank you for your presence and once again welcome in the 7<sup>th</sup> Annual General Meeting of our company.

**Jhalak Sharma Acharya**  
Chairman

## CEO's Statement



The fiscal year 2074/75 (2017/18) has been an interesting year for NCHL, as we rolled out the *connectIPS* as a single payments platform for the BFIs to integrate NCHL-IPS system and to enable online e-payments for their customers. The acceptability of interbank payment system (NCHL-IPS) has increased as per the expectation, with further potentials observed with the current initiatives for processing of GoN's salary, pension and social security payments. The electronic cheque clearing (NCHL-ECC) services have also been extended and its acceptability, particularly the express cheque clearing, has given further impetus for faster or instant payment/clearing.

NCHL-ECC system remains the core system with main source of revenues, whereas NCHL-IPS has provided needed support for establishing

bank account based transactions. As we leverage the potentials of NCHL-IPS System, we are now in a position to extend the available payments infrastructure for establishing multiple uses cases for the development of the entire electronic ecosystem in Nepal. One such initiative is the *connectIPS* e-Payment System that we launched in the last fiscal year.

In order to maintain the service level and to obtain assurance on its operations, NCHL has upgraded some of the critical components of the infrastructures, enhanced its Helpdesk function and conducted internal/ external assessments. The risk management will further be enhanced as per the Principles of Financial Market Infrastructures (FMIs) suggested by BIS and ISO 27001 standards.

The average daily cheques transaction volume in NCHL-ECC has remained at 40,756 as against 43,326 in the previous year. The daily transaction settlement value has increased to NPR 26.6 Billion from NPR 22 Billion in the previous year. It is anticipated that the NCHL-ECC transaction volume may remain stagnant from the current level of transactions volume, however, the transaction in express clearing sessions and the value of cheque clearing is still expected to grow. The average daily transaction volume and average daily settlement value in NCHL-IPS was 8,003 and NPR 3.03 Billion respectively as against 2,413 and NPR 1.29 Billion in the previous year. This is expected to increase further with the introduction of additional business cases. *connectIPS* e-Payment System was pilot launched with payment processor (gateway) component in the last quarter of the fiscal year and has seen limited transactions.

In the last fiscal year, we were able to add 3 new members in NCHL-ECC, 10 members in NCHL-IPS and 17 members in *connectIPS*. NCHL is now strategically positioned to leverage the nationwide network of the bank branches (over 4,080 branches in NCHL-ECC and over 3,939 in NCHL-IPS) to process bank account based financial transactions. We believe NCHL-IPS System along with *connectIPS* e-Payment System will be used to the fullest in the coming years to support Nepal Government's and Nepal Rastra Bank's policy of promoting account based transactions.

While we intend to maintain the service level in NCHL-ECC system, various services will be added in NCHL-IPS from the existing 14 products and other components including online fund transfers and biller payments will be added in the *connectIPS* e-Payment Systems in the next year. The NCHL-ECC system will continue to support clearing of paper based instruments. NCHL-IPS system will primarily focus on direct bank account based transactions from the bank branches with extended integrations to BFI's alternate channels. And *connectIPS* e-Payment System will focus on immediate payments directly from the bank accounts through alternate delivery online and mobile channels.

We have given highest priority for adding payment products/ services, their operations and risk management. The profitability for the fiscal year also reflects the highest standards of performance throughout our core and non-core businesses. The operating profit of the company remained at NPR 278,463,394.71 as against NPR 211,031,211.38 in the previous year. The increase in operating profit is largely due to the increase in operating income, particularly express clearing and NCHL-IPS transaction fees. The net profit for the current year stood at NPR 181,608,708.92 as against NPR 131,945,355.12 in the previous year. The shareholders fund has increased to

NPR 471,788,279.31 with book value per share at NPR 262.10. We are extremely optimistic in maintaining the current level of financial performance in the next fiscal year also.

With the addition of licensed PSPs and PSOs in the market and many already obtained letter of intent, approvals from NRB, the payments industry in Nepal remains very interesting yet challenging in the years to come. This may enable multiple players in the market with introduction of many innovative payment products and services. NCHL is committed toward development of the electronic payments in Nepal and so expects to work together with such PSPs in a collaborative model. We will complement them and their services/ products by means of providing access to banks and financial institutions through our existing system.

With an extremely positive outlook, we will focus on improving the resilience and security of our core payments infrastructure, leverage the opportunities to enroll indirect/ technical members and will continue to invest in other payment systems in line with NCHL's product/ service roadmap.

Lastly, I would like to thank my colleagues at NCHL for their determination, our Board for their guidance and the members for their continued support. I would also like to thank and acknowledge Nepal Rastra Bank for their trust on NCHL. I look forward to an exciting and prosperous year 2075/76.

**Neelesh Man Singh Pradhan**  
Chief Executive Officer

## Board of Directors



**Mr. Jhalak Sharma Acharya,  
Chairman**

Mr. Sharma Acharya is the Executive Director at Nepal Rastra Bank and has been working at the central bank since 1989. He has a rich experience at various functions and departments of the central bank for almost three decades. He holds Master of Business Administration in Banking Management from Exeter University, United Kingdom. He is a member of the Board of NCHL representing Nepal Rastra Bank since 7<sup>th</sup> Chaitra, 2074.



**Mr. Ujjal Rajbhandary,  
Director**

Mr. Rajbhandary is the Deputy General Manager at Himalayan Bank Ltd. He has over twenty five years of experience in banking sector. He holds Bachelor of Business Administration in Finance and Master of Business Administration. He is a member of the Board of NCHL representing commercial bank shareholders since 6<sup>th</sup> Ashwin, 2074.



**Ms. Umang Sharma,  
Director**

Ms. Sharma is the Chief Administrative Officer at Citizens Bank International Ltd. She has over 14 years of experience in banking sector and has worked at various banks including Citizens Bank International Ltd. She holds Master of Business Administration from School of Management, Katmandu University. She is a member of the Board of NCHL representing commercial bank shareholders since 6<sup>th</sup> Ashwin, 2074.



**Mr. Surendra Bhushan  
Shrestha, Director**

Mr. Shrestha is Deputy Chief Executive Officer of Nepal Bangladesh Bank Ltd. He is a qualified Chartered Accountant from Institute of Chartered Accountants of India (ICAI). He is also an Information System Auditor from Institute of Chartered Accountants of India (ICAI). He has over 18 years of experience including 12 years in banking sector and more than 6 years in auditing. He is a member of the Board of NCHL representing commercial bank shareholders since 8<sup>th</sup> Asadh, 2075.

# BOARD OF DIRECTORS



## **Mr. Rabindra B Malla, Director**

Mr. Malla is the Managing Director of Smart Choice Technologies P. Ltd (SCT) and Director of Alpine Card Service P. Ltd. He has extensively worked in cards business for over 25 years in Nepal with involvement in various businesses including Smart Choice Technologies (P) Ltd. He holds BSBA (Banking and Finance) degree from Philippines Christian University, Philippines. He is a member of the Board of NCHL representing SCT since 26<sup>th</sup> Magh, 2065.



## **Mr. Madhav Prasad Upadhyay, Director**

Mr. Upadhyay is Deputy General Manager of Garima Bikas Bank Ltd. He has more than 10 years of experience in banking sector and 15 years of teaching experience. He holds Master of Business Administration (MBA) degree from Tribhuvan University, Nepal. He is a member of the Board of NCHL representing development bank shareholders since 8<sup>th</sup> Asadh, 2075.



## **Mr. Sunil Pant, Director**

Mr. Pant is the Deputy Chief Executive Officer of ICFC Finance Ltd. He has more than 22 years of experience in the banking sector. He holds Master of Business Administration (MBA) degree from Tribhuvan University, Nepal. He is a member of the Board of NCHL representing finance company shareholders since 6<sup>th</sup> Ashwin, 2074.

## Management Team



### **Neelesh Man Singh Pradhan, Chief Executive Officer**

Mr. Pradhan has experience of over 17 years in the field of banking and financial technology with an expertise in financial systems & technologies design, operation and management. He was earlier working with TAIB Bank, Bahrain in the capacity of Assistant Vice President prior to which he was associated with Tata Consultancy Services Ltd. in India and Netherlands. He has also worked at Kathmandu University. He holds Engineering degree from Kathmandu University, Nepal and MBA from Indian Institute of Technology, India, with rank holder in both Engineering and Masters. He is also a Certified Information System Auditor (CISA) and a Project Management Professional (PMP).



### **Munni Rajbhandari, Operations Manager**

Ms. Rajbhandari has experience of over 14 years in the field of banking, operations and management and is associated with NCHL since February 13, 2014. She was earlier working with Citizens Bank International Ltd. in the capacity of Executive Operating Officer heading various departments under operations including Treasury, SME loan, Branch Operations, Trade, Credit Back office, Remittances, Clearing, Card and Branchless banking prior to joining NCHL. She has also worked with NIC Bank Ltd. (NIC Asia Bank Ltd. now) as Officer-Finance. She holds MBA degree with specialization in Finance from The Department of Management Science (PUMBA), University of Pune, India.



### **Dilli Man Shakya, Technology & Infrastructure Manager**

Mr. Shakya has experience of over 15 years in the field of IT infrastructure operations and is associated with NCHL since March 28, 2011. He was earlier working with Social Development Bank as Head of IT prior to joining NCHL. He was also associated with Rastriya Banijya Bank as Data Center In-charge and with Serving Minds P. Ltd. as Manager Technology. He holds Bachelor of Commerce and MBA degree from Tribhuvan University and MSc-IT from Sikkim Manipal University. He is also a Microsoft Certified Technology Specialist, Certified ISO27001 Lead Implementer and ITIL certified.



### **Diwas Kumar Sapkota, System Manager**

Mr. Sapkota has experience of over 11 years in the field of banking, IT operations and software development and is associated with NCHL since March 1, 2017. He was working with Everest Bank Ltd. prior to joining NCHL and led various in-house developments and system implementations at the bank. He holds MScIT degree from Sikkim Manipal University and MBA in Marketing from Pokhara University.

# MANAGEMENT TEAM



## **Vivek Giri, Business & Product Development Officer**

Mr. Giri has experience of over 9 years in the field of sales/marketing and is associated with NCHL since June 15, 2016. He was working with Ncell Pvt. Ltd. as Senior Specialist prior to joining NCHL. He has also worked with Chaudhary Group, Fuji Films India P. Ltd and HCL Infosystem Ltd. India. He holds MBA in International Business from Banaras Hindu University (BHU), India.



## **Anuja Adhikari, Finance & Admin Officer**

Ms. Adhikari is a qualified Chartered Accountant from Institute of Chartered Accountant of Nepal (ICAN) with over 5 years of experience in the field of Auditing and Accounting. She is associated with NCHL since August 17, 2016. Prior to joining NCHL she was associated with S.R. Pandey & Co, Chartered Accountants as Assistant Audit Manager. During her articleship, she was associated with P.L.Shrestha & Co., Chartered Accountants. She also holds a BBS degree from Tribhuwan University, Nepal.



## **Prajana Kayastha, Risk & Compliance Officer**

Ms. Kayastha is a qualified Chartered Accountant from Institute of Chartered Accountant of Nepal (ICAN) with over 4 years of experience in the field of Auditing and Accounting. She is associated with NCHL since April 15, 2018. Prior to joining NCHL she was associated with Rigo Technologies (P) Ltd. as System Analyst & Software Implementation Officer. During her articleship, she was associated with RajMS & Co., Chartered Accountants. She also holds a MBS degree from Tribhuwan University, Nepal.

## 02 PRODUCTS AND SERVICES

### NCHL Electronic Cheque Clearing (NCHL-ECC)

NCHL-ECC system is an image based cheque processing solution where original paper cheque is converted into an image for electronic processing and is transferred through a secured medium between participating member Banks and Financial Institutions. The physical movement of the cheques are truncated or stopped at the level of the presenting bank branch without any requirement to physically move the cheques to the clearing house or to the paying bank resulting in a faster and easier processing of the cheque transactions.

NCHL-ECC currently supports cheques clearing of four currencies NPR, USD, GBP and EUR. NCHL-ECC operates under (T+0) settlement with cheques presented up to the cut-off time of 14:00 are cleared and settled on the same day.

Various Clearing service in NCHL-ECC system and its features are as follows:

#### Regular NPR Cheque Clearing

This is an electronic cheque clearing service for NPR denominated cheques. Participating members need to have settlement account in Nepalese currency at Nepal Rastra Bank to avail this service. Regular NPR electronic cheque clearing supports clearing of cheques of up to NPR 200 million.

#### Regular FCY Cheque Clearing

This is an electronic cheque clearing services for USD, GBP and EUR currency denominated cheques. Participating members need to have settlement account in the respective foreign currency at Nepal Rastra Bank to avail this service. Regular FCY electronic cheque clearing supports clearing of cheques of up to 2 million for USD, GBP and EUR cheques.

#### Express Cheque Clearing

Express cheque clearing service is a special short duration arrangement for cheque presentment, response and settlement. It has 2 hours window for presentment to final settlement, thus allowing the BFIs and their customers to present and realize cheques faster. Currently, there are three express clearing sessions for four currencies NPR, USD, GBP and EUR. 1<sup>st</sup> and 2<sup>nd</sup> express session are available from Sunday to Friday and 3<sup>rd</sup> express session is available from Sunday to Thursday.

#### High Value Cheque Clearing

This is a special clearing session for processing of high value cheques with cheques of above NPR 200 Million & up to NPR 300 Million for NPR cheques and; above 2 Million & up to 3 Million for USD, GBP and EUR cheques. The High Value Cheque Clearing Session is available from Sunday to Friday.



### Cheques Clearing Cut-off Times

Cheques Clearing Cut-off Times	Regular Clearing	1st Express Clearing	2nd Express Clearing	3rd Express Clearing	High Value Clearing
Presentment Cut-Off Time	14:00	10:00 to 11:00	11:00 to 12:00	12:00 to 13:00	10.30
Pay Bank Response Cut-Off Time	15:00	11:30	12:30	13:30	11.30
Settlement Time	15:30	12:00	13:00	14:00	12.00

However, the cut-off timings set by the member BFI's could be different depending on their internal operational arrangements for NCHL-ECC system.

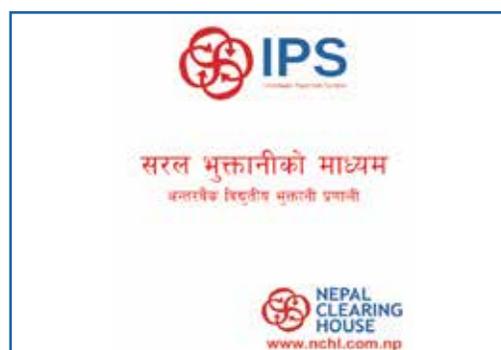
### NCHL-ECC Transaction Fee (Charged to Presenting Member in NPR)

S.No.	Details	Transaction Amount Based Slab (Fees in NPR)			
		Up to 500	500-5K	5K-2L	Above 2L
1	Regular Clearing (NPR)	-	5	10	30
2	Regular Clearing (FCY)			30	
3	Express Clearing			100	
4	High Value Clearing			100	

### Interbank Payment System (NCHL-IPS)

NCHL-IPS is a system for clearing large volume financial transactions that will provide a mechanism for the participating members to safely and efficiently transfer funds from one account to any other account held at any of the participating member banks & financial institutions (BFIs) on behalf of their customers and for their own purposes. It supports account to account payments (direct credit) and collection (direct debit) related transactions on deferred net settlement basis. Such transactions could be one-to-one, bulk or recurring payments. The underlying transaction could be for various purposes defined as products. Exchange sessions are mapped to the NCHL-IPS products (purposes) and will be automatically gets presented to the earliest available exchange session.

NCHL-IPS currently supports transaction in four currencies, namely NPR, USD, GBP and EUR. NCHL-IPS operates under (T+0) settlement with transactions processed up to the cut-off time of 13:00 are cleared and settled on the same day.



## Direct Credit

It is a payment transaction initiated by debtor (payer) through its bank. The instruction can be provided through the bank or through an alternate channel. Currently, 14 Direct Credit product (purposes) are available in the system. Out of the 14 Direct Credit products, Real-Time Retail Payment (RTPS) is a payment transaction based where beneficiary is provided credit on immediate basis and can be sent and received 24x7. RTPS is backed by settlement guarantee fund (SGF) to mitigate the risk of deferred settlement.



Category Purpose/Product	Purpose/Product Description
Direct Credit Transactions	
Customer Transfer	Transaction is related to general customer fund transfer
Treasury Payment	Transaction is related to treasury operations
Government Payment	Transaction is a payment from government to the beneficiary
Remittance Payment	Transaction is related to a payment of remittance proceeds
Dividend Payment	Transaction is payment of dividends
IPO Refund Payment	Transaction is payment of IPO refunds
Salary Payment	Transaction is the payment of salaries chargeable to Employees
Salary Payment Corporate	Transaction is the payment of salaries chargeable to Corporates
Insurance Payment	Transaction is a payment of insurance premium and for disbursement by Insurance companies
Installment Payment	Transaction is related to a payment of an installment of loan repayment, others repetitive and recurring payments
Credit Card Payment	Transaction is related to a payment of credit card account bill/charges
Fees Payment	Transaction is related to a payment of fees
Supplier Party Payment	Transaction is related to a payment to a supplier and party
Real-Time Retail Payment	Transaction is related to a real time retail payment

## Direct Debit

It is a payment transaction initiated by creditor (payee) through its bank. An authorization, called as mandate, has to be in place for initiating a direct debit transaction. Currently, 5 Direct Debit products (purposes) are available in the system.



Category Purpose/Product	Purpose/Product Description
Direct Debit Transactions	
Insurance Payment	Transaction is a collection of insurance premium by Insurance Companies
Installment Payment	Transaction is related to a collection of an installment of loan repayment, others repetitive and recurring collections
Credit Card Payment	Transaction is related to collection of credit card account bill/charges
Fees Payment	Transaction is related to collection of fees
Collection Payment	Transaction is related to a Collection of payment

### NCHL-IPS Cut-off Times

Particulars	Exchange							
	0	1	2	3	4	5	6	7
Presentment Cut-Off Time	10:00	10:00-13:00	10:00-11:00	11:00-12:00	12:00-13:00	13:00-14:45	11:00	11:00-14:30
Cancellation Cut-Off Time	10:30	13:30	11:15	12:15	13:15	NA	NA	NA
Reply Cut-Off Time	11:30	14:30	11:30	12:30	13:30	15:00	11:30	15:00
Settlement Time	12:00	15:30	12:00	13:00	14:00	15:30	12:00	15:30

Exchange sessions 0, 2, 6 are available from Sunday to Friday, except that the foreign currency sessions are not available on Sunday. Exchange sessions 1, 3, 4, 5 and 7 are available from Sunday to Thursday, except that foreign currency sessions are not available on Sunday. However, the cut-off timings set by the member BFIs could be different depending on their internal operational arrangements for NCHL-IPS system.

### NCHL-IPS Transaction Fee (in NPR)

S.No.	Detail	Transaction Amount Slab			
		Up to 500	>500-5,000	>5K-50K	>50K
1	NPR Transactions	2	5	10	15
2	NPR Transactions-RTPS**	15			
3	FCY Transactions	15			

\* Transaction fee are waived for Dividend and IPO Refund payments transaction of amount up to NPR 100.

\*\* RTPS is an immediate payment product in which the transaction fee is on a revenue sharing basis for SGF and between NCHL, ODFI and RDFI.

### NCHL-IPS Creditor Listing

Any corporate/service providers having business that require receiving payments/collection from its customers/agent/dealers can request through their banks for creating a Creditor Code in NCHL-IPS System. Creditor Code is a short alpha numeric code corresponding to the bank account of such corporate/service providers. This allows them to receive/collect payments without having to provide the entire bank account details and will also ease the payer as the beneficiary's bank account details for fund transfer need not be remembered.

Potential corporates/service providers for such creditor listing are small/mid-sized corporates, manufacturing companies, distributors, schools, colleges, cable operators, internet service providers, travel agents, airlines, service providers, etc. There are currently 22 number of listed creditor codes in NCHL-IPS System. The annual fee for creditor listing is NPR 10,000 per year.

## National Archive Systems

National archive systems are additional services provided to the members for accessing older and archived transactions. A fee of NPR 200 is charged to the requesting member for any archive request. However, archive request from any legal authority including the court order or similar for investigation purpose are non-chargeable.

### National Cheque Archive

National cheque archive is an additional service provided to the member BFIs of NCHL-ECC System to have an access to the historical cheques and transaction details. All the cheques transactions older than three months are moved from NCHL-ECC System to National Cheque Archive system to store the cheques for up to 7 years and are made available to the member BFIs on request.

### National NCHL-IPS Archive

NCHL-IPS Archive is an additional service provided to the members of NCHL-IPS system to have an access to the historical transaction details. All transactions older than three months are moved from the NCHL-IPS system to National NCHL-IPS Archive system to store the transaction details for up to 7 years and are made available to the members on request.

## connectIPS System

connectIPS system is an additional add-on component/setup of NCHL-IPS system developed as an extension of the available APIs of NCHL-IPS to handle online payments and to integrate with the member bank's core banking system (CBS) for automation. connectIPS System is an in-house developed system by NCHL as an overlaying services on top of NCHL-IPS System.

### connectIPS Integration System

The Integration Module of the connectIPS System provides a mechanism for the banks to integrate their CBS with the NCHL-IPS system for their outward and inward transactions from/to the bank. There are additional APIs available to connect bank's existing channels (like internet banking, mobile banking or corporate channels) through which the transactions could be initiated by the end customers.

### connectIPS e-Payment System

connectIPS e-Payment System is a standardized single payments platform to facilitate online payments and similar transactions. Such online payments could be online fund transfer, payment processor (gateway) for creditor/merchant payments or biller payments. All such transactions are processed from/to the bank accounts without any requirement to hold fund in an intermediary. Customer may link multiple bank accounts (same or different banks) and then use connectIPS e-Payment system as an alternate channels for initiating online payments. Creditor/Merchant will receive their payments directly in their bank account. connectIPS allows the enrolled customers to 'Pay Direct From Bank'.



The system is currently rolled out as payment processor for e-payment of Government revenue from one of their portals ([rajaswa.fcgo.gov.np](http://rajaswa.fcgo.gov.np)) and for online fund transfer facility from [www.connectips.com](http://www.connectips.com). Other government portals and commercial merchants/creditors are under testing for e-payments.

connectIPS is provided to members BFIs of NCHL-IPS without any additional recurring fee and the transaction processed from connectIPS e-payment module are chargeable on per transaction basis and transaction fee is on a revenue sharing basis between SGF, NCHL, ODFI and RDFI.

#### connectIPS e-Payment Transaction Fee (in NPR)

Transaction Amount Slab	Online Fund Transfer	GON Revenue Payment
Up to 500	2	2
Above 500 to 5,000	5	5
Above 5,000 to 50,000	10	10
Above 50,000	15	15

#### List of Members and Subscribed Systems

As at Shrawan end 2075

S. No.	Members	NCHL-ECC	NCHL-IPS		connectIPS e-Payment
			System	Integration	
<b>Direct Members</b>					
1	Nepal Rastra Bank	✓	✓		
<b>Commercial Banks</b>					
1	Agricultural Development Bank Limited	✓	✓	✓	Subscribed
2	Bank of Kathmandu Limited	✓	✓		Subscribed
3	Century Commercial Bank Limited	✓	✓	✓	✓
4	Citizens Bank International Limited	✓	✓	✓	✓
5	Civil Bank Limited	✓	✓	✓	✓
6	Everest Bank Limited	✓	✓	✓	✓
7	Global IME Bank Limited	✓	✓	✓	✓
8	Himalayan Bank Limited	✓	✓	✓*	
9	Janata Bank Nepal Limited	✓	✓	✓	✓
10	Kumari Bank Limited	✓	✓	Subscribed	Subscribed
11	Laxmi Bank Limited	✓	✓	✓	✓
12	Machhapuchhre Bank Limited	✓	✓	✓	✓
13	Mega Bank Nepal Limited	✓	✓	✓	✓
14	Nabil Bank Limited	✓	✓	✓	
15	Nepal Bangladesh Bank Limited	✓	✓	✓	✓
16	Nepal Bank Limited	✓	✓	✓	✓
17	Nepal Credit and Commerce Bank Limited	✓	✓	✓	✓
18	Nepal Investment Bank Limited	✓	✓	Subscribed	Subscribed
19	Nepal SBI Bank Limited	✓	✓		
20	NIC Asia Bank Limited	✓	✓	✓	✓
21	NMB Bank Limited	✓	✓	✓	✓
22	Prabhu Bank Limited	✓	✓	✓	Subscribed

S. No.	Members	NCHL-ECC	NCHL-IPS		connectIPS e-Payment
			System	Integration	
23	Prime Commercial Bank Limited	✓	✓	✓	✓
24	Rastriya Banijya Bank Limited	✓	✓		
25	Sanima Bank Limited	✓	✓	✓	Subscribed
26	Siddhartha Bank Limited	✓	✓	✓	✓
27	Standard Chartered Bank Nepal Limited	✓	✓	✓*	
28	Sunrise Bank Limited	✓	✓	✓	Subscribed
<b>Development Banks</b>					
1	Bhargav Bikash Bank Limited	✓	✓		
2	Corporate Development Bank Limited	✓			
3	Deva Bikas Bank Limited	✓	✓		Subscribed
4	Excel Development Bank Limited	✓	✓	✓	✓
5	Gandaki Bikas Bank Limited	✓	✓	✓	✓
6	Garima Bikas Bank Limited	✓	✓	✓	✓
7	Green Development Bank Limited	✓	✓		
8	Hamro Bikas Bank Limited	✓	✓	✓	✓
9	Jyoti Bikash Bank Limited	✓	✓	✓	✓
10	Kabeli Bikas Bank Limited	✓	✓		
11	Kailash Bikash Bank Limited	✓	✓		Subscribed
12	Kamana Sewa Bikas Bank Limited	✓	✓		Subscribed
13	Kanchan Development Bank Limited	✓	✓		
14	Kankai Bikas Bank Limited	✓	✓		
15	Karnali Bikash Bank Limited	✓			
16	Lumbini Bikas Bank Limited	✓	✓	✓	✓
17	Mahalaxmi Bikas Bank Limited	✓	✓	✓	✓
18	Mission Development Bank Limited	✓	✓		
19	Miteri Development Bank Limited	✓	✓		
20	Muktinath Bikas Bank Limited	✓	✓	✓	✓
21	Nepal Community Development Bank Limited	✓	✓		
22	OM Development Bank Limited	✓	✓	✓	✓
23	Purnima Bikash Bank Limited	✓	✓		
24	Sahayogi Vikas Bank Limited	✓	✓		
25	Saptakoshi Development Bank Limited	✓	✓		
26	Shangri-la Development Bank Limited	✓	✓	✓	✓
27	Shine Resunga Development Bank Limited	✓	✓		
28	Sindhu Bikash Bank Limited	✓	✓		

S. No.	Members	NCHL-ECC	NCHL-IPS		connectIPS e-Payment
			System	Integration	
29	Tinau Bikas Bank Limited	✓	✓		
30	Western Development Bank Limited	✓	✓		
<b>Finance Companies</b>					
1	Best Finance Company Limited	✓	✓		
2	Central Finance Limited	✓	✓		
3	City Express Finance Company Limited	✓			
4	Goodwill Finance Limited	✓	✓		
5	Guheshwori Merchant Banking Finance Limited	✓	✓		
6	Gurkhas Finance Limited	✓	✓		
7	Hathway Finance Company Limited	✓			
8	ICFC Finance Limited	✓	✓	✓	✓
9	Janaki Finance Company Limited	✓	✓		
10	Jebils Finance Limited	✓	✓		
11	Lalitpur Finance Co. Limited	✓	✓		
12	Manjushree Finance Limited	✓	✓		
13	Nepal Finance Limited	✓			
14	Pokhara Finance Limited	✓	✓		
15	Progressive Finance Co. Limited	✓	✓		
16	Reliance Finance Limited	✓	✓		
17	Shree Investment and Finance Co. Limited	✓	✓		
18	Srijana Finance Limited	✓	✓		
19	United Finance Co. Limited	✓	✓		
20	World Merchant Banking and Finance Limited	✓			
	<b>Total Direct Members</b>	<b>79</b>	<b>74</b>	<b>34</b>	<b>27</b>
	<b>Merged Direct Members</b>	<b>78</b>	<b>14</b>		
<b>Indirect/Technical Members</b>					
1	G.M.E. Remit Pvt. Ltd.		Subscribed		
2	City Express Money Transfer P. Limited		Subscribed		
3	Global IME Capital Limited		✓		
4	IME Digital Solutions Limited		Subscribed		
5	IME Limited		Subscribed		Subscribed
6	Qpay Private Limited		✓		
7	Sparrow Pay Limited		Subscribed		Subscribed
	<b>Total Indirect/Technical Members</b>		<b>7</b>		

\*Third Party

## 03 FINANCIAL REVIEWS

### Reporting Pronouncements

NCHL has adopted Nepal Financial Reporting Standard (NFRS) for Small and Medium Enterprises (SMEs) from the fiscal year 2074/75 (2017/18) and as part of the first time adoption of NFRS, the financial figures of the last two fiscal years have also been readjusted and represented, wherever necessary. In previous fiscal years, the financial statements were prepared and presented as per Nepal Accounting Standard (NAS).

### Snapshot of Last 3 Years Performances

Past three fiscal years of NCHL has ensured operational and financial stability, business growth and has steered the company's direction for future. Summary of the financial positions of the company for the fiscal year 2074/75 (2017/18) in comparison with last two fiscal years are presented in the following table.

*Amount in NPR '000*

Particulars	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	FY 2072/73 (2015/16)	Compounded Annual Growth Rate (CAGR)
Paid up capital	180,000	150,000	150,000	6.27%
Reserve & Surplus	291,788	170,180	68,234	62.31%
Investment	70,000	40,000	5,000	141.01%
Non-Current Assets	163,748	82,223	46,117	25.81%
Current Assets	377,479	291,821	210,190	8.96%
Operating Income	322,963	266,793	162,514	25.72%
Operating Expenses	50,334	48,082	44,922	3.86%
Gross Profit	272,629	218,711	117,591	32.35%
Interest/ Other Income	38,814	20,813	7,491	73.04%
Admin Expenses	32,980	28,493	21,745	14.89%
Operating Profit	278,463	211,031	103,338	39.16%
Depreciation/Amortization	12,159	17,342	18,176	(12.54%)
Net Profit /(Loss) for the Year	181,609	131,945	57,736	46.52%

### Performances of Current Year

Financial year 2074/75 (2017/18) is the fourth year since its inception when the company has booked the net profit. In this section, a review of current year's performance with that of the previous year in terms of equity, uses of funds, and other performance under operating lines are presented.

#### Equity and Shareholder's Fund

Total equity fund of NCHL has increased to NPR 471,788 thousands as against NPR 320,180 thousands in the previous year. The increase is mainly due to adjustment of Bonus Share Capital of 20% on Paid-up Capital approved for FY 2073/74 (2016/17) and additional profit transferred to Reserve and Surplus from attributable profit of FY 2074/75 (2017/18).

NCHL has implemented a policy to set aside 20% of the net profit of the year to Technology Enhancement Reserve from fiscal year 2071/72 (2014/15) onwards with an objective to create fund for the major enhancement/ upgrade of existing system(s) and/or for funding requirement of new payment and settlement systems in future. Additional 10% of the net profit of the year is set aside to Land & Building Reserve from the fiscal year 2074/75 (2017/18) with an objective for acquiring own official premise (Land & Building) in future.

The policy of profit appropriation is in the following sequence:

1. Net Profit After Tax (PAT)
2. 20% of PAT toward Technology Enhancement Reserve
3. 10% of PAT toward Land & Building Reserve
4. Dividend and/or Bonus to Shareholders
5. General Reserve & Surplus

Amount in NPR '000

Particulars	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	Growth	
			Volume	%
Share Capital	180,000	150,000	30,000	20%
Reserve & Surplus	291,788	170,180	121,608	71%
Technology Enhancement Reserve	77,563	41,241	36,322	88%
Land & Building Reserve	18,161	-	18,161	-
General Reserve & Surplus	196,064	128,938	67,126	52%
<b>Total</b>	<b>471,788</b>	<b>320,180</b>	<b>151,608</b>	<b>47%</b>

The Board of Directors has proposed 20% of Cash Dividend equivalent to NPR 36,000,000 and 20% of Bonus Shares equivalent to NPR 36,000,000, for the fiscal year 2074/75 (2017/18) subject to final approval in the Annual General Meeting.

### Investment and Interest Income

The investments are made as per NCHL Investment Policy as approved by the Board. The investments decisions are made with due considerations of the liquidity position, anticipated cash flows, returns and concentration risk. The year-end cash surplus has been parked in interest bearing call deposits and the cash surplus during the period is intermittently placed in short, medium and long term investments, particularly fixed deposits at various banks and financial institutions.

Total investment (long and short term) of NCHL has increased to NPR 382,500 thousands in FY 2074/75 (2017/18) as against NPR 280,000 thousands in the previous year. The interest income has increased to NPR 37,583 thousands as against NPR 17,612 thousands with growth of 113%. The interest income includes income from investments and call deposits.

Amount in NPR '000

Particulars	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	Growth	
			Volume	%
<b>Fixed Deposit</b>	<b>382,500</b>	<b>280,000</b>	<b>102,500</b>	<b>37%</b>
Long Term Investment (above 12 months)	70,000	40,000	30,000	75%
Short Term Investment (between 3 & 12 months)	276,500	215,000	61,500	29%
Cash Equivalent (less than 3 months)	36,000	25,000	11,000	44%
Interest Income*	37,583	17,612	19,971	113%

\* Includes interest income from call deposits also.

### Operating Income

Total revenue of NCHL has increased to NPR 321,310 thousands as against NPR 265,709 thousands in the previous year. Increase in revenue is mainly due to increase in express clearing transaction fees income which constitute 29% of the total operating income in current fiscal year. The sources of operating income include transaction fees and other annual fees recovered from the members.

Amount in NPR '000

Particulars	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	Growth	
			Volume	%
NCHL-ECC Transaction Fees	134,824	136,277	(1,453)	-1%
NCHL-ECC Express & High Value Transaction fees	93,812	43,808	50,005	114%
NCHL-ECC Other Fees & Charges	19,872	15,056	4,816	32%
<b>Total NCHL-ECC Transaction Fees</b>	<b>248,508</b>	<b>195,141</b>	<b>53,368</b>	<b>27%</b>
NCHL-IPS Transaction Fees	13,708	8,444	5,264	62%
NCHL-IPS Other Fees & Charges	39	188	(149)	-79%
<b>Total NCHL-IPS Transaction Fee</b>	<b>13,747</b>	<b>8,632</b>	<b>5,115</b>	<b>59%</b>
NCHL-ECC Annual Fees & Charges	21,166	27,616	(6,450)	-23%
NCHL-IPS Subscription Charges	17,149	14,859	2,289	15%
NCHL-IPS Creditor Listing	99	23	76	324%
Network Connectivity & Management Fee	6,329	8,623	(2,293)	-27%
Login Id Fee	14,312	10,814	3,497	32%
<b>Total Annual Fees &amp; Charges</b>	<b>59,055</b>	<b>61,936</b>	<b>(2,882)</b>	<b>-5%</b>
<b>Total Operating Income</b>	<b>321,310</b>	<b>265,709</b>	<b>55,601</b>	<b>21%</b>

### Other Income

Total Other Income of NPR 1,231 thousands has been reported in the FY 2074/75 (2017/18). Other income comprises of income related to provision write back, profit on sale of assets, integration income, interest income on employee loan and other miscellaneous income.

### Operating Expenses

Total Operating Expenses has increased to NPR 50,334 thousands as against NPR 48,082 thousands in the previous year. The total operating expenses has increased by minimal 5% as compared to previous year. The increment merely being due to an inflationary adjustment during renewal of various AMC & other similar expenses along with applicability of AMC for NCHL-IPS software from FY 2074/75 (2017/18).

The main software of NCHL-ECC and NCHL-IPS are outsourced from an international vendor corresponding to which the AMC of ECC software is US\$ 210,000 for the participant's component; US\$ 52,500 for NCHL's component and; US\$ 27,000 for IPS software are payable in US Dollars on half yearly basis. The exchange rate risk on US\$ payments are normally covered with forward contract at the local banks.

Amount in NPR '000

Particulars	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	Growth	
			Volume	%
ECC Software AMC - BFI & NCHL	36,662	36,929	(267)	-1%
IPS Software AMC	3,437	-	3,437	-
Network Connectivity	5,814	6,961	(1,146)	-16%
Other AMC & expenses	4,421	4,192	229	5%
<b>Total Operating Expenses</b>	<b>50,334</b>	<b>48,082</b>	<b>2,253</b>	<b>5%</b>

## Administrative Expenses

Total Administrative Expenses has increased to NPR 32,980 thousands as against NPR 28,493 thousands in the previous year, equivalent to 16%. This is mainly due to increase in number of staff and addition of an Operations Office from existing Head Office. The new Labor Act 2074 and the Labor Bylaw 2075 have also been implemented and adopted by NCHL, which has also increased some of the line items under Staff expenses including Gratuity Provision and Provident Fund expenses.

Amount in NPR '000

Particulars	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	Growth	
			Volume	%
Staff expenses	19,406	16,919	2,487	15%
Other Admin Expenses	13,574	11,574	2,000	17%
<b>Total Administrative Expenses</b>	<b>32,980</b>	<b>28,493</b>	<b>4,487</b>	<b>16%</b>

## Profits, Staff Bonus and Corporate Tax:

During the review period, NCHL has generated net profit of NPR 181,609 thousands as against the net profit of NPR 131,945 thousands in the previous year. Increase in profit is mainly due to the increase in total transaction fees, particularly express cheque clearing transaction fees and interest income. The income tax provision has increased to NPR 59,340 thousands as against NPR 44,147 thousands in the previous year. And the staff bonus has increased to NPR 24,210 thousands from NPR 17,608 thousands in the previous year.

Amount in NPR '000

Particulars	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	Growth	
			Volume	%
Gross Profit	272,629	218,711	53,918	25%
Operating Profit	278,463	211,031	67,432	32%
Net Profit After Tax	181,609	131,945	49,664	38%
Income Tax Provision	59,340	44,147	15,193	34%

### NCHL-IPS बाट तलब/भत्ता भुक्तानी अब सिधै बैंक खातामा

१. कर्मचारीको बैंक विवरण सहितको भुक्तानी आदेश अपना बैंकलाई दिने ।
२. कम्पनीको बैंकले भुक्तानी आदेश अनुसार बैंकले NCHL-IPS प्रणालीमा तलब/भत्ताको कारोबार पोस्ट गर्ने ।
३. सम्बन्धित बैंकमा कर्मचारीको खातामा तलब/भत्ता जम्मा हुने ।



NCHL-IPS बाट हाल ७४ वटा बैंक/वित्तीय संस्थाका ५१००० शाखाहरूमा कर्मचारीको तलब/भत्ता जम्मायतका भुक्तानी गर्ने सकिने ।



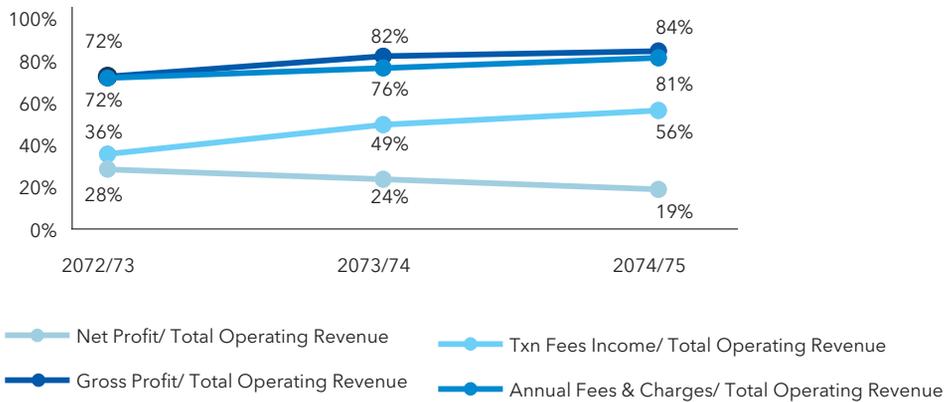
**NCHL**  
NEPAL  
CLEARING  
HOUSE  
[www.nchl.com.np](http://www.nchl.com.np)



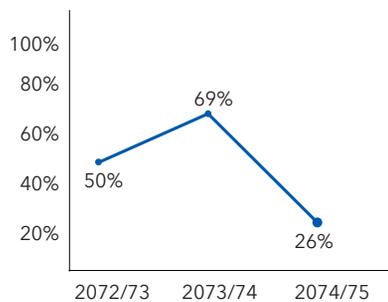
**IPS**  
बैंक सुदोषार सुदोषार

## Financial Ratios

### Revenue Indicators



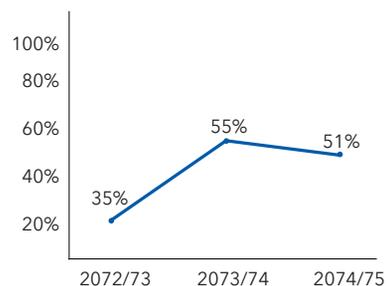
### Revenue Growth Rate



Revenue growth rate represents the percentage of increment in total revenue (operating and non-operating income) in comparison with previous year's total revenue.

The decrease in the revenue growth rate is mainly due to decreasing trend of the total transaction fees incomes and decrease in annual fees due to merger of member BFIs.

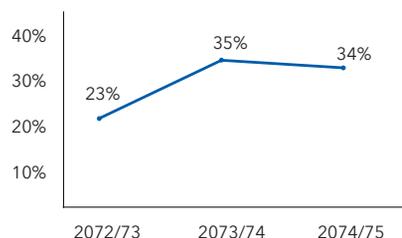
### Return on Capital Employed



Return on Capital Employed (ROCE) measures how efficiently a company is using the Capital (Equity and Accumulated Reserves) to generate profit.

Slight decrease in the Return on Capital Employed is due to higher growth rate of capital employed (47%) as against the Profit Growth Rate of 38%.

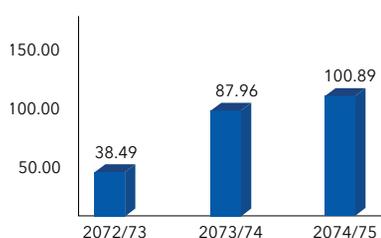
### Return on Total Assets



Return on Total Assets measures a company's earnings before interest and taxes (EBIT) relative to its total net assets.

It has remained almost the same as against the previous year.

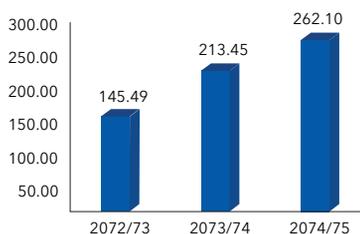
### Earning Per Share (in NPR)



Earning per Share represents the company's profit allocated to each unit of equity share. It also represents the net earnings available to the shareholders.

The increase of the EPS is mainly due to the increase in net profit compared to the previous year.

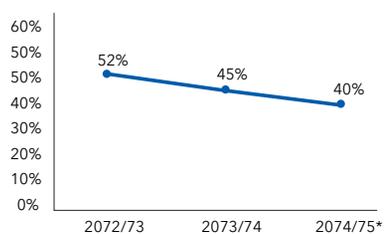
### Net Worth Per Share



Net Worth represents company's total value of assets available to the equity shareholders after covering third party liabilities and the net worth per share is the net worth per equity share.

The increase of the net worth per share is due to the increase in Equity Shareholder's Fund.

### Dividend Payout Ratio



Dividend Payout Ratio measures proportion of dividend paid to the shareholders as compared to the net income generated by the company. The Dividend Payout Ratio has decreased due to appropriation of the profit toward reserves & retained earnings and dividend rate being constant (subject to approval by the AGM for this fiscal year)

\* Proposed Dividend

## Value Generation and Distribution

### Value Generation

Total value addition of a company during a fiscal year indicates profit earned by the company over its total income without considering the expenses incurred to or on behalf of the stakeholders. The stakeholders of the company include Government, Employee, Directors, Shareholders and the Entity itself. Therefore, value addition of the company reflects how much money the service contributed toward meeting the company's fixed costs and potentially created a bottom-line profit without distribution to stakeholders. Total value addition of NCHL has increased to NPR 298,279 thousands as against NPR 228,315 thousands in the previous year.

Amount in NPR '000

Particulars	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	Growth	
			Volume	%
Direct Income	322,963	266,793	56,170	21%
Indirect Income	38,814	20,814	18,000	86%
Less: Operating Expenses	50,334	48,082	2,253	5%
Less: Administrative Expenses (Excluding expenses incurred for stakeholders)	13,164	11,210	1,955	17%
<b>Total Value Addition</b>	<b>298,294</b>	<b>228,315</b>	<b>69,964</b>	<b>31%</b>

### Application of Value Generation

This indicates how the value generated by the company is applied in the interest of the stakeholders. The distribution of the value generated during the fiscal year is as follows:

Amount in NPR '000

Application to Stakeholders	FY 2074/75 (2017/18)	%	FY 2073/74 (2016/17)	%	Growth	
					Volume	%
Government	59,340	20%	44,147	19%	15,193	34%
Employee	43,615	15%	34,505	15%	9,101	26%
Directors	425	0%	365	0%	45	12%
Shareholders *	72,000	24%	60,000	26%	12,000	20%
Entity						
• Reserves	109,609	37%	71,945	31%	37,663	52%
• Deferred Tax	1,147	0%	11	0%	1,136	10381%
• Depreciation	12,159	4%	17,342	7%	(5,183)	-29%
<b>Total Value addition</b>	<b>298,294</b>	<b>100%</b>	<b>228,315</b>	<b>100%</b>	<b>69,964</b>	<b>30%</b>

\* Including proposed dividend and bonus share capital for this year, which is subject to approval by the Annual General Meeting.



**PAY DIRECT FROM BANK**

## O4 OPERATIONAL REVIEW

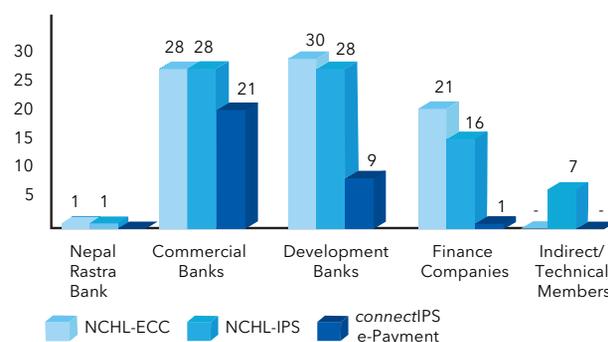
Operational review is the key management tool for NCHL to evaluate its processes and systems. NCHL has a practice of continuously evaluating its processes and capacity to enhance its efficiency and effectiveness to ensure operational stability. This gives an in-depth and objective assessment of the overall processes. NCHL ensures that it complies with the organization's internal policies, statutory, regulatory compliances and enhances the operational processes, whenever required as per the evaluation/assessments.

Operational reviews are conducted at various levels including Board, Audit Committee, HR Committee and Management. NCHL performs on annual basis a compliance self-assessment and cross functional audit against all policies and procedures by the function head and cross department heads respectively. NCHL ensures that the infrastructure capacity enhancements is reviewed on regular basis and planned for the necessary upgrades. This is required to support increased transaction volume, business cases in various systems and also to ensure that the infrastructures or part of them are changed/upgraded before they reach end of life.

Operational activities and achievements during the review period are as listed below:

### NCHL Members

NCHL-ECC and NCHL-IPS members from BFIs have almost reached its maturity with members of 80 and 73 respectively by the end of the FY 2074/75 (2017/18). 3 additional BFIs as members in NCHL-ECC and 10 additional BFIs in NCHL-IPS were added during the FY as direct members. 2 additional indirect members were added in NCHL-IPS during the FY 2074/75 (2017/18) making a total of 7 indirect members who have subscribed for the service. In case of *connectIPS* e-Payment System, 31 BFIs have subscribed for the service out of which 17 BFIs are in operations by the end of the FY 2074/75 (2017/18).

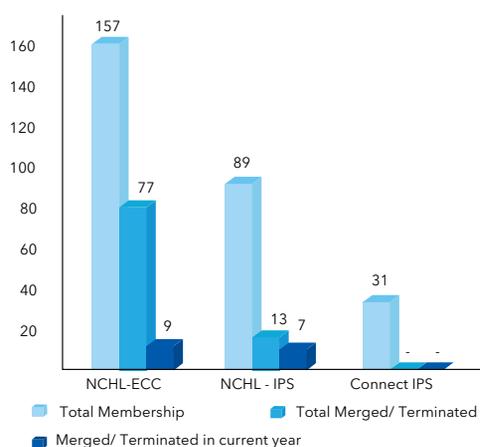


\* 5 Indirect/ Technical Members yet to be Live

\*\* 7 CB, 5 DB yet to be Live

### Merger/Termination of Members

In order to meet the minimum statutory capital requirement set by NRB, the market has seen massive mergers and acquisitions of the BFIs in the last few years. During the review year of FY 2074/75 (2017/18), 9 member BFIs merged and the total number of member BFIs which have merged till date remains 77 for NCHL-ECC. 6 member BFIs were merged and 1 Indirect Member terminated the membership during the review period making the total number of members merged/terminated as 13 in NCHL-IPS. It is anticipated that few BFIs will continue to merge in the coming fiscal year too.



Merger of BFIs will directly impact the revenue of NCHL, particularly the annual recurring fees and charges. In order to mitigate such business risk, the focus of NCHL has been to increase the transaction volume by establishing multiple use cases and also by adding Indirect/Technical members in NCHL-IPS system.

### NCHL-ECC System

NCHL-ECC system is the core system for electronic cheque clearing. Hence its operation and maintenance has been given utmost priority to ensure the expected performance and support. The average daily cheque transaction volume for the FY 2074/75 (2017/18) remained at 40,756.

Total of 9,686,277 cheques were presented during the review period out of which 8,581,742 cheques were cleared/accepted. Despite the decrease in cheque volume by almost 2.7% as compared to the previous year, the average daily settlement value has increased for all currency cheque clearing. The daily settlement value during the review period was NPR 26.6 Billions as compared to NPR 22 Billions in the previous year.

NCHL focused for extending outward clearing branches of NCHL-ECC system as addition of outward clearing branches which will improve service delivery by means of faster clearing. Almost 4,080 branches of the member BFIs across the country are listed in NCHL-ECC system, which means cheques issued from these branches can be processed through NCHL-ECC, while over 2,816 branches are currently providing outward clearing service, which was 2,099 at the end of the previous year. NCHL will continue to encourage and assist the member BFIs to increase outward clearing branches.

Due to the increased value addition for the customers, the express clearing has increased considerably during the review period. Total of 938,122 cheques, equivalent to 9.7% of the total cheques presented, were processed in Express and High Value clearing sessions.

### NCHL-IPS System

The Interbank Payment System (NCHL-IPS) was rolled out in the FY 2073/74 (2016/17) and the FY 2074/75 (2017/18) is the first full year of operation for this system. The primary focus of NCHL during the year was to stabilize the

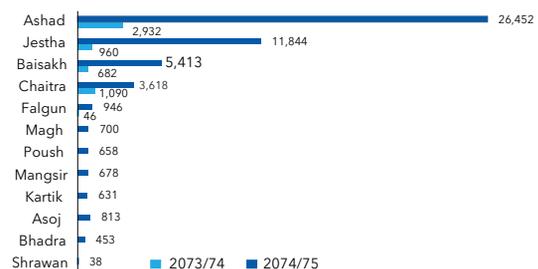
system and to increase acceptability of direct credit/ direct debit transactions. Providing necessary trainings/awareness to the members and facilitating various institutions including Government, Semi-Government institutions and other larger corporates were the primarily focus for NCHL during the year. NCHL-IPS was extended to more than 3,939 branches across the country. The increased acceptability of NCHL-IPS system has been reflected in the number and value of transactions processed through this system. The average daily transaction volume for the FY 2074/75 (2017/18) was 8,001 as against 2,413 in the previous year. The peak transaction for a day in the year was 81,500. Total of 1,879,663 transactions were presented during the review period out of which 1,732,022 transactions were cleared/ accepted with average daily settlement value of NPR 3 Billion.

### Productwise Analysis of NCHL-IPS Transactions

#### Government Payments (GOVT)

With an intent to facilitate Government of Nepal (GoN) for implementing its payout transactions directly to the bank accounts of the beneficiary, a special product (GOVT) was introduced in the system. It was pilot launched from GoN's Singha Durbar Office from Falgun 2073, which has now been extended to almost all district offices of GoN and are being processed in NCHL-IPS through the designated banks. There are extended APIs of NCHL-IPS system provided to the GoN through these banks for full integration of the system with GoN's billing system. G2B type of payments were being processed in NCHL-IPS during review period, whereas it is expected that other payouts including G2C type of payments will also be processed through NCHL-IPS System from next fiscal year.

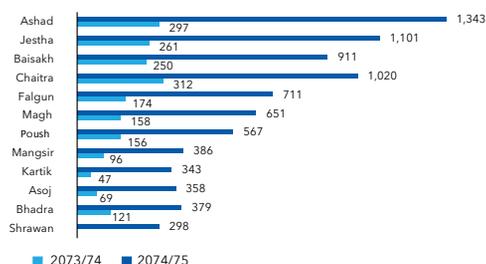
NCHL processed total GOVT transactions of NPR 48.43 billion during the year as against NPR 3.44 billion in the previous year.



### Treasury Transactions (TREA)

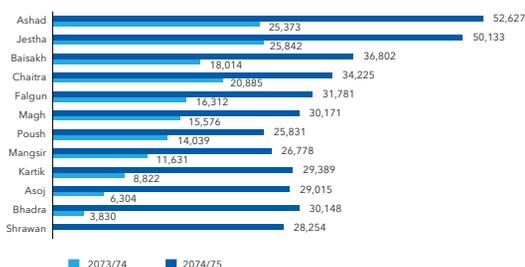
Treasury transactions (TREA) related to the treasury operations including placements and fund management of the BFIs are being processed through NCHL. The commercial banks, having alternate option of SWIFT, have also started using NCHL-IPS system for such transactions and it is expected to further increase in the coming years.

NCHL processed total TREA transactions of NPR 212.53 billion during the year as against NPR 53.85 billion in the previous year.



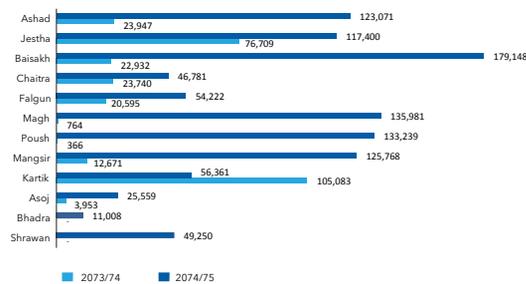
### Customer Transfer (CUST) and Supplier Payment (SUPP)

Transaction related to general fund transfer (CUST) and supplier/party payments (SUPP) was widely accepted by the customers as a means of beneficiary account deposits. NCHL processed total CUST and SUPP transactions of NPR 378.36 billion during the year as against NPR 187.59 billion in the previous year.

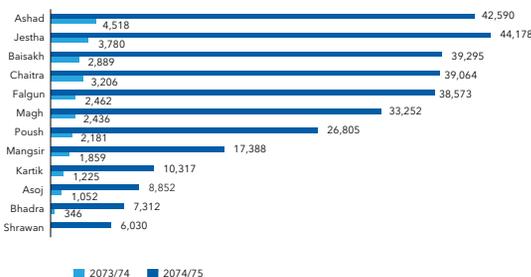


Considering the ease of processing bulk transactions, the use cases related to Dividend payouts, Remittance, Salary Payments, etc. were widely used through NCHL-IPS system during the fiscal year. This also facilitates the beneficiary to use any of the bank accounts for receiving such payments.

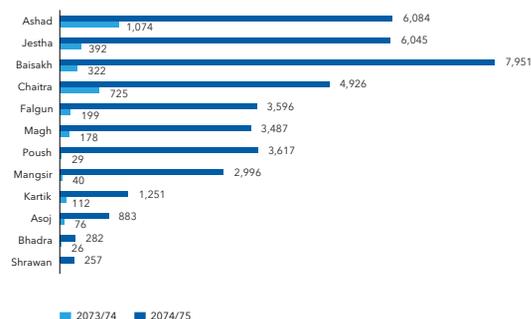
### Dividend and IPO Refunds (DIVI/IPOR)



### Remittance Payments (REMI)



### Salary Payments (SALA/SALC)



### connectIPS Integration Module

Growth in number of transactions in NCHL-IPS system largely depends on the number of banks that are fully integrated with their core banking system (CBS). Hence NCHL has developed and provided connectIPS Integration Module for its member BFIs at no additional cost. Total of 33 member BFIs are integrated with NCHL-IPS system of which 28 BFIs are integrated through connectIPS Integration module. NCHL will continue to assisting the member BFIs for integration with their CBS and even to extend those integration APIs up to their corporates.

### connectIPS e-Payment Module

connectIPS e-Payment system was developed in-house by NCHL during the review period. It was pilot launched since Baishak 2075 with its payment processor (gateway) component for e-payment of Government revenue. And its online fund transfer facility was started from Shrawan 2075. Other facilities/services will be added within the connectIPS e-Payment System, which is currently being hosted at [www.connectips.com](http://www.connectips.com)

Total of 31 BFIs have subscribed for the connectIPS e-Payment System, out of which 17 BFIs went live by the end of FY 2074/75 (2017/18).

### NCHL-Helpdesk

NCHL-Helpdesk is the first level of support for the end users of the members. They provide necessary information and handle the issues/queries of the users. NCHL-Helpdesk function is backed by resources having both technical and operational expertise. The member BFIs are also provided access to NCHL's helpdesk system for logging and follow up of the support tickets. The Helpdesk team can also be contacted through phone/ mobile or an email.

### Member Trainings and Orientations

NCHL provides multiple trainings and orientations to the users of the member BFIs on a regular basis. The training schedules are normally published in advance to all members such that they can nominate and send their end users for the trainings. NCHL has also shared its resources to the members for conducting their in-house trainings.

Details of various trainings and orientations conducted during the FY 2074/75 (2017/18) are as follows:

Training in FY 2074/75 (2017/18)	Count	Participants
NCHL-IPS In-House for Members	7	183
NCHL-IPS Regional Branches and Members	3	192
NCHL-ECC for Members	5	36
connectIPS e-Payment for Members	15	197
<b>Total</b>	<b>30</b>	<b>608</b>

The regional orientation programs were conducted jointly with Nepal Rastra Bank at Kathmandu, Pokhara, Biratnagar, Birgunj and Bhairahawa. NCHL will continue the trainings and awareness programs in the coming years also.



**PRODUCTS AND  
SERVICES FOR  
NATIONAL PAYMENT  
INFRASTRUCTURE**



*Regional Training Program at Biratnagar*



*connectIPS Orientation Program at Kathmandu*



*Regional Training Program at Birgunj*

## Public Awareness

With an objective of creating awareness amongst the general public and customers about the products and services that are provided through member BFIs, NCHL published various public awareness informations in various print media, digital channels and in social network. As an impact, the volume of NCHL-IPS transactions and express cheque clearing in NCHL-ECC have increased as compared to the previous year.

Initiatives were also taken during the fiscal year for joint promotion with the member BFIs for some of the campaigns including NCHL-IPS system's visibility through the use of standees at bank's branches.



Standee placed at branches of BFIs



Prize Distribution for Social Media Quiz Activities



*BTL Activities at Tax Office*

### Operation of NCHL on Public Holidays

With reference to NRB's Notice # 12 of FY 2074/75 (2017/18), NCHL has made necessary arrangements for operations including settlement arrangement at NRB during the selecte public holidays and Saturdays as prescribed. NCHL selected on the public holidays and Saturdays as well, if these public holidays fall on last day of the month and from 25<sup>th</sup> till last day of month on all quarter end (i.e. Ashwin, Poush, Chaitra and Ashad).

### NCHL In-House Developed Systems

NCHL have made itself self reliant by developing in-house systems that are required for supporting the main operational systems and some of the operational support systems. A development team at NCHL have developed such support systems, which includes *connectIPS* Integtration Module, e-Payment Module, National Settlement System (NSS) and NCHL-CRM & Billing System.

NCHL-NSS System automates the settlement process between NCHL and NRB. The deferred net settlement positions from NCHL-ECC and NCHL-IPS systems of the member banks are processed through NSS System for necessary settlement at the member banks' settlement accounts held at NRB.

NCHL-CRM & Billing System is in place for internal processess of recording necessary information of members and their billing details. The system automates the billing process of NCHL-ECC and NCHL-IPS systems with facility to generate direct debit of transaction fees and login Id bills from the member BFIs on the 5<sup>th</sup> day of the following month. Enhancements related to billing for *connectIPS* will also be incorporated in the NCHL-CRM & Billing System.

## 05 GOVERNANCE

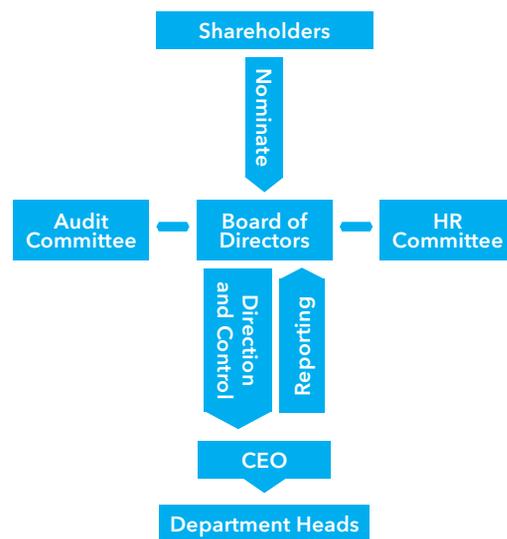
### Corporate Governance

A good corporate governance structure is the foundation for enabling prudent as well as effective management of an organization that ensures clear alignment of the stakeholders' interests, ensures accountabilities and transparency. It also controls and inspires the right behavior for timely responses towards issues and for better performance of the organization. NCHL has inculcated a culture of robust corporate governance to achieve its objectives towards the development of national payments infrastructures.

NCHL is committed towards the highest level of ethics, integrity, transparency, professionalism, and compliance. The Board of Directors, being primarily responsible for the corporate governance of NCHL, is committed to ensure the integrity, effective oversight, leadership and control by directing and supervising the business affairs at the strategic level to adhere with the applicable regulations and to maintain the highest standards of business best practices in order to deliver long-term value to the stakeholders.

NCHL is guided by its Memorandum of Association (MOA) and Articles of Association (AOA). It is licensed by Nepal Rastra Bank as Payment System Operator (PSO). Various laws and regulations which govern NCHL are as follows:

- Company (First Amendment) Act, 2074
- Negotiable Instrument Act, 2034
- Electronic Transaction Act, 2063
- Payment and Settlement Bylaw, 2072
- Licensing Policy for Institution/Mechanism for Operating Payment Related Activities, 2073
- Nepal ECC Rule Book and Nepal ECC Operating Rule
- NCHL-IPS Operating Rules
- Directives and circulars issued by Nepal Rastra Bank



### The Board of Directors

The Board of Directors is a body of elected or appointed members by the shareholders, who jointly oversees the activities of the company and is responsible for the company's strategy, structure and performance including the assessment and management of risk related activities. The Board is accountable and responsible for ensuring that adequate system and controls are in place; strategic decision making and financial performance of company.

Adopting procedure for appointment of Board members is clearly specified in the Articles of Association of the company, NCHL's Board comprises of 7 non-executive directors including Chairman, who is elected from amongst the Directors. The Board is constituted by the institutional representatives from the shareholder groups.

Shareholder composition and the board representation is as shown in the following table:

Group	Shareholders	Holding	Number of Board Representation
A	Nepal Rastra Bank	10%	1
B-1	Commercial Banks	80%	3
B-2	Development Banks		1
B-3	Finance Companies		1
C	Smart Choice Technologies Private Limited	10%	1

Following are the members of the Board of Directors as on July 16, 2018:

Name of Director	Institutions Represented
Mr. Jhalak Sharma Acharya, Chairman	Nepal Rastra Bank
Mr. Ujjal Rajbhandary, Director	Himalayan Bank Limited
Ms. Umang Sharma, Director	Citizens Bank International Limited
Mr. Surendra Bhusan Shrestha, Director	Nepal Bangladesh Bank Limited
Mr. Madhav Prasad Upadhaya, Director	Garima Bikash Bank Limited
Mr. Sunil Pant, Director	ICFC Finance Limited
Mr. Rabindra Bahadur Malla, Director	Smart Choice Technologies Private Limited

The responsibility for day to day management of the company is delegated to the management team. The reporting line between the Board and Management team has been clearly defined in the company's organizational chart ensuring effective monitoring of the senior management by the Board. The management team consists of professionals coming from diverse range of professional backgrounds including banking, information technology, chartered accountancy and marketing. The management team is led by the Chief Executive Officer, who is duly accountable to the Board. The Board is mainly involved in formulating strategic and annual plans, approving annual budget, formulating internal policies and procedures including risk management framework. All the key policies, procedures and governance aspects are regularly reviewed by the Board.

### Changes in the Board of Directors

Due to the provision in Bank and Financial Institutions Act (BAFIA) that prohibits a Chief Executive Officer of licensed bank and financial institution to be Director of any other profit earning company, the Board members representing commercial banks, development banks and finance companies were changed through 6<sup>th</sup> Annual General Meeting held on 22<sup>nd</sup> September 2017.

Outgone Board Member		Incoming Board Member (6th AGM)	
Name	Institutions Represented	Name	Institutions Represented
Mr. Rajan Singh Bhandari	Citizens Bank International Ltd.	Ms. Umang Sharma	Citizens Bank International Ltd.
Mr. Jyoti Prakash Pandey	Nepal Investment Bank Ltd.	Mr. Ujjal Rajbhandary	Himalayan Bank Ltd.
Mr. Anil Keshary Shah	Mega Bank Nepal Ltd.	Ms. Anupama Khunjeli	Mega Bank Nepal Ltd.
Mr. Bharat Raj Dhakal	Muktinath Bikash Bank Ltd.	Mr. Pradhyuman Pokharel	Muktinath Bikash Bank Ltd.
Mr. Saroj Kaji Tuladhar	Goodwill Finance Ltd.	Mr. Sunil Pant	ICFC Finance Ltd.

After the departure of Mr. Rajan Singh Bhandari from the Board, Mr. Janak Bahadur Adhikari was elected as the Chairman of the Board by the 106<sup>th</sup> Board Meeting dated 9<sup>th</sup> October, 2017. And Mr. Jhalak Sharma Acharya was elected as the Chairman of the Board by 110<sup>th</sup> Board meeting dated 1<sup>st</sup> April 2018.

Mr. Jhalak Sharma Acharya, Executive Director of NRB, was nominated as the Board of Director with effect from 21<sup>st</sup> March, 2018 as the representative of NRB and in place of Mr. Janak Bahadur Adhikari. Due to their appointment as the Chief Executive Officers of their respective institutions, Mrs. Anupama Khunjeli and Mr. Pradhyuman Pokharel resigned from NCHL's Board effective from 16<sup>th</sup> April 2018 and 15<sup>th</sup> May 2018 respectively. Mr. Surendra Bhushan Shrestha (representative Nepal Bangladesh Bank Limited) and Mr. Madhav Prasad Upadhaya (representative Garima Bikash Bank Limited) were nominated by the Board as NCHL's Directors since 22<sup>nd</sup> June 2018 (113<sup>th</sup> Board Meeting) for the remaining term and to be endorsed by the next Annual General Meeting.

### Board Meetings

The Board has appointed the company's Chief Executive Officer as the Company Secretary in order to convene the Board meetings and prepare agendas for discussion in the meeting, ensure implementation of decisions made by the Board and/or address the matters raised by the regulatory authorities. External independent experts are also invited by the Board, on need basis, in other to seek their expert opinion and clarification over the matters being discussed. The Minutes of the board meeting are retained by the Company Secretary. During the review period, a total of 12 board meetings were conducted and a summary of the attendance of the Directors in the Board meeting is as shown in the table aside.

Name of Director	Meetings Attended
Mr. Jhalak Sharma Acharya	4/4
Mr. Ujjal Rajbhandary	6/8
Ms. Umang Sharma	7/8
Mr. Surendra Bhushan Shrestha	-
Mr. Madhav Prasad Upadhaya	1/1
Mr. Sunil Pant	8/8
Mr. Rabindra Bahadur Malla	9/12
Mr. Rajan Singh Bhandari*	3/4
Mr. Janak Bahadur Adhikari*	7/8
Mr. Jyoti Prakash Pandey*	3/4
Mr. Anil Keshary Shah*	2/4
Mr. Bharat Raj Dhakal*	4/4
Mr. Saroj Kaji Tuladhar*	3/4
Ms. Anupama Khunjeli*	4/6
Mr. Pradyuman Pokharel*	5/6

\*The members of previous board.

### Audit Committee

Audit Committee is governed by Section 164 of Company Act, 2074 and reports directly to the Board. It comprises of three Directors from the Board as its Members and the Finance/Admin Officer as its Member Secretary and is represented as follows since 16<sup>th</sup> July 2018.

The committee regularly reviews the internal control system, risk management system and compliance, related to financial and operational matters. It also conducts periodic review of financial statements, review of findings reported in the internal audit, statutory audit and ISO audit with appropriate recommendations to the Board for necessary policy changes as a result of the audit/ reviews. The results of semi-annual Risk Register, Assessment & Treatment Plan as well as Compliance Self-assessment & Cross-functional Audit reported by the management are also reviewed by the Audit Committee.

S. No.	Name of Member	Role
1	Mr. Rabindra Bahadur Malla, Director	Chairman
2	Mr. Ujjal Rajbhandary, Director	Member
3	Mr. Sunil Pant, Director	Member
4	Ms. Anuja Adhikari, Fin/Admin Officer	Member Secretary

The Audit Committee periodically updates the Board on the controls and risk related matters. A total of 6 meetings were held during the review period. The attendance details of the Audit Committee's members in the meeting are as follows:

Name of Member	Attendance
Mr. Janak Bahadur Adhikari*	2/2
Mr. Rabindra Bahadur Malla	6/6
Mr. Saroj Kaji Tuladhar*	1/2
Mr. Ujjal Rajbhandary	3/4
Mr. Sunil Pant	4/4
Ms. Anuja Adhikari	6/6

\*The members of previous Audit Committee.

## Report on the Activities of Audit Committee

The Audit Committee conducted the functions as mandated by Section 165 of the Company Act, 2074. Accordingly, followings were the major activities conducted by the Audit Committee in the FY 2074/75 (2017/18):

1. Reviewed financial statement of the FY 2073/74 (FY 2016/17) and recommended to the Board for approval.
2. Discussed over matters concerning appointment of Statutory Auditor for the FY 2074/75 (2017/18) and recommended the name to be proposed in the 6th AGM.
3. Discussed over matters concerning appointment of Internal Auditor and appointed M.B. Shrestha & Co. as the Internal Auditor for the FY 2074/75 (2017/18). It further reviewed the scope of work, audit plan and schedule of the Internal Auditor.
4. Reviewed the findings, recommendations and Management responses of the quarterly Internal Audit Reports.
5. Reviewed the Financial Statements and Budget Variance Report of the company reported by the management on quarterly basis.
6. Reviewed the results of Risk Register, Assessment & Treatment Plan of December 2017 and June 2018; Compliance Self-assessment & Cross-functional Audit reported by the management.
7. Reviewed the ISO Audit report and recommended to the Board for necessary amendments of ISMS Policy and DR & BCP Plan.
8. Reviewed the impact and then recommended for adoption of NFRS for SMEs by NCHL with regards to the preparation and presentation of financial statements effective from FY 2074/75 (2017/18).

## HR Committee

HR Committee of NCHL was constituted in the fiscal year 2072/73 (2015/16) and comprises of three members from the Board of Directors with an objective to formulate needed policies

and plans such that it develops and retains necessary human resource at the company. Representations of the HR Committee, as on 16th July 2018 is as follows:

S. No.	Name of Member	Role
1	Ms. Umang Sharma	Chairman
2	Mr. Surendra Bhushan Shrestha	Member
3	Mr. Madhav Prasad Upadhaya	Member

All the policies related to employee recruitment, salary and benefits and other related issues are overseen by the Committee. HR Committee provides necessary recommendations to the Board for changes in human resource policies. The key HR policies have been reviewed in the fiscal year following the issuance of new labor legislation (Labor Act, 2074 and Labor Bylaw, 2075).

A total of 1 meeting of the HR Committee was held during the review period. The attendance details of the HR committee's members in the meeting are as follows:

Name of Member	Attendance
Mr. Jyoti Prakash Pandey*	1/1
Mr. Anil Keshary Shah*	1/1
Mr. Bharat Raj Dhakal*	0/1
Ms. Umang Sharma	-
Mr. Surendra Bhushan Shrestha	-
Mr. Madhav Prasad Upadhaya	-

\* The members of previous HR Committee.

## Report on the Activities of HR Committee

The HR Committee conducted following functions in the FY 2074/75 (2017/18) exercising powers conferred by NCHL's Board.

Reviewed employee salary scale and benefits as per policy in FY 2073/74 (2016/17) and recommended for revision to the Board which was made effective from FY 2074/75 (2017/18).

Reviewed employee performance appraisal of FY 2073/74 (2016/17) and recommended to the Board for necessary approval for promotions and performance appraisal rating based salary increments.

## Other Committees

Other than the formal and permanent Audit Committee and HR Committee, the oversight function of the Board is supported through other special purpose based committees.

## Meeting Expenses

The members of Board, Audit Committee and HR Committee are provided NPR 5,000 as the meeting allowance per sitting. In the review period, the company incurred meeting expenses of NPR 483,696 in total. The details of the meeting expenses are as follows:

*Amount in NPR*

S. No.	Meeting	Meeting Allowance	Meeting Expenses
1	Board Meeting	335,000	44,701
2	Audit Committee Meeting	80,000	13,108
3	HR Committee Meeting	10,000	888
	<b>Total</b>	<b>425,000</b>	<b>58,696</b>

## Shareholders Communication

Annual General Meeting is a forum for shareholders to exchange their opinions and views. All necessary information as per the prevailing Company Act is incorporated in the Annual Report. It covers all the necessary financials and disclosures required to provide detailed information to the shareholders. Mentioned information is also uploaded at NCHL's website ([www.nchl.com.np](http://www.nchl.com.np)). Any other information that requires to be communicated to the shareholders are shared and communicated on regular basis through various mediums and in various platforms.

## Internal Controls

Internal control system of an organization ensures effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulation. NCHL recognizes the significance of internal control system and hence the devised internal controls are duly implemented and reviewed to obtain reasonable assurance of such controls. Thereby, NCHL has incorporated following elements as a part of its internal control system:

## Policies and Procedures

NCHL's Board has formulated set of internal policies and procedures, which are implemented by the Management in its day to day operations. The policies and procedures are regularly reviewed by the Board. The current prevailing major policies and procedures of NCHL are as follows:

1. Code of Conduct
2. Financial Rules and Regulations
3. Risk Management Framework
4. NCHL Investment Policy
5. Discount/Waiver Policy
6. IT Security Policy
7. Disaster Recovery and Business Continuity Plan
8. Information Security Management System Policies
9. Employee's Service Rules
10. Human Resource Plan
11. Employee Performance Objectives and Appraisal Procedures
12. Travel & Daily Allowance Policy
13. NCHL Standard Operational Procedures
14. Other relevant policies and procedures as applicable

### Compliance Self-assessment and Cross-functional Audit

In order to ensure compliance to all the policies, procedures and regulatory requirements, NCHL has adopted a practice of Compliance Self-assessment and Cross-functional Audit, whereby compliance self-assessment of all the relevant policies, procedures and regulatory requirements are carried out by individual functional heads. A cross-functional assessment are carried out by cross-functional heads on sample basis.

The primary objective is to ensure adherence to the internal policies and regulatory requirements and to identify areas of further improvements/amendments as part of the annual review of such policies/ procedures. The annual assessment also includes review of access rights, log review, review of supplier's services and confirmation from critical vendors ascertaining compliance to information security. The assessment is conducted on annual basis and the results are reported to the Audit Committee.

### Internal Audit

The Internal Audit reviews the effectiveness of internal control procedures and compliance with policies and procedures across all system and operational departments. The objectivity of the internal audit engagement is to support the NCHL's management in effective discharge of their responsibility. The Internal Audit was conducted by M.B. Shrestha & Co. for the FY 2074/75 (2017/18) and the major scope of the internal audit included the followings:

- Review of Opening Balances
- Verification of Minutes
- Capital and Revenue Expenditures Process Controls
- Fixed Assets Process Controls
- Revenue Process Controls
- Payroll Process Controls
- Budgetary Control Process
- Treasure Process Controls (Cash and Bank Operations, Debtors and Creditors Administration and Operations; Receivable and Payable Account; Fund Management, Equity, Loan and Debt)
- Investment Procedure and Execution Review
- Procurement review
- Compliances with Laws and Regulations, Policies, Acts, Standards, Contracts etc.
- Review of Provisions, Current Liabilities.
- ISO Compliance
- Book keeping system, Accounting Software review
- Review of Documentation Procedure
- Review of Payment and Receipt Process Control
- Year end Financial Closure with review of financial statements based on NFRS for SMEs
- Debtors and Creditors Administration and Operation
- Review of existing operational system software
- Operational System Review (Process of ECC and IPS Clearing System)
- Information Technology Audit
- Follow up of Previous Audit Report
- Human Resources Management
- Corporate Governance

Quarterly internal audits were carried out during the review period under the supervision of the Audit Committee. M.B. Shrestha & Co. was paid NPR 125,000 excluding VAT with additional internal audit expenses on actual basis of NPR 27,185 for the fiscal year.

### ISO Certification and Audit

ISO 27001:2013 certification assures organization's confidentiality, integrity and availability of the information assets. Information security and its management has always been the priority at NCHL. Hence, as a part of ISO 27001:2013 certification, ISO surveillance audit is carried out every year by the ISO 27001 certified auditors with requirement of complete re-certification every three years.

ISO 27001:2013 certification was obtained by NCHL on 16<sup>th</sup> April 2015 from URS Certification India, which is an accredited certification body of United Kingdom Accreditation Service (UKAS). After the completion of three year cycle, the recertification process was conducted in the fiscal year 2074/75 (2017/18) with onsite audit executed on 3<sup>rd</sup> - 4<sup>th</sup> April 2018 by the ISO auditors from URS India. The ISO 27001 re-certification was awarded to NCHL on 16<sup>th</sup> May, 2018 with validity till 15<sup>th</sup> May 2021, subject to annual surveillance audit.

The scope of ISO 27001:2013 includes management, operation and maintenance of information security management system covering information system, assets and associated processes related to company's business activities in Electronic Cheque Clearing System (NCHL-ECC) and Interbank Payment System (NCHL-IPS) for account based payment and clearing in Nepal.

### Accountability

The organizational structure ensures separation of duties and clearly defined responsibilities. Such organizational structure and responsibilities are clearly defined by the Board under Human Resource Plan. Each employee is assigned with individual annual performance objectives in line with the overall organizational business objectives and budget approved by the Board. This creates accountability of each employee towards the company and also aligns individual objectives with that of the company for the particular year. Organizational structure is revised based upon need of additional job positions due to business expansion.

### Risk Assessment

Risk assessment is important part of an organization's internal control framework. As a part of internal control, NCHL's Board has devised Risk Management Framework based upon which the potential risks are identified, measured, controls implemented and monitored. The individual function heads are responsible for the risks and their controls. A Risk Register, Assessment and Treatment Plan is updated on half-yearly basis, which remains under the custody of the Risk & Compliance Officer and is reviewed by the audit committee with strategic changes forwarded to the Board for necessary consideration. The risk management practice adopted by NCHL is detailed in the Risk Management section.

### External Audit

The independent audit function is discharged by the External Auditor. Joshi & Bhandary has been appointed as the external auditor for the review period by the 6th AGM of the company. The external auditor is responsible for obtaining reasonable assurance rather than absolute assurance that the financial statements are free of material misstatement whether caused by error or fraud. The scope of the external audit includes statutory and tax audit. Total fee of NPR 100,000.00 excluding VAT was paid to the external auditor with additional audit expenses of NPR 1,095.01 on actual basis for the fiscal year.

The details of the audited financials for the fiscal year 2074/75 (2017/18) and Independent Auditor's Report are incorporated in the Financial Information Section of this report.

## Risk Management

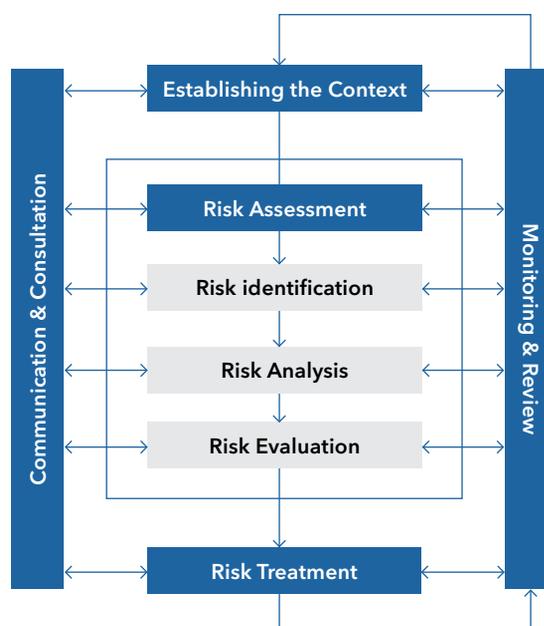
Effective risk management is fundamental to any of the business activities. While NCHL remains committed to increasing value to the stakeholders, NCHL understands the importance of operating Systemically Important Payment Systems (SIPS) that has potential to cascade large scale systemic risks to the entire industry and/or the economy of the country. Hence, it has taken into consideration the risk management from NCHL and SIPS perspectives as well.

NCHL has formulated and implemented a comprehensive Risk Management Framework for identifying and managing various risks. NCHL's Risk Management Framework is based on the Principles for Financial Market Infrastructures (recommended by Committee on Payment & Settlement Systems - CPSS) and ISO 27001 standards related to Information Security Management System.

### Risk Management Process

The risk management process involves risk identification, risk analysis, risk evaluation, risk treatment and review. The risks identified and assessed within the domains referred in the framework are compiled by the respective risk owners under detailed Risk Register and periodically reviewed by the Management and the Audit Committee.

The risk items that are identified are quantified based on its likelihood and impact. Likelihood represents the probability of occurrence of the risk, which is quantified in the range of 1 to 5, with 1 being Very Unlikely and 5 being Frequent. Impact represents the severity or implication that such risk may cause in case the risk is triggered, which is quantified in the ranges from 1 to 5, with 1 being Very Low and 5 being Very High. Risk Profile/ Matrix is the product of the risk likelihood and its impact. Based on the risk profile, priorities



for the risks are set for risk treatment in terms of urgency, and budgets. Appropriate risk treatments including controls, transfers or acceptance are implemented. The risks including their risk profile and the controls are recorded in the Risk Register, Assessment and Treatment Plan, which is reviewed semi-annually.



### Risk Register, Assessment and Treatment Plan

Principles for Financial Market Infrastructures identifies 24 key areas for risk management of the systemically important payment systems. Based on the applicability of the key areas for NCHL (payment systems only) and also considering the ISO 27001 framework, NCHL has grouped the key risk areas under 8 domains. Accordingly, the risk identification, assessments and mitigation controls are applied, which are recorded and reviewed in a Risk Register. The key domains are as specified in the Risk Management Framework policy of NCHL.

**General Operational Risks:** Operational risk is the risk of potential loss or service delay due to inadequate internal controls, human errors and external events. NCHL is exposed to operational risk arising from uncertainty of inherent nature of its business. Following are some of the major identified general operational risks and corresponding controls that are implemented.

Major Risks	Mitigation Strategy
Process Based Risks - Non-compliance of operations of NCHL and the systems.	<ul style="list-style-type: none"> <li>Defined operating rules and procedures through NRB for the major payment systems being operated by NCHL that remains the regulatory guidelines for NCHL and the members.</li> <li>Implemented well defined NCHL Standard Operational Procedure to ensure all functions follow standardized process.</li> <li>Work closely with designated departments of NRB for general operations and settlement.</li> <li>Periodic review through self-assessment and cross functional audits to ensure compliance.</li> </ul>
Governance Related Risks - Unclear governance and oversight, poor management review and inadequate risk management system	<ul style="list-style-type: none"> <li>Implemented clearly defined governance structure as per the statutory, regulatory, legal requirements and prudent practices.</li> <li>Implemented well defined responsibilities in the human resource plan with mechanism in place to align organization's business objectives with annual work plan and then with the individual employee objectives.</li> <li>Assurance to the internal control and risk management function through reviews and oversight at multiple levels by process owners, management, audit committee, Board, internal and external audits.</li> <li>Continuous risk assessment by the designated risk owners with semi-annual reviews of risk register and treatment plan, incident reporting and preventive maintenance/controls.</li> </ul>
Human Associated Risks - Unavailability of skilled resources, their retention, and employee related frauds/ breaches.	<ul style="list-style-type: none"> <li>Implemented well defined recruitment process with proper screening and induction process in place. Legal non-disclosure agreement with all employee. Induction for all new joiners.</li> <li>Training and development remains the part of NCHL's annual plan with training being mandatory performance objectives for all employee to improve skills sets and resource backups.</li> <li>Appropriate fidelity insurance coverage.</li> </ul>
Other Specific Risks - Political instability impacting operational supplies and other impacts.	<ul style="list-style-type: none"> <li>Beyond control but contingencies in place with respect to business continuity including fuel supply, remote working and similar.</li> </ul>

# INTERNATIONAL STANDARD RISK MANAGEMENT FRAMEWORK

**Operational Risks - Information Security:** Part of the operational risk, it is the potential loss arising due to compromise of confidentiality, integrity and availability of information assets. ISO 27001 standard has been implemented to ensure risks related to Information Security Management System. Following are some of the major identified general information security risks and corresponding controls that are implemented.

Major Risks	Mitigation Strategy
Information System/ Assets Related Risks - Breach of information system/ security and their operational failures	<ul style="list-style-type: none"> <li>Implemented ISO 27001 (with active certification) as a commitment to protect confidentiality, integrity and availability of information assets.</li> <li>Well defined ISMS Policy and IT Security Policy including detailed Standard Operational Procedure.</li> <li>Conducted specific IT assessments on regular basis apart from the normal Internal and External Audits.</li> <li>Implemented Disaster Recovery and Business Continuity Plan with regular mock drills conducted. Also covers continuity of business site (COB) for the participants to use in case they have issue in accessing the payment systems.</li> <li>Incident management process in place to record risk events/incidents for their detail casualty analysis and for adding controls in the system.</li> </ul>
Infrastructure Capacity Related Risks	<ul style="list-style-type: none"> <li>Implemented processes for regular review of infrastructure capacity enhancement plans. Last detailed Capacity Enhancement Report produced on FY 2073/74 (2016/17) with changes later for implementations in FY 2074/75 (2017/18) and 2075/76 (2018/19). They remain as the basis for the major capital expenditures.</li> <li>Support arrangements with the vendors of critical systems and infrastructures with defined SLA within the agreements.</li> </ul>

**General Business Risks:** Business risk is any potential impairment of the NCHL's financial position (as a business concern) due to declining revenues or an increase in its expenses. Such impairment may be as a result of adverse reputational effects, poor execution of business strategy, ineffective response to competition, losses in other business lines, etc. Following are some of the major identified general business risks and corresponding controls that are implemented.

Major Risks	Mitigation Strategy
Financial Risks <ul style="list-style-type: none"> <li>Potential impairment of NCHL's financial position (as a business concern) due to increase in expenses, volatilities in foreign exchange and interest rates.</li> <li>Stagnant business growth due to declining revenues, merger of BFIs, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Practice of in-depth feasibility study and analysis with conservative estimates for all new projects.</li> <li>Implement stringent budgetary control for both revenue and expenses.</li> <li>Major operating expenses being in AMC of software paying in US\$, foreign exchange risk is normally covered through forward contracts with local banks.</li> <li>Implemented NCHL Investment Policy with review every month or on every new investment event to mitigate investment risks and fund management.</li> <li>Promoted high revenue generating services within the existing system and extent services to non-BFIs.</li> </ul>
Strategic Risk - Impact due to change in government and regulatory policies, competition from alternate payment products.	<ul style="list-style-type: none"> <li>Work closely with various department of GoN and NRB to support their policies and initiative. Modify NCHL's strategic plan and related payment products/services to cater with the additional opportunities.</li> <li>Adopted principle of re-investment of profit for establishment of additional national payments infrastructure and cross-subsidizing the fees/charges of the new system from already operating systems.</li> <li>Implement multiple payment systems handling different financial instruments and through various channels. NCHL currently has systems to process paper based instruments, direct credit, direct debit within the retail segment and through the channels of B/FIs' branches and online.</li> </ul>

**Liquidity Risks:** Liquidity risk relates to the risk that member BFIs will not be able to fulfill their financial obligations on the settlement date of systems (NCHL-ECC, NCHL-IPS and *connectIPS*) and have potential to create systemic problems. Another potential liquidity risk that NCHL may face is to not having sufficient liquidity to meet its financial obligations. Following are some of the major identified liquidity risks and corresponding controls that are implemented.

Major Risks	Mitigation Strategy
Inability of member BFIs to fulfill their financial obligations w.r.t the payment system transactions.	<ul style="list-style-type: none"> <li>• Arrangements in place for NCP settlement of all systems of the member BFIs on their settlement accounts at NRB, which also maintains statutory balance.</li> <li>• Deferred net settlement mechanism implemented for all systems of NCHL, which is an inherent liquidity risk mitigation.</li> <li>• Process defined within the Operating Rules and Operating Procedures for handling of balance shortfall, with last resort being unwinding of transactions of the particular member.</li> </ul>
Not having sufficient liquidity to meet NCHL's financial obligations	<ul style="list-style-type: none"> <li>• Regular monitoring and analysis of cash flow is followed considering the liquidity position of NCHL, risk and returns on investment, concentration of investment and actual and expected cash movements.</li> <li>• NCHL's liquid assets are managed as per NCHL's Investment Policy. At the end of the review period, all the liquid assets of NCHL are held in the Banks and Financial Institutions licensed by NRB in the form of Call and Fixed deposits.</li> </ul>

**Credit Risks:** Credit risk relate to the risks associated with systems in the form of unsettled transactions and failure of settlement by any of the participants. It also refers to the current or potential loss on the NCHL's earning as a result of counterparties inability to meet with the financial or other contractual obligations to NCHL when due. Following are some of the major identified credit risks and corresponding controls that are implemented.

Major Key Risks	Mitigation Strategy
Possibility of unsettled transactions and failure of settlement.	<ul style="list-style-type: none"> <li>• Implemented process/mechanism for the participants to provide with timely information to identify their requisite fund for the day's settlement.</li> <li>• Arrangements in place for NCP settlement of all systems of the member BFIs on their settlement accounts at NRB, which also maintains statutory balance.</li> <li>• Process defined within the Operating Rules and Operating Procedures for handling of balance shortfall, with last resort being unwinding of transactions of the particular member.</li> <li>• Alternative funding arrangement with establishment of Settlement Guarantee Fund (SGF) in place for the case of <i>connectIPS</i> e-Payment System. SGF established with initial contribution of NCHL and will be extended later with contribution from the participating members.</li> </ul>
Potential loss on the NCHL's earning as a result of counterparties inability to meet their financial or other contractual obligations to NCHL, when due.	<ul style="list-style-type: none"> <li>• Majority of the counterparty for NCHL being BFIs, defaults of counterparty for NCHL is very unlikely. However, there has been few cases of default from the institutions categorized as prompt corrective action (PCA) by NRB.</li> <li>• Implemented direct debit of the major receivables on monthly basis from the participants' accounts maintained at NRB to improve the credit cycle of NCHL.</li> </ul>

**Legal/Compliance Risks:** Failure to comply with statutory and regulatory obligation leads to legal and compliance risk. It may also arise if the application of relevant laws and regulations including rights & obligations of parties involved are uncertain. Following are some of the major identified legal/ compliance risks and corresponding controls that are implemented.

Major Risks	Mitigation Strategy
Impact due to weak legal basis and related non-compliance issues.	<ul style="list-style-type: none"> <li>• Legal adherence with the statutory compliances including Company (First Amendment) Act 2074, Electronic Transaction Act, Negotiable Instrument Act 2034, and Income Tax Act 2058.</li> <li>• Adherence with the regulatory compliances including Payment &amp; Settlement Bylaw 2072, Licensing Policy for Institution/Mechanism Operating Payment Related Activities 2073 and Directives from Nepal Rastra Bank.</li> <li>• Well defined legal structure of the company as per its Memorandum of Association and Articles of Association.</li> <li>• Issued Nepal ECC Rule Book, Nepal ECC Operating Rule and ECC Cheque Standard &amp; Specifications, NCHL-IPS Operating Rule Book as the NRB guidelines for NCHL and the participating members.</li> <li>• Implemented Self-Compliance Assessments, Internal Audits, External Audit and ISMS Audits to obtain reasonable assurance on compliance.</li> </ul>

**Systemic Risks:** Systemic risk is the risk arising due to interdependencies and possibilities of transmitting disruptions beyond NCHL and one or more participants. This may be due to an inability to perform as expected resulting into inability/disruption of other participants to meet their obligations, when due. These adverse effects, for example, could arise from unwinding or reversing of transactions; delaying of settlement. In such cases, the participants could suddenly face significant and unexpected credit and liquidity exposures that might be extremely difficult to manage at the time leading to further cascading effect. Followings are some of the major identified systemic risks and corresponding controls that are implemented.

Major Risks	Mitigation Strategy
Large scale technical failure of major participant having large transaction volume	<ul style="list-style-type: none"> <li>• Mandatory for larger banks to have redundant network links with NCHL.</li> <li>• Continuity of Business (COB) site arranged at NCHL for members to work, in case the system failed at their end. Possible to at least reject transactions in time to avoid financial risk.</li> </ul>
Cascading effect due to balance insufficiency of a participant	<ul style="list-style-type: none"> <li>• Settlement on deferred net basis to reduce liquidity risk for participants. Settlement position monitoring facility (report) on real time basis provided to all members</li> <li>• Arrangements in place for NCP settlement of all systems of the member BFLs on their settlement accounts at NRB, which also maintains statutory balance.</li> <li>• Possibility of transaction unwinding before the settlement with consultation of NRB and impacted members, as the last resort. Finality of payments defined in the regulatory guidelines as after the Nostro settlement.</li> </ul>
Impact due to unavailability of resources or GL system or network links at NRB	<ul style="list-style-type: none"> <li>• Assigned dedicated unit (ECC Unit) at NRB Banking Office for monitoring and handling of the settlements.</li> <li>• National Settlement System (NSS) in place for automated settlement between NCHL systems and NRB through secured network channels.</li> <li>• Contingency in place with dual network connectivity and alternate mechanism for manual NCP settlement on NRB GL system.</li> </ul>

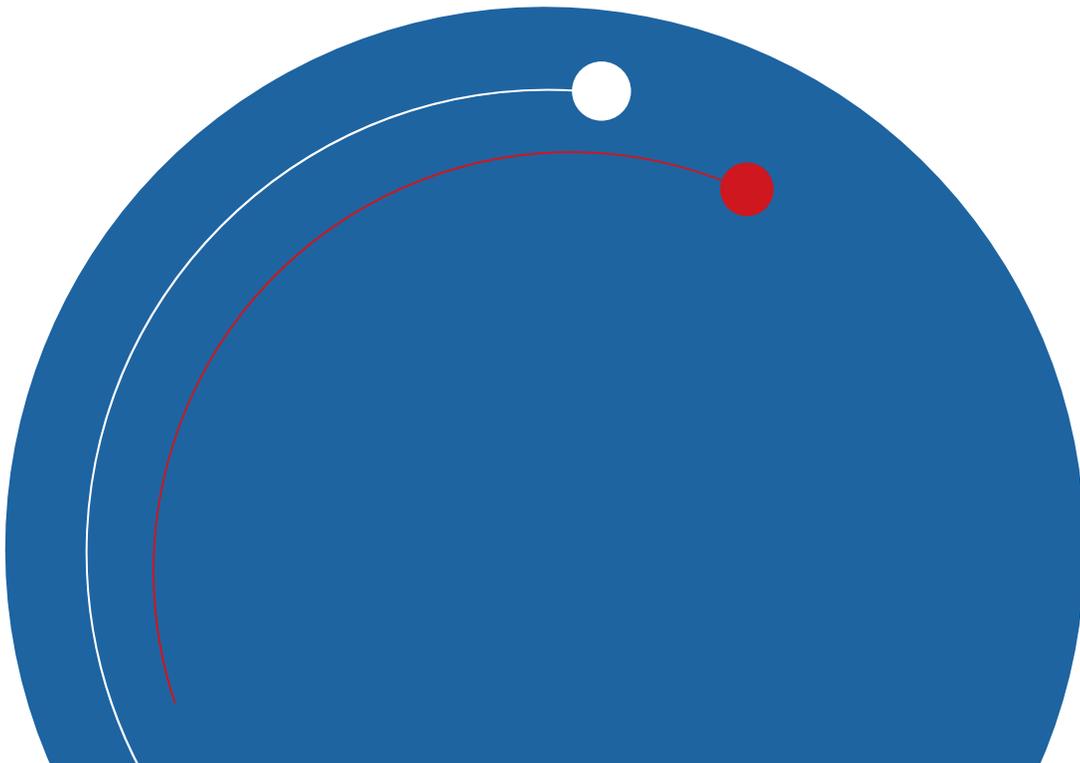
**Other Risks:** This includes various risks not included in the above key domains including reputational risks, single vendor dependencies, communication & member handlings, etc. These are normally handled through defined process and by assigning responsibility to specific resources.

### Risk Assessment Score

A comparative summary of the risk register and assessment with risk scores prior to implementing controls and post implementation have been presented below. These are prepared and reviewed bi-annually in the month of June and December.

S. No.	Key Risk Areas	Pre Implementation Risk Score	Post Implementation Risk Score			
			FY 2016/17		FY 2017/18	
			Dec 2016	Jun 2017	Dec 2017	Jun 2018
1	Operational Risk - Information Security	11.44	5.72	5.89	5.77	5.82
2	Operational Risk - General	14.67	5.25	5.41	5.67	5.67
3	General Business Risk	13.84	6.68	6.63	6.79	6.63
4	Liquidity Risk	13.50	6.00	6.00	6.00	6.00
5	Credit Risk	11.00	4.67	4.43	4.00	4.00
6	Legal/Compliance Risk	13.67	4.08	4.08	4.08	4.58
7	Systemic Risk	15.67	8.67	7.83	7.83	7.83
8	Other Risk	13.22	6.11	5.78	5.78	5.78

Based on the risk score of June 2018, Operational Risk - Information Security and Legal/Compliance Risk have increased. This is mainly due to the addition of risks during the review period in view of the newly added *connectIPS* System (Integration Module and e-Payment System), which is an in-house developed system. Similarly, Nepal Rastra Bank has recently issued multiple directives and regulations with regards to PSP and PSO, which has increased compliance requirements and hence possibility of risks events. However, all such risk items have been recorded in the Risk Registers and appropriate controls implemented or controls identified for implementation in near future.



## 06 HUMAN RESOURCES

Achieving organizational goal, integration between employee's and employer's interest is vital for any organization. NCHL recognizes the value and effort invested by the employees in attaining the overall organizational objectives. Hence, NCHL has tried its best to attract best resources and retain them. Human resource (HR) at NCHL is guided by its policies including NCHL Code of Conduct, Employee Service Rules, HR Plan and Employee Performance Objectives & Appraisal Procedures, which are formulated by the Board. These are in line with the prevailing Labor Acts and Bylaws.

Responsibilities and job descriptions for each of the positions are defined in the HR Plan and are monitored through regular performance reviews.



*1st Row (Left to Right)*

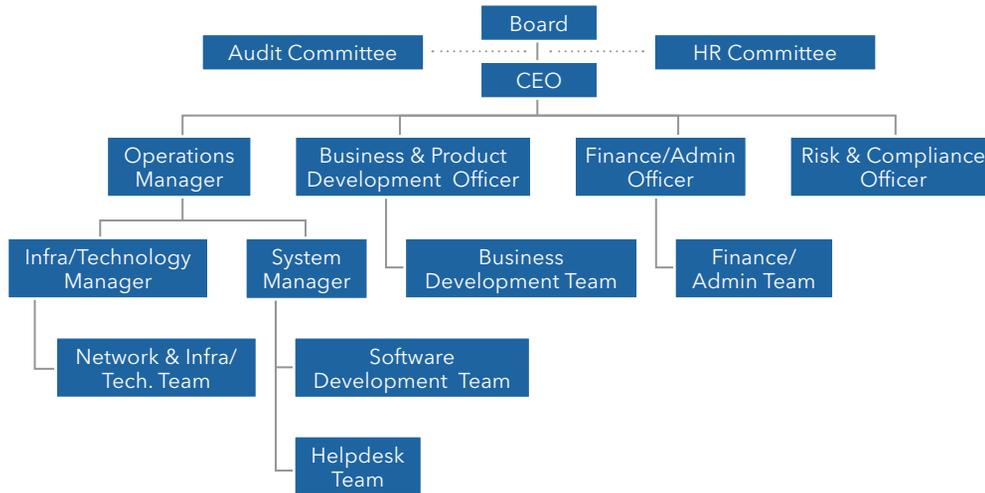
*Chhabi Sapkota, Jenny Shrestha, Prajana Kayastha, Munni Rajbhandary, Neelesh Man Singh Pradhan, Anuja Adhikari, Nisha Raut, Shristy Sangraula*

*2nd Row (Left to Right)*

*Bijay Dahal, Vivek Giri, Navaraj Thapa, Shovit Sharma, Diwas Sapkota, Subash Thapa, Bishnu Giri, Raju Maharjan, Rakesh Shrestha, Dilli Man Shakya, Rupak Gyawali, Neeti Joshi*

**TEAMWORK DIVIDES  
THE TASK AND  
MULTIPLIES THE SUCCESS**

## Organizational Structure



NCHL has maintained a lean organization with highly productive workforce with total of 22 employee at the end of the FY 2074/75 (2017/18), as compared to 15 in the previous year. It supported more than 8,629 business user of 80 members (of NCHL-ECC and NCHL-IPS), equivalent to supporting over 392 average business users per employee.

## Key Human Resource Indicators

### Employee Mix by Gender

Gender	Count	Percent
Female	8	36%
Male	14	64%
<b>Total</b>	<b>22</b>	<b>100%</b>

As of the end of the fiscal year, there are 5 non-core resources, who have been outsourced from the local labor providers, for services related to security guard, helper, reception and driver.

### Level-wise Employee

Job Level	Gender		Total
	Male	Female	
CEO	1	-	1
L80	-	1	1
L70	2	-	2
L60	1	-	1
L50	2	-	2
L40	3	2	5
L30	2	1	3
L20	2	3	5
L10-2	1	-	1
Helper	-	1	1

### Employee Productivity Indicators

Particulars	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	FY 2072/73 (2015/16)
Number of Staff	22	15	14
Staff Turnover	1	1	1
Staff Expenses (Amount in NPR '000)	19,406	16,919	13,898
Average Expense per Staff	882	1,128	993
Staff Expense to Total Operating Expenses	38.55%	35.19%	30.94%
Operating Income per Staff (Amount in NPR '000)	14,680	17,786	11,608
Net Profit After Tax per Employee (Amount in NPR '000)	8,255	8,796	4,124
Staff Bonus (Amount in NPR '000)	24,209	17,608	7,742

## Recruitment Process

NCHL believes in recruiting its employee on the best-fit basis for any available job/position based on competencies, skills, qualification, experience and aptitude. NCHL follows fair and competitive recruitment process providing an equal opportunity to all the deserving candidates. The HR function is executed by the Finance/Admin Officer with necessary overseeing by the Chief Executive Officer. The job specification for each position is clearly indicated in its Human Resource Plan, as approved by the Board.

The recruitment process is normally through public notice of vacancy announcement in national newspaper. Such vacancy is also published in online job portals and NCHL's official website. The applicants undergo a series of screening steps including initial shortlisting based on minimum criteria for the position, written test (up to mid-level) and interviews. The interviews are generally conducted in presence of the CEO, Operations Manager and the department Head. Appropriate controls are put in place to ensure that the codification of written test candidates. Applicants are then ranked based on their total marks and the best ranked candidate is selected with others kept on waiting.

In order to make new recruits accustomed with the work culture of the company, one week's induction session is normally organized that involves knowledge sharing by function heads; self-learning of regulatory laws and rules, internal policies and procedures; and job specific walk through by the immediate supervisor.

In the FY 2074/75 (2017/18), eight new staff (2 in L40, 1 in L30 and 5 in L20) were appointed and one of the staff has resigned. Two of the existing staff have also competed and appointed through external vacancies for level L40.

## Remuneration and Benefits

NCHL has defined job levels for its staffs from L10 to L100, with L10 being the lowest level and L100 being the highest level. This is other than CEO's position. All the core staff have job level with additional functional title. Remunerations and benefits are tide-up with the level and are defined in the Human Resource Plan and Employee Service Rules.

### Salary & Allowance

The minimum and maximum salary scale is defined for each level. The salary scale consists of two components namely basic salary and allowance, which are in the rate of 60:40 of the minimum salary scale. All benefits and appraisal based increments are computed based on basic salary. Salary scale is reviewed once in two years based upon the company's financial position, inflation and prevailing market condition. And such reviews are done by comparing the remuneration and benefits with similar and/or related companies.

Annual salary increment is directly linked with their performance, which is appraised as per the Employee Performance Objectives and Appraised Procedure, with minimum increment of one grade, equivalent to 5% of the basic salary.

### Other Benefits

Benefits as mandated by the Labor Act 2074 and Labor Bylaw 2075 including provident fund, insurance, festival allowance and retirement benefits in the form of gratuity are provided to all regular staff. The provisions regarding these are specified in the company's Employee's Service Rules. Adequate health and group accidental insurance cover are opted for the staffs in order to ensure their health and safety at the workplace.



COMMITTED TO ESTABLISH  
ORGANIZATION OF CHOICE  
FOR THE EMPLOYEES

Additional benefits including mobile allowance, fuel allowance, and evening/late shift allowance (to specific function) are provided based upon their eligibility criteria. Personal/Social Loan facility is provided at a concessional interest rate to the regular staff who has completed 3 years of service and the managerial staff (L70 and above) are also provided with vehicle facility option (VFO). As per the Bonus Act, the share of the profit contribution is distributed to as Staff Bonus under statutory bonus and welfare bonus.

Below is the financial extract of staff expenses:

Amount in NPR '000

Staff Expenses	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	FY 2072/73 (2015/16)
Staff - Dashain Allowance	737	624	519
Staff - HR activity	181	200	87
Staff - Leave Fare Allowance	240	240	240
Staff - Provident Fund	887	777	633
Staff - Salary & Allowance	13,629	12,816	10,161
Staff - Training Expenses	468	341	131
Staff - Gratuity	1,581	388	449
Staff - Leave	516	524	168
Staff - Other Benefits	1,167	1,008	1,509
<b>Total Staff Expenses</b>	<b>19,406</b>	<b>16,919</b>	<b>13,898</b>

## Staff Training & Development

Training and development activities are vital for all employees to widen their horizon of knowledge and develop new skills. NCHL promotes learning culture with regular internal knowledge sharing sessions as well as external trainings, courses, certifications, seminars and self-studies. The training requirements and expected skill sets for the company are identified at the beginning of the year as part of the annual work plan of NCHL and then they are mapped with the resources. These training and development activities are then set as the part of the performance objectives for the year under training category, which carries weightage of 15% in annual performance appraisal of each employee.

In order to enhance skills of the staff for better performance of their responsibility, NCHL identifies and provides appropriate trainings to them. Skill developments are embedded as a part of the individual performance objectives under Training Objectives for all staff and separate budget is allocated for Staff Training Expenses.

## Staff Training Expenses

Amount in NPR '000

Particulars	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	FY 2072/73 (2015/16)
Staff Training Expenses	468	341	131
Training Expense / Staff Expenses	2.41%	2.02%	0.94%

NCHL arranged total of 12 knowledge sharing sessions during the review year, of which, 2 sessions were facilitated by the external trainers and others by internal resources having domain expertise. Below is the snapshot of the internal knowledge sharing sessions:

S. No.	Internal Knowledge Sharing Session	Date	Conducted By
1	ISMS Awareness	1-Sep-17	Dilli Man Shakya
2	Payment & Settlement Bylaw, Licensing Policy	13-Oct-17	Munni Rajbhandari
3	Self-Assessment of Income Tax	25-Oct-17	Anuja Adhikari
4	Demo on Fire Extinguisher	23-Feb-18	External
5	ISMS Awareness	16-Mar-18	Dilli Man Shakya
6	connectIPS- Introduction, Features, Roadmap, Pricing Structure	12-Jun-18	Neelesh M. S. Pradhan
7	connectIPS- Modules, Integration Process, Security and Technology	13-Jun-18	Diwas Sapkota
8	Settlement Guarantee Fund, Debit Cap and its Operation	15-Jun-18	Munni Rajbhandari
9	Banks, Merchants, Customers-Enrollment and Operation Process	17-Jun-18	Diwas Sapkota
10	Current Market Trends of PSPs v/s connectIPS	20-Jun-18	Vivek Giri
11	connectIPS e-payment Retail/Bank Network Architecture	29-Jun-18	Rupak Gyawali
12	Customer Support & Service Excellence Training	30-Jun-18	External



*Customer Support & Service Excellence Training*

Following are some of the external trainings, professional certification and seminar/conferences attended by various staff of NCHL.

S. No.	Staffs Training & Capacity Building	Date/Period	Attended By
1	Dynamics of Accounting and Financial Management	17-Jul-17	Anuja Adhikari
2	Java (Core and MVC)	10-Oct-17	Subash Thapa, Bishnu Dhital, Nisha Raut
3	IFRS/ NFRS (Training on IFRS)	23-Feb-18	Anuja Adhikari
4	Conference on Digitization	16-Mar-18	Diwas Sapkota, Chhabi Sapkota
5	ISO27001 Lead Implementer Certification	22-Apr-18	Dilli Man Shakya
6	PostgreSQL Conference	4-May-18	Subash Thapa, Bishnu Dhital
7	Practical Training on NFRS for SMEs - 3 days	4-May-18 to 6-May-18	Jenny Thapa Shrestha, Prajana Kayastha
8	Financial Fraud Conference 2018	7-May-18	Munni Rajbhandari
9	Training cum Workshop Program on Major Changes in Tax	6-Jul-18	Anuja Adhikari, Jenny Thapa Shrestha

### Staff Welfare Committee

The Staff Welfare Committee was constituted in FY 2071/72 (2014/15) as per the Clause 47 of NCHL Employee's Service Rules that has the following responsibilities.

1. To hold consultation to improve working environment;
2. To handle grievances of the employees;
3. To address employee's Health and Safety in the company;
4. To decide on utilization and operation of Staff Welfare Fund in the interests of the employee;
5. To co-ordinate for various activities/functions for the welfare of the employee including team building HR activities, staff canteen, and similar

The Staff Welfare Committee comprises of the following members, which convenes its meeting as deemed necessary:

S. No.	Committee Members	Role
1	Operations Manager	Chairman
2	Representation from HelpDesk Team	Member
3	Representation from Finance/Admin Function	Member Secretary

In the review period, the committee convened 4 meetings in order to address various staff related matters.

Some of the team building activities coordinated are as follows:



Annual Team Building Activity at Hattiban Resort



Team Building Activity with NRB Officials at Shivapuri Village Resort

## 07 FINANCIAL AND RELATED INFORMATION

### Director's Report and Disclosure as per Section 109 of Company Act 2074

Dear Shareholders,

It is with great pleasure on the behalf of the Board of Directors of Nepal Clearing House Ltd. (NCHL) to welcome all the shareholders and the invited guests in our seventh annual general meeting. We present you the company's performance, achievements, challenges, business review along with the audited reports of the financials for the fiscal year ending 2074/75 (2017/18).

#### Performance review of last year:

This has been disclosed under sections Financial Review and Operational Review of this report.

Effect on business of the company due to national and international situation:

The business growth of NCHL in the last fiscal year has been outstanding in terms of the operational and financial achievements. And NCHL will maintain the current momentum of growth from the existing systems and will continue to venture into other innovative payment and settlement systems.

Recent changes in the government policies (announced in Government of Nepal Budget 2075/76 related to opening of bank account for every Nepalese citizen and bank account based electronic payments transactions including government payouts and collections) are expected to positively increase the transaction volume of NCHL-ECC, NCHL-IPS and *connectIPS* e-Payment systems. We have already seen G2B and G2C transactions flowing through NCHL-IPS system and it is expected to increase C2G related Government revenue payments in the coming year.

We also see major activities in Nepal within the payments industry and in particular retail payments segment, after the issuance of PSP/PSO

licenses and LOI approvals by Nepal Rastra Bank. There are possibility of some overlapping in the retail payment segment especially for the transactions that are anticipated to be processed through NCHL-IPS system and *connectIPS* e-Payment system. However, given the strategic position of NCHL that has linked almost all the banks and financial institutions in Nepal, it is well placed to collaborate even with the new providers, particularly for account based transactions and hence gain additional opportunities for NCHL. Such institutions could be enrolled within NCHL as indirect or technical members.

The merger of banks and financial institutions has drastically reduced the membership base of NCHL, which is expected to continue in next fiscal year also. This has reduced the annual membership fees income for NCHL. Despite the challenges of continuous merger, NCHL was able to enroll additional 3 members within NCHL-ECC system, 10 members within NCHL-IPS and 17 members in *connectIPS* e-Payment System. The total membership base by the end of the review period remains at 80 members for NCHL-ECC, 75 for NCHL-IPS and 17 for *connectIPS* e-Payment.

As one of the major operating expenses of NCHL is for the software AMC, payable in USD to the vendor, the downside exchange rate fluctuation of USD/NPR has remained in favor of NCHL in the last fiscal year. However, the appreciation of US dollars against NPR in this year will adversely impact the financials of NCHL. Difficulty in recruiting qualified and experienced human resources was one of the major challenges that we had to face in the year gone by.

#### Human Resource:

As disclosed under section Human Resource of this report.

### Industrial and professional relationships:

NCHL has maintained cordial relationship with all the major stakeholders including various department of the Government of Nepal (GoN), Nepal Rastra Bank (NRB), Banks and Financial institutions, their associations, non-bank institutions, payment service providers (PSPs), employees, and various other business groups. And due to the continuous support and confidence shown by all the parties, it has been able to establish and operate various national payment system infrastructures and bring the institution up to this level. NCHL has also maintained a balanced relationship with the national and international technology partners and service providers. NCHL will continue to gain the trust and confidence from different sectors and will collaborate with all such partners.

### Changes in Board of Director:

As changes in the sub-section Changes in the Board of Directors under section Governance of this report.

### Main factors affecting the business:

Following are some of the major factors that may adversely affect NCHL's business in the coming fiscal year.

- Continuation in the trend of merger of various BFI's ultimately reducing the potential and existing members which will directly impact the annual membership fee based income. However, due to the increased branch network and the customer base, the transaction volume in all the systems are expected to increase.
- The recent policy of Nepal Rastra Bank to issue PSP/PSO licenses and Letter of Intent approvals will allow other institutions to provide payment services. This will increase the number of players in the payments industry with possible overlapping with some of the products/services of NCHL. Although there are possibility of some level of competition in the micro retail payments segment, this is also expected to increase number of Indirect and Technical members of NCHL as NCHL intends to collaborate with these players also.

- The policy of GoN to open bank account for all Nepalese citizens; GoN's payouts and revenue collection to be through electronic channels; NRB's policy to allow transactions of NPR 10 lakh and above mandatorily through bank accounts; and remittance above NPR 1 lakh through bank account; indicates regulatory direction towards promoting non-cash transactions. This will increase opportunities for cheque and electronic transactions for NCHL.
- Technology based inherent risks could also adversely affect the operations at NCHL thereby causing impact in its business. However, NCHL has implemented comprehensive risk management framework to monitor and control such risks. NCHL will invest on upgrading its operational and security related infrastructures.
- The fluctuation in the exchange rate of USD against NPR will have major impact in the operating expenses of the company. However, the company has policy of entering into forward contract if required based on the market information to minimize foreign exchange risk.
- Limited availability of the skilled resources is one of the major factors that could affect NCHL. To address this, the company has been continuously providing various internal and external trainings to enhance the skills of its employees and has regularly reviewed the employee benefits.

### Remarks and observation from Independent Auditor's Report:

Auditor has expressed their satisfaction on the financial transactions of the company and has positively remarked the growth of the company. Complete audit report is attached in the later section of the report.

### Amount recommended for Dividend and Bonus:

20% on paid up capital amounting NPR 36,000,000 has been proposed as cash dividend and 20% of the paid up capital has been proposed as bonus shares for the fiscal year 2074/75 (2017/18). However, they have not been accounted in the financials.

**Detail of share forfeited**

No share has been forfeited.

**Any information given to Company by its principal shareholder (who holds 1% or more shares of the company) during financial year:**

Not applicable.

**Company and its subsidiary company's transaction and review of situations at the end of the fiscal year:**

NCHL does not have subsidiary. And the details of transactions of the company have been mentioned in the presented balance sheet, profit & loss statement, cash flow statement and auditor's report.

**Information regarding personal interest of any of the directors or their relatives regarding the agreement related to the company:**

There is no record of such event/ transaction.

**Purchase of its own share:**

Not applicable

**Information regarding existing internal control:**

This has been disclosed under sub-section Internal Control of section Governance of this report.

**Detail of management expenses incurred during the year:**

The details of the management expenses are as follows:

Amount in NPR

Particulars	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	FY 2072/73 (2015/16)
Staff Expenses	19,405,584.98	16,918,812.14	13,897,739.57
Other Admin Expenses	13,574,295.71	11,574,597.09	7,847,172.75
<b>Total</b>	<b>32,979,880.69</b>	<b>28,493,409.23</b>	<b>21,744,912.32</b>

**Member of Audit Committee, their remunerations & benefits and details of their activities****performed along with recommendations:**

Members of the Audit Committee are:

Mr. Rabindra Bahadur Malla - Chairman

Mr. Ujjal Rajbhandary - Member

Mr. Sunil Pant - Member

Ms. Anuja Adhikari - Member Secretary

There was no provision for remunerations to any of the members of the Audit Committee. As a meeting allowance, NPR 5,000 for each member

**Plan of the company for the coming fiscal year:**

Some of the major activities of NCHL that are planned for the FY 2075/76 (2018/9) include:

- Maintain operational stability of NCHL-ECC, NCHL-IPS and core components of *connectIPS* e-Payment Systems. Upgrading and strengthening the existing infrastructure (hardware and network) will be of prime importance to support expected increase in transaction volume.
- Increase acceptability of NCHL-IPS system for the member BFIs and their customers with primary focus on bulk transactions like salary, pension, social security, insurance, remittances.
- Focus on increasing Indirect/ Technical members in NCHL-IPS.
- Extend the *connectIPS* e-Payment System with additional functionalities to cover various other business use cases of bank branch assisted, online and mobile channel based payment services.
- Jointly promote with the member BFIs for *connectIPS* e-Payment System as single payments platform for Nepal.
- Continue providing training and orientation programs to the members and other institutions.
- Prepare detailed project for Real-Time Retail Payment System (generic switch/system for mobile and other channels).

was provided per sitting except for the Member Secretary. Total of NPR 80,000.00 was disbursed as meeting allowance to the Audit Committee members. Applicable tax was deducted prior to the payment in all such payments. Six audit committee meetings were held in the fiscal year.

**Details of remunerations, allowances and other benefits paid to Directors, Managing Director and Chief Executive:**

There was no provision for remunerations to any of the Directors. As a meeting allowance for each board meeting, the meeting allowance was provided to Board of Directors for each sitting which was NPR 5,000 for each Director during this year. The Board had 12 meetings during the period under review and total of NPR 335,000.00 was disbursed as board meeting allowance to the Directors. Applicable tax was deducted prior to the payment in all such payments.

Amount in NPR

Board Member	Total Meeting Allowance
Mr. Jhalak Sharma Acharya	20,000
Mr. Ujjal Rajbhandary	30,000
Ms. Umang Sharma	35,000
Mr. Surendra Bhushan Shrestha	-
Mr. Madhav Prasad Upadhaya	5,000
Mr. Sunil Pant	40,000
Mr. Rabindra Bahadur Malla	45,000
Mr. Rajan Singh Bhandari*	15,000
Mr. Janak Bahadur Adhikari*	40,000
Mr. Jyoti Prakash Pandey*	15,000
Mr. Anil Keshary Shah*	10,000
Mr. Bharat Raj Dhakal*	20,000
Mr. Saroj Kaji Tuladhar*	15,000
Ms. Anupama Khunjeli*	20,000
Mr. Pradyuman Pokharel*	25,000

\*Retired Board Members

The Chief Executive Officer during the year under review was paid basic salary of NPR 4,800,000.00, NPR 866,400.00 as other benefits including provident fund contribution and NPR 5,149,081.09 as statutory & welfare bonus. He was also provided with office vehicle with a driver with fuel expense of up to 150 liters per month on actual and mobile expense of up to NPR 2,000 per month on actual were also provided.

### Details of Dividend, Bonus and Dividend Payable:

Cash Dividend of 20% and Bonus Share Capital of 20% has also been proposed from the profit earned from the FY 2074/75 (2017/18). There exists no any outstanding dividend payable from FY 2073/74 (2016/17).

### Information disclosure as per Section 141 regarding purchase or sale of assets:

Not Applicable.

### Details of related party transaction as per the section 175 (transaction between associated companies):

Not Applicable.

### Any other details to be disclosed:

Disclosed in appropriate part of this report and financial statements.

Finally, on the behalf of the Board of Directors, we would like to thank Nepal Rastra Bank, Banks & Financial Institutions, other regulatory bodies and other stakeholders for placing their trust and confidence in our company. Sincere thanks to the management team and other staff whose commitment and hard work has brought the company up to this stage. We look forward towards continued support and suggestions from all the stakeholders to establish NCHL as a leading service provider of national payment and settlement systems.

On behalf of Board of Directors

**Jhalak Sharma Acharya**  
Chairman

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
Nepal Clearing House Limited, Kathmandu, Nepal**

We have audited the accompanying financial statements of **Nepal Clearing House Limited** comprising of the Statement of Financial Position (SoFP) as at July 16, 2018 (corresponding to Asad 32, 2075), the Statement of Comprehensive income and Income Statement, Statement of Changes in Equity, Statement of Income and Retained Earning and Statement of Cash Flow for the year then ended and a summary of Significant Accounting Policies and Notes to Accounts.

**Opinion**

In our opinion and to the best of our information and explanations provided to us, Financial Statement referred to above present fairly, in all material respects, the financial position of Nepal Clearing House Limited as at 32<sup>nd</sup> Ashad 2075 [i.e. July 16, 2018] and its financial performance for the year then ended in accordance with Nepal Financial Reporting Standard for Small and Medium Enterprises (SMEs).

These statements are the responsibility of management of Nepal Clearing House Limited. Our responsibility is to express an opinion on the accompanying statement based on our audit.

**Basis of Opinion**

We conducted our audit in accordance with Nepal Standard on Auditing (NSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Nepal Clearing House Limited in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibility of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement whether due to fraud or error and selecting and applying appropriate accounting policy and making accounting estimate that are reasonable in the circumstance.

**Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

An audit also involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedure selected depends upon auditor's

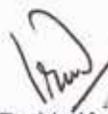


judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting estimates made by management, as well as evaluation the overall presentation of the financial statement.

#### Report on Other Legal and Regulatory Requirements

As per Companies Act 2063, based on our audit carried out on sampling basis, we report that, in our opinion:

1. We have obtained all the information and explanations, which, to the best of our knowledge and belief, were considered necessary for the purpose of our audit;
2. Proper books of accounts as required by law have been kept by the Company as far as appears from our examination of such books;
3. The Statement of Financial Position (SoFP) as at July 16, 2018 (corresponding to Asad 32, 2075), the Statement of Comprehensive income and Income Statement, Statement of Changes in Equity, Statement of Income and Retained Earning and Statement of Cash Flow for the year then ended are prepared as per the provisions of the Company Act 2063 and the same are in agreement with the books of accounts maintained by the Company;
4. The business of the Company has been conducted satisfactorily; and
5. To the best of our knowledge and in accordance with explanations given to us and from our examination of the books of accounts of the Company, necessary for the purpose of our audit, we have not come across cases where the Board of Directors, representative or any employee of the Company has acted contrary to the provisions of law, or committed any misappropriation or caused loss or damage to the Company deliberately.

  
Prabin K Jha,  
Partner



Dillibazar, Kathmandu  
Date: September 21, 2018

## Audited Financial Statements

### Statement of Financial Position

As at Ashad 32, 2075 (16<sup>th</sup> July 2018)

Particulars	Notes	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
<b>ASSETS</b>				
<b>Non Current Assets</b>				
Property, Plant and Equipment		92,613,098.83	69,940,583.00	70,391,446.08
Less: Accumulated Depreciation		(56,565,299.02)	(51,347,441.59)	(47,948,638.54)
<b>Net Block: Property, Plant and Equipment</b>	<b>4</b>	<b>36,047,799.81</b>	<b>18,593,141.41</b>	<b>22,442,807.54</b>
Intangible Assets		81,994,501.26	63,425,961.35	37,011,458.94
Less: Accumulated Amortization		(47,446,944.88)	(41,119,579.45)	(29,447,707.59)
<b>Net Block: Intangible Assets</b>	<b>4</b>	<b>34,547,556.38</b>	<b>22,306,381.90</b>	<b>7,563,751.35</b>
Long Term Investment	5	70,000,000.00	40,000,000.00	5,000,000.00
Settlement Guarantee Fund Deposit	7	20,000,000.00	-	-
<b>Other Non Current Assets</b>		<b>90,000,000.00</b>	<b>40,000,000.00</b>	<b>5,000,000.00</b>
Project WIP	4	2,975,644.39	-	9,797,251.66
Deferred Tax Asset		177,302.18	1,323,883.86	1,312,944.80
<b>Total Non Current Assets</b>		<b>163,748,302.76</b>	<b>82,223,407.17</b>	<b>46,116,755.35</b>
<b>Current Assets</b>				
Cash & Bank Balances	6	18,563,841.54	21,007,257.82	32,772,002.50
Cash Equivalents	6	36,000,000.00	25,000,000.00	30,000,000.00
Short Term Investment	5	276,500,000.00	215,000,000.00	115,000,000.00
Inventories	8	198,183.78	197,058.01	223,021.41
Prepaid, Loans, Advances & Deposits	9	10,603,301.57	6,363,138.07	16,091,307.95
Trade & Other Receivables	10	35,613,850.33	24,253,548.41	16,103,620.80
<b>Total Current Assets</b>		<b>377,479,177.22</b>	<b>291,821,002.31</b>	<b>210,189,952.66</b>
<b>TOTAL ASSETS</b>		<b>541,227,479.98</b>	<b>374,044,409.48</b>	<b>256,306,708.01</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity &amp; Shareholder's Fund</b>				
Share Capital	1	180,000,000.00	150,000,000.00	150,000,000.00
Reserve & Surplus	2	291,788,279.31	170,179,570.39	68,234,215.27
i) Technology Enhancement Reserve		77,563,129.60	41,241,387.82	14,852,316.80
ii) Land & Building Reserve		18,160,870.89	-	-
iii) General Reserve & Surplus		196,064,278.81	128,938,182.57	53,381,898.47
<b>Total Equity &amp; Shareholder's Fund</b>		<b>471,788,279.31</b>	<b>320,179,570.39</b>	<b>218,234,215.27</b>
<b>Non Current Liabilities</b>		-	-	-
Medium & Long Term Loans	3	-	-	-
<b>Total Non Current Liabilities</b>		-	-	-
<b>Current Liabilities</b>				
Trade and Other Payables	11	44,473,193.30	35,806,612.14	30,015,466.06
Provisions	12	24,966,007.38	18,058,226.95	8,057,026.68
Deferred Tax Liabilities		-	-	-
<b>Total Current Liabilities</b>		<b>69,439,200.68</b>	<b>53,864,839.09</b>	<b>38,072,492.74</b>
<b>Total Liabilities</b>		<b>69,439,200.68</b>	<b>53,864,839.09</b>	<b>38,072,492.74</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>541,227,479.98</b>	<b>374,044,409.48</b>	<b>256,306,708.01</b>

Notes 1-23 form an integral part of financial statements

Neelesh Man Singh Pradhan  
Chief Executive Officer

Jhalak Sharma Acharya  
Chairman

CA. Prabin K. Jha  
Joshi & Bhandari  
Chartered Accountants

Ujjal Rajbhandary  
Director

Umang Sharma  
Director

Surendra Bhushan Shrestha  
Director

Rabindra B. Malla  
Director

Madhav Prasad Upadhyay  
Director

Sunil Pant  
Director

Date: 18<sup>th</sup> September 2018  
Kamaladi, Kathmandu, Nepal

### Statement of Comprehensive Income and Income Statement

For the Period Ending Ashad 32, 2075  
(Corresponding to 16<sup>th</sup> July 2017 to 16<sup>th</sup> July 2018)

Particulars	Notes	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
<b>Operating Income</b>				
Revenue	13	321,310,099.71	265,708,615.49	160,065,825.01
Software License - Members		1,653,000.00	1,084,000.00	2,448,000.00
<b>Operating Expenses</b>				
Operating Expenses	14	50,334,058.70	48,081,532.14	44,922,367.22
Cost of Software License - Members		-	-	-
<b>Gross Profit</b>		<b>272,629,041.01</b>	<b>218,711,083.35</b>	<b>117,591,457.79</b>
Add: Interest Income		37,583,201.89	17,612,457.93	7,480,075.99
Add: Other Income		1,231,032.50	3,201,079.33	11,200.50
Less: Administrative Expenses	15	32,979,880.69	28,493,409.23	21,744,912.32
<b>Operating Profit</b>		<b>278,463,394.71</b>	<b>211,031,211.38</b>	<b>103,337,821.96</b>
Depreciation Expenses		5,831,413.38	5,670,031.80	10,775,186.21
Amortization Expenses		6,327,365.44	11,671,871.85	7,401,312.45
Staff Bonus		24,209,510.54	17,608,118.88	7,741,938.48
<b>Profit Before Tax</b>		<b>242,095,105.36</b>	<b>176,081,188.85</b>	<b>77,419,384.82</b>
Provision for Income Tax		59,339,814.76	44,146,772.79	20,390,531.00
Deferred Tax Surplus (Deficit)		1,146,581.68	10,939.06	707,554.44
<b>Net Profit After Tax</b>		<b>181,608,708.92</b>	<b>131,945,355.12</b>	<b>57,736,408.26</b>
<b>Other Comprehensive Income/(Expenses)</b>		-	-	-
<b>Total Attributable Profit</b>		<b>181,608,708.92</b>	<b>131,945,355.12</b>	<b>57,736,408.26</b>
Profit (Loss) Up to Last Year		128,938,182.57	53,381,898.47	22,192,771.86
Less: Cash Dividend Paid for Last Year		(30,000,000.00)	(30,000,000.00)	(15,000,000.00)
Less: Bonus Share Capital for Last Year		(30,000,000.00)	-	-
<b>Adjusted Profit Up to Last Year</b>		<b>68,938,182.57</b>	<b>23,381,898.47</b>	<b>7,192,771.86</b>
<b>Accumulated Profit (Loss) Up to This Year</b>		<b>250,546,891.49</b>	<b>155,327,253.59</b>	<b>64,929,180.12</b>
<b>Appropriation</b>				
a. Technology Enhancement Reserve		36,321,741.78	26,389,071.02	11,547,281.65
b. Land & Building Reserve		18,160,870.89	-	-
c. Balance of Profit & Loss Transferred to General Reserve and Surplus		127,126,096.25	105,556,284.10	46,189,126.61

Neelesh Man Singh Pradhan  
Chief Executive Officer

Jhalak Sharma Acharya  
Chairman

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Joshi & Bhandari  
Chartered Accountants

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Director

Umang Sharma  
Director

Surendra Bhushan Shrestha  
Director

Rabindra B. Malla  
Director

Madhav Prasad Upadhyay  
Director

Sunil Pant  
Director

Date: 18<sup>th</sup> September 2018  
Kamaladi, Kathmandu, Nepal

### Statement of Cash Flows

For the Period Ending Ashad 32, 2075  
(Corresponding to 16<sup>th</sup> July 2017 to 16<sup>th</sup> July 2018)

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
Net Profit/(Loss) Before Tax	242,095,105.36	176,081,188.85	77,419,384.82
Preliminary & Pre-operating (Expenses)/Surplus		-	
Add/(Less) : Adjustment			
Depreciation Expenses	5,831,413.38	5,670,031.80	10,775,186.21
Amortization Expenses	6,327,365.44	11,671,871.86	7,401,312.45
Gratuity Provision	1,439,197.28	(86,672.92)	16,485.03
Leave Provision	196,408.77	221,692.79	(652,797.85)
Staff Bonus Provision	24,209,510.54	17,608,118.88	7,741,938.48
Provision Write Back	(143,000.00)	-	-
Profit on Sale of Assets	(85,600.00)		
Loss on Disposal of Assets	103,686.41	-	-
<b>Cash Flow from Operation Before Working Capital</b>	<b>279,974,087.17</b>	<b>211,166,231.26</b>	<b>102,701,509.14</b>
Increase (Decrease) in Current Liabilities	(68,138,352.48)	(45,980,582.19)	5,962,823.04
Decrease (Increase) in Current Assets	(36,930,808.47)	(4,895,794.32)	(9,665,021.67)
<b>Cash Flow From Operating Activities</b>	<b>174,904,926.23</b>	<b>160,289,854.75</b>	<b>98,999,310.51</b>
Purchase of Fixed Assets	(42,020,498.10)	(19,050,487.67)	(19,373,517.54)
Sale or Disposal of Fixed Assets	147,800.00	612,871.25	-
Project WIP	(2,975,644.39)	-	(6,397,930.73)
Investment in Fixed Deposits	(102,500,000.00)	(123,500,000.00)	(60,000,000.00)
<b>Cash Flow From Investing Activities</b>	<b>(147,348,342.49)</b>	<b>(141,937,616.42)</b>	<b>(85,771,448.27)</b>
Interest on Loan	-	-	-
Increase(Decrease) in Loans	-	-	-
Share Capital	-	-	-
Dividend Paid	(30,000,000.00)	(30,116,983.00)	(14,883,017.00)
<b>Cash Flow From Financing Activities</b>	<b>(30,000,000.00)</b>	<b>(30,116,983.00)</b>	<b>(14,883,017.00)</b>
Net Increase (Decrease) in Cash & Bank Balances	(2,443,416.26)	(11,764,744.67)	(1,655,154.76)
<b>Cash &amp; Bank Balances at the Beginning of the Year</b>	<b>21,007,257.82</b>	<b>32,772,002.50</b>	<b>34,427,157.26</b>
<b>Cash &amp; Bank Balance at the End of the Year</b>	<b>18,563,841.54</b>	<b>21,007,257.82</b>	<b>32,772,002.50</b>

Neelesh Man Singh Pradhan  
Chief Executive Officer

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Director

Sunil Pant  
Director

Date: 18<sup>th</sup> September 2018  
Kamaladi, Kathmandu, Nepal

## Statement of Changes in Equity, Statement of Income and Retained Earning

As at 32<sup>nd</sup> Ashad 2075 (16<sup>th</sup> July 2018)

Particulars	Share Capital	Share Premium	Revaluation Reserve	Tech. Enhancement Reserve	Accumulated Profit/(Loss)	Total
Balance at 16 <sup>th</sup> July 2017	150,000,000.00	-	-	41,241,387.82	128,938,182.57	320,179,570.39
Changes in Accounting Policy	-	-	-	-	-	-
Bonus Share (For Last Year)	30,000,000.00	-	-	-	(30,000,000.00)	-
Cash Dividend (For Last Year)	-	-	-	-	(30,000,000.00)	(30,000,000.00)
Restated Balance	180,000,000.00	-	-	41,241,387.82	68,938,182.57	290,179,570.39
Surplus on Revaluation of Properties	-	-	-	-	-	-
Deficit on Revaluation of Investment	-	-	-	-	-	-
Current Translation Difference	-	-	-	-	-	-
Net Profit for the Period	-	-	-	-	181,608,708.92	181,608,708.92
Transfer to Technology Enhancement Reserve	-	-	-	36,321,741.78	(36,321,741.78)	-
Transfer to Land & Building Reserve	-	-	-	18,160,870.89	(18,160,870.89)	-
Issue of Share Capital	-	-	-	-	-	-
Balance as at 16 <sup>th</sup> July 2018	180,000,000.00	-	-	95,724,000.50	196,064,278.81	471,788,279.31

## Statement of Changes in Equity, Statement of Income and Retained Earning

As at 31<sup>st</sup> Ashad 2074 (15<sup>th</sup> July 2017)

(As per first time adoption of NFRS for SMEs)

Particulars	Share Capital	Share Premium	Revaluation Reserve	Technology Enhancement Reserve	Accumulated Profit/(Loss)	Total
<b>Balance at 16<sup>th</sup> July 2016</b>	<b>150,000,000.00</b>	-	-	<b>14,852,316.80</b>	<b>53,381,898.47</b>	<b>218,234,215.27</b>
Bonus Share (For Last Year)	-	-	-	-	-	-
Cash Dividend (For Last Year)	-	-	-	-	(30,000,000.00)	(30,000,000.00)
Changes in Accounting Policy	-	-	-	-	-	-
Restated Balance	150,000,000.00	-	-	14,852,316.80	23,381,898.47	188,234,215.27
Surplus on Revaluation of Properties	-	-	-	-	-	-
Deficit on Revaluation of Investment	-	-	-	-	-	-
Current Translation Difference	-	-	-	-	-	-
Net Profit for the Period	-	-	-	-	131,945,355.12	131,945,355.12
Transfer to Technology Enhancement Reserve	-	-	-	26,389,071.02	(26,389,071.02)	-
Transfer to Land & Building Reserve	-	-	-	-	-	-
Issue of Share Capital	-	-	-	-	-	-
<b>Balance as at 15<sup>th</sup> July 2017</b>	<b>150,000,000.00</b>	-	-	<b>41,241,387.83</b>	<b>128,938,182.56</b>	<b>320,179,570.37</b>

## Notes Attached to and Forming Part of Financial Statements

For the Period Ending 32<sup>nd</sup> Ashad 2075

### Significant Accounting Policies and Notes to Accounts

#### Background Information

Nepal Clearing House Ltd. (NCHL) is a limited liability company registered with Company Registrar Office on 8<sup>th</sup> Poush 2065 (corresponding to 23<sup>rd</sup> December 2008) with registered address at Kamaladi, Kathmandu. The principle objective of the company is to implement and operate national payment and settlement systems in Nepal. It obtained the letter of commencement of business from Company Registrar Office effective from 31<sup>st</sup> Jestha 2068. NCHL obtained approval from Nepal Rastra Bank for operation of Electronic Cheque Clearing (NCHL-ECC) system for foreign currency cheques clearance effective from 7<sup>th</sup> Poush 2068 and obtained circular for conducting the cheque clearance in Nepalese currency effective from 20<sup>th</sup> Chaitra 2068. NCHL obtained approval from Nepal Rastra Bank for operation of Interbank Payment System (NCHL-IPS) from 4<sup>th</sup> Mangsir 2071 and effectively commenced NCHL-IPS transaction since 1<sup>st</sup> Bhadra 2073. NCHL obtained approval from Nepal Rastra Bank on 19<sup>th</sup> Chaitra 2074 for operation of *connectIPS* e-Payment System for processing of payments through alternate channels which was commenced from 12<sup>th</sup> Baisakh 2075.

NCHL entered into agreement for NCHL-ECC with 157 members out of which only 80 members (Nepal Rastra Bank, 28 Commercial Banks and 30 Development Banks & 21 Finance Companies) are in operation till Ashad end 2075. 9 members of NCHL-ECC including 7 Development Banks and 2 Finance Companies merged during the fiscal year 2074/75.

Similarly, for NCHL-IPS System, NCHL entered into agreement with 88 members out of which only 75 members (Nepal Rastra Bank, 28 Commercial Banks, 28 Development Banks, 16 Finance Companies and 2 Indirect members) are in operation till Ashad end 2075. 6 members of NCHL-IPS including 5 Development Banks and 1 Finance Company merged during the fiscal year

2074/75. 1 of the indirect members discontinued its membership, while 4 indirect/technical members are yet to come into operations. For *connectIPS* e-Payment System, 17 members went live (12 Commercial Banks, 4 Development Banks and 1 Finance Company) for soft launch till Ashad end 2075.

#### Approval of Financial Statements

Accompanied financial statements are prepared under the responsibility of the management and adopted by the Board of Directors on its meeting held on 18<sup>th</sup> September 2018 with necessary recommendation for approval by the shareholders in the upcoming Annual General Meeting.

#### Basis of Financial Statement Preparation

Financial statements is prepared and/or presented based on the following considerations:

- Financial statements are prepared on a going concern basis.
- Financial statements are presented in Nepalese Rupees (NPR) which is the functional and presentation currency.
- Financial statements are prepared by applying accrual basis of accounting (except as otherwise stated therein).
- Statement of Financial Position has been prepared with bifurcation of assets and liabilities into current and non-current nature, Statement of Comprehensive Income and Income Statement has been prepared using classification 'by nature' method.
- Fair value of assets and/or liabilities are discounted with respect to effective interest rate, wherever the impact of such discount is material. Effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of asset or liability to the gross carrying amount of a financial asset or to the amortized cost of the financial liability.

### Reporting Pronouncements

NCHL adopted Nepal Financial Reporting Standards (NFRS) for Small and Medium Enterprises (SMEs) from this fiscal year, as pronounced by Accounting Standards Board (ASB) on 12<sup>th</sup> April, 2017. NFRS for SMEs is mandatory after 16<sup>th</sup> July 2019 but allows for earlier application and hence, it is adopted in advance as a prudent practice. As per Section 35 of NFRS for SMEs, disclosure of comparative information along with adjustments, wherever required, are presented for the last fiscal year. And as the part of the first time adoption of NFRS for SMEs, are represented and/or readjusted, wherever necessary.

### Use of Estimates

The preparation of financial statement in conformity with NFRS for SMEs, requires the management to make estimates and assumptions that affect the reported amount in the financial statement. The management believes that the uses of estimates in preparation of the financial

statement are prudent and reasonable. Apart from use of estimates, management has made various judgments in the process of applying the NCHL's accounting policies which has been described through significant accounting policies and explanatory notes as stated herein.

### Statement of Compliance

The financial statements are prepared in accordance with Nepal Financial Reporting Standards (NFRS) for SMEs except otherwise stated and the Company Act, 2074.

### Significant accounting policy and explanatory notes

Accounting policies are the specific principles, bases, conventions, rules and practices applied by the company. The accounting policies adopted by the company are included in the relevant notes for each item of the financial statement along with the explanatory notes, wherever required. The effect and nature of the changes in policy, if any, are also disclosed.

### Note 1: Share Capital

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
<b>Authorized Capital</b>			
2,500,000 Ordinary Shares of Rs 100/- each	250,000,000.00	250,000,000.00	250,000,000.00
<b>Issued Capital</b>			
1,800,000 Ordinary Shares of Rs 100/- each	180,000,000.00	150,000,000.00	150,000,000.00
<b>Subscribed Capital</b>			
1,800,000 Ordinary Shares of Rs. 100/- each	180,000,000.00	150,000,000.00	150,000,000.00
<b>Paid up Capital</b>			
1,800,000 Ordinary Shares of Rs. 100/- each	180,000,000.00	150,000,000.00	150,000,000.00
Less: Calls in Arrears	-	-	-
Deposit for Share	-	-	-
Bonus Share Capital	-	-	-
<b>Total</b>	<b>180,000,000.00</b>	<b>150,000,000.00</b>	<b>150,000,000.00</b>

The Board of Directors of the company has proposed for bonus share of 20% of the paid-up capital equivalent to NPR 36,000,000.00 from the current year's profit subject to approval in the next Annual General Meeting.

**Note 2: Reserve & Surplus**

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
<b>Technology Enhancement Reserve</b>	<b>77,563,129.60</b>	<b>41,241,387.82</b>	<b>14,852,316.80</b>
Opening Balance	41,241,387.82	14,852,316.80	3,305,035.15
Transfer during the Period	36,321,741.78	26,389,071.02	11,547,281.65
<b>Land &amp; Building Reserve</b>	<b>18,160,870.89</b>	-	-
Opening Balance	-	-	-
Transfer during the Period	18,160,870.89	-	-
<b>General Reserve &amp; Surplus</b>	<b>196,064,278.81</b>	<b>128,938,182.57</b>	<b>53,381,898.47</b>
Opening Balances	128,938,182.57	53,381,898.47	22,192,771.86
Less: Bonus Share Capital (Previous Period)	(30,000,000.00)	-	-
Less: Cash Dividend (Previous Period)	(30,000,000.00)	(30,000,000.00)	(15,000,000.00)
Transfer During the Period	127,126,096.25	105,556,284.10	46,189,126.61
<b>Total</b>	<b>291,788,279.31</b>	<b>170,179,570.39</b>	<b>68,234,215.27</b>

**Technology Enhancement Reserve**

20 percent of the Profit after Tax for each fiscal year before dividend and other reserves is appropriated as Technology Enhancement Reserve. The objective of the reserve is to set out separate fund for major enhancement/upgrade of the existing system(s) and/or for funding of new payment and settlement system projects in future. As per the policy, 20% of the current year's profit, equivalent to NPR 36,321,741.78 is appropriated as Technology Enhancement Reserve. Total accumulated Technology Enhancement Reserve as of date stands at NPR 77,563,129.60.

**Land & Building Reserve**

10 percent of the Profit after Tax for each fiscal year before dividend and other reserves but after Technology Enhancement Reserve is appropriated as Land & Building Reserve. The objective of this reserve is to set out separate fund for acquiring NCHL's own premise (Land &

Building) in future. And this policy is implemented from the current fiscal year only.

As per the policy, 10% of current year profit, equivalent to NPR 18,160,870.89 is appropriated as Land & Building Reserve, which is also the total accumulated balance.

**General Reserve & Surplus**

Surplus profit after the appropriation of the specific reserves is transferred to General Reserve & Surplus.

An amount equivalent to NPR 127,126,096.25 is appropriated as General Reserve & Surplus. Total accumulated General Reserve & Surplus as of date stands at NPR 196,064,278.81.

The proposed dividend and bonus equivalent to NPR 36,000,000 and NPR 36,000,000 respectively will be adjusted from General Reserve & Surplus in the next fiscal year and as per the approval of the next Annual General Meeting.

**Note 3: Medium & Long Term Loan**

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
i) Secured Loan	-	-	-
ii) Unsecured Loan	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

The company did not avail loan in the current financial year.

**Note 4: Tangible and Intangible Assets**

Amount in NPR

Particulars	Office Equipment	Vehicle	Others	Total Tangible Assets	Intangible Assets	Total Assets	Project WIP
<b>Cost Price</b>							
Opening Balance	64,878,546.84	5,011,124.16	50,912.00	69,940,583.00	63,425,961.35	133,366,544.35	-
Addition During the Period	23,451,958.19	-	-	23,451,958.19	18,568,539.91	42,020,498.10	2,975,644.39
Deletion During the Period/ Early Period	(779,442.36)	-	-	(779,442.36)	-	(779,442.36)	
<b>Total</b>	<b>87,551,062.67</b>	<b>5,011,124.16</b>	<b>50,912.00</b>	<b>92,613,098.83</b>	<b>81,994,501.26</b>	<b>174,607,600.09</b>	<b>2,975,644.39</b>
<b>Depreciation</b>							
Opening Balance	50,485,764.56	832,418.62	29,258.41	51,347,441.59	41,119,579.44	92,467,021.03	-
For the Period	5,073,588.36	751,668.62	6,156.40	5,831,413.38	6,327,365.44	12,158,778.82	-
Deletion During the Period	(613,555.95)	-	-	(613,555.95)	-	(613,555.95)	-
<b>Total Depreciation</b>	<b>54,945,796.97</b>	<b>1,584,087.24</b>	<b>35,414.81</b>	<b>56,565,299.02</b>	<b>47,446,944.88</b>	<b>104,012,243.90</b>	<b>-</b>
WDV as on 31 <sup>st</sup> Ashad 2075	32,605,265.70	3,427,036.92	15,497.19	36,047,799.81	34,547,556.38	70,595,356.19	2,975,644.39

- Tangible assets are recognized in historical cost convention basis at the cost of construction/ acquisition/development inclusive of incidental expenses related to construction/acquisition. Asset value of NPR 5,000 or less are expensed off in the same year of purchase during current financial year.
- Intangible assets are recognized at cost less any accumulated amortization and any accumulated impairment losses. The cost includes directly attributable cost necessary to create, develop, produce and/or prepare the intangible assets that are incurred in research and/or development phases. Directly attributable cost in generating such intangible assets includes cost of materials and services used or consumed; benefits to the employee involved in generation (excluding specific benefits like bonus, retirement payments or similar); fees/charges to register a legal rights or similar cost that could be directly attributed to the intangible asset.
- Tangible and Intangible Assets are depreciated on Straight Line Method (SLM) on the basis of effective useful life of the assets decided by the Board. Accordingly, assets are depreciated on the basis of completed month applying the following rates based on approved class of assets. However, depreciation for the assets procured during the fiscal year are applied on pro-rata basis from next month of the procurement of the fixed assets.
- In case of disposal of assets during the year, depreciation is charged up to the previous month of disposal and disposed amount accounted as approved by the Board.
- Depreciation is calculated as per the rate and procedures defined in Income Tax Act, 2058 (Amended) for income tax purpose.
- At each reporting date, assets are also assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately to the recoverable amount.
- The investments that are made during development and implementation of a project but not commercially rolled out are identified as Project Work-In-Progress and are presented separately under the Project WIP. They will be capitalized from the month they are brought into commercial use.
- The *connectIPS* System software, including Integration Module and Core e-Payment Module, are developed internally at NCHL by the software development team and hence the *connectIPS* System is classified as intangible asset with capitalization of the employee cost incurred for the staff directly involved in development activities and directly attributable costs for its development (e.g. third party testing, etc.). And since the main part of the software, *connectIPS* Core (e-Payment) Module has only been pilot launched and is in a process of commercial launch, the capitalized amount of the *connectIPS* software, equivalent to NPR 2,975,644.39, is booked as Project WIP as of 32<sup>nd</sup> Ashad 2075.

Class of Assets	Depreciation Rate
<b>Tangible Assets:</b>	
Building	5%
Office Equipment	20%
Vehicle	15%
Other Assets	15%
<b>Intangible Assets:</b>	
Software	20%

## Note 5: Investment

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
<b>Long Term Investment</b>	<b>70,000,000.00</b>	<b>40,000,000.00</b>	<b>5,000,000.00</b>
FD - Kumari Bank Ltd	-	40,000,000.00	-
FD - Laxmi Bank Ltd.	20,000,000.00	-	5,000,000.00
FD - NIC Asia Bank Ltd.	20,000,000.00	-	-
FD - Siddhartha Bank Ltd.	20,000,000.00	-	-
FD - Mega Bank Nepal Ltd. (Tourism Dev. Bank)	10,000,000.00	-	-
<b>Short Term Placements</b>	<b>276,500,000.00</b>	<b>215,000,000.00</b>	<b>115,000,000.00</b>
FD - Civil Bank Ltd.	-	10,000,000.00	30,000,000.00
FD - Janata Bank Nepal Ltd.	10,000,000.00	-	10,000,000.00
FD - Himalayan Bank Ltd.	-	26,000,000.00	-
FD - Kumari Bank Ltd	40,000,000.00	10,000,000.00	-
FD - Laxmi Bank Ltd.	30,000,000.00	-	5,000,000.00
FD - Machhapuchchhre Bank Ltd.	46,000,000.00	42,000,000.00	-
FD - NCC Bank Ltd.	-	10,000,000.00	9,000,000.00
FD - NMB Bank Ltd.	22,500,000.00	-	-
FD - Sanima Bank Ltd	-	5,000,000.00	-
FD - Siddhartha Bank Ltd.	15,000,000.00	16,500,000.00	32,500,000.00
FD - Jyoti Bikash Bank Ltd.	47,500,000.00	23,500,000.00	-
FD - Kailash Bikas Bank Ltd	10,000,000.00	-	-
FD - Tourism Development Bank Ltd.	-	30,000,000.00	15,000,000.00
FD - Goodwill Finance Ltd.	10,000,000.00	-	-
FD - Guheshwori Merchant Banking & Finance Ltd.	33,000,000.00	-	10,500,000.00
FD - ICFC Finance Ltd.	-	5,000,000.00	-
FD - United Finance Ltd.	12,500,000.00	37,000,000.00	3,000,000.00
<b>Total</b>	<b>346,500,000.00</b>	<b>255,000,000.00</b>	<b>120,000,000.00</b>

Investments are managed as per NCHL-Investment Policy (December 2015), as approved by the Board. Extract of the prevailing Investment Policy is as follows:

- Investment asset allocation

Assets Category	Strategic Allocation	Lower Limit	Upper Limit
Fixed Deposits	40%	0%	90%
Debentures/Bonds	20%	0%	30%
Mutual Fund	20%	0%	30%

Cash Equivalents	20%
0%	100%

- Investment counterparties include Government/ Nepal Rastra Bank (NRB), Banks & Financial Institutions, Listed Companies and Mutual Funds. Following criteria are used for identifying eligible counterparties other than for Government/ NRB.

- Counterparty shall be in operations for at least three years. For mutual fund investment, it shall be the years in operation for the issuer.

- Counterparty shall be in profit for at least last two years with positive net worth.
- For investments in banks and financial institutions, their capital adequacy ratio (CAR) shall be 1% better than as prescribed by Nepal Rastra Bank and non-performing loan equal or less than 4%, both for at least last one year.
- Investment allocation in banks and financial institutions shall be as follows.
  - Commercial Banks: 60-80%
  - Development Bank: 10-20%
  - Finance Companies: 10-20%

- Single counterparty (other than Government/ NRB) exposure shall not exceed 25% of the investible fund. For the computation of counterparty exposure, investments in all asset categories shall be considered. However, if the limit exceeds due to the market revaluation or cash movements, it shall be rebalanced in the next review period or at the time of the maturity of the investment.
- Investments in Fixed Deposits are valued at fair value, fair value being considered as carrying amount.
- The investments and Placements are segregated and presented as:
  - Long Term Investments that will realize in more than 12 months period
  - Short Term Placements that will realize within 3 to 12 months period
- The reported investments and placements equivalent to NPR 346,500,000 are made in various banks and financial institutions with different maturities.

#### Note 6: Cash & Bank Balances and Cash Equivalents

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
<b>Cash &amp; Bank Balances</b>			
Nepal Rastra Bank	5,000.00	5,020.00	5,000.00
Civil Bank Ltd	9,274.58	163,055.47	377,555.83
Himalayan Bank Ltd.	6,583.98	4,910.00	-
Janata Bank Nepal Ltd.	168,598.06	44,363.84	324,769.09
Kumari Bank Ltd.	1,068,327.99	3,406,697.56	-
Laxmi Bank Ltd.	218,393.17	6,756.00	20,532,284.43
Machhapuchchhre Bank Ltd.	329,720.73	367,133.57	-
Mega Bank Nepal Ltd	36,215.68	14,083.08	65,955.53
NCC Bank Ltd	14,683.18	-	319,730.08
NIC Asia Bank Ltd.	11,868,940.07	7,986.10	-
NMB Bank Ltd.	445,577.24	-	-
Prabhu Bank Ltd.	6,679.81	6,405.75	414,596.31
Sanima Bank Ltd.	70,351.15	11,390,772.43	-
Siddhartha Bank Ltd.	1,768,141.44	558,569.64	2,073,228.04
Jyoti Bikas Bank Ltd	1,039,079.56	536,996.69	-
Kailash Bikas Bank Ltd.	303,421.85	-	-
Tourism Development Bank Ltd	-	801,674.13	1,325,408.10
Goodwill Finance Ltd.	6,424.60	-	-
Guheshwori Merchant Banking & Finance Ltd.	931,708.28	6,310.59	3,705,772.96
ICFC Finance Ltd.	9,930.96	91,994.77	-
United Finance Ltd	256,789.21	3,594,528.20	3,627,702.13
<b>Total</b>	<b>18,563,841.54</b>	<b>21,007,257.82</b>	<b>32,772,002.50</b>

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
<b>Cash Equivalents</b>			
FD - Janata Bank Nepal Ltd.	-	-	10,000,000.00
FD - Machhapuchchhre Bank Ltd.	6,000,000.00	13,500,000.00	-
FD - Mega Bank Nepal Ltd.	-	-	20,000,000.00
FD - NIC Asia Bank Ltd.	5,000,000.00	-	-
FD - Jyoti Bikash Bank Ltd.	10,000,000.00	-	-
FD - Tourism Development Bank Ltd.	-	5,000,000.00	-
FD - Guheshwori Merchant Banking & Finance Ltd.	15,000,000.00	-	-
FD - United Finance Ltd	-	6,500,000.00	-
<b>Total</b>	<b>36,000,000.00</b>	<b>25,000,000.00</b>	<b>30,000,000.00</b>

- Cash/Bank Balances and Cash Equivalents are short term, highly liquid placements that are readily convertible to known amounts and which are subject to an insignificant risk of changes in value.
- Placements having short term maturity that will realize within 3 months or less from the year end date are categorized as Cash Equivalents and recognized at cost as per Section 7 of NFRS for SMEs – Statement of Cash Flows, Cash & Cash Equivalent.

Concentration exposure towards counterparties and maturity profile for Cash & Bank Balances, Cash Equivalents, Short Term Investment and Long Term Investment is as follows:

Amount in NPR

Particulars	Cash/Bank Balance	Cash Equivalents (< 3 Mths)	Short Term Placements (3 - 12 Mths)	Long Term Investment (> 12 Mths)	Total	%
Commercial Banks	16,016,487.08	11,000,000.00	163,500,000.00	70,000,000.00	260,516,487.08	64.96%
Development Banks	1,342,501.41	10,000,000.00	57,500,000.00	-	68,842,501.41	17.16%
Finance Companies	1,204,853.05	15,000,000.00	55,500,000.00	-	71,704,853.05	17.88%
<b>Total</b>	<b>18,563,841.54</b>	<b>36,000,000.00</b>	<b>276,500,000.00</b>	<b>70,000,000.00</b>	<b>401,063,841.54</b>	<b>100%</b>

Fixed deposit of NPR 10,000,000 made to Tourism Development Bank Ltd. is clubbed under commercial banks group due to its merger with Mega Bank Nepal Ltd.

#### Note 7: Settlement Guarantee Fund Deposit

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
Settlement Guarantee Fund Deposits (NCHL)	20,000,000.00	-	-
Settlement Guarantee Fund NRB			
Opening Balance	-	-	-
Add: Contribution during the Period (NCHL)	20,000,000.00	-	-
Add: Contribution during the Period (Members)	-	-	-
Less: Deduction during the Period (NCHL)	-	-	-
Less: Deduction during the Period (Members)	-	-	-
Closing Balance	20,000,000.00	-	-
Less: Settlement Guarantee Fund Liability (NCHL)	(20,000,000.00)	-	-
Less: Settlement Guarantee Fund Liability (Members)	-	-	-
<b>Total</b>	<b>20,000,000.00</b>	<b>-</b>	<b>-</b>

- Settlement Guarantee Fund (SGF) is established to guarantee the settlement between the participating members in order to mitigate the possible settlement risks that may arise due to the deferred net settlement arrangement for real time or immediate credit products. The main objective of establishing the SGF is to utilize the fund as the last resort after having exhausted all available opportunities for the members that are unable to settle its obligation for the transactions backed by SGF at the time of settlement.
- A separate non-interest bearing account at Nepal Rastra Bank (NRB) is maintained and operated by NCHL whereby the contribution to the fund is made by NCHL and the participating members. NCHL's contribution is in the form of initial contribution of NPR 20,000,000.00 and later as percentage of the transaction fee of SGF backed products, which shall be 5% for 2 years and 2.5% for next 3 years. The participating members' contributions have not yet been collected, since the SGF backed products have not yet gone into commercial operations.
- The income and expenses of the fund is accounted in accrual basis and a separate operating procedure for SGF is expected to be published that will govern the detailed operations of the fund.

**Note 8: Inventories**

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
Fuel Storage	198,183.78	197,058.01	223,021.41
<b>Total</b>	<b>198,183.78</b>	<b>197,058.01</b>	<b>223,021.41</b>

- Inventories are valued at cost, being weighted average cost, or net realizable value whichever is lower.
- During the period, Inventory of NPR 198,183.78 includes fuel stock which is maintained for operating generators.
- Other recurring inventory is not maintained. Since the value of such purchases is minor, they are expensed off as and when purchased.

**Note 9: Prepaid, Loan, Advances & Deposits**

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
Advance Income Tax	61,468,780.14	44,311,389.79	30,553,777.54
Provision for Income Tax	(59,339,814.76)	(44,146,772.79)	(20,390,531.00)
Net Advance Tax	2,128,965.38	164,617.00	10,163,246.54
Prepaid Expenses	5,818,451.61	5,492,335.70	5,300,976.05
Deposits	665,863.16	530,710.37	530,710.36
Staff Advances	1,219,829.33	-	-
Deferred Other Benefits	72,223.76	-	-
Other Advances	697,968.33	175,475.00	96,375.00
<b>Total</b>	<b>10,603,301.57</b>	<b>6,363,138.07</b>	<b>16,091,307.95</b>

- Income tax provision of NPR 59,339,814.76 considering inadmissible expenses as per Income Tax Act, 2058, which is adjusted against Advance Tax of NPR 61,468,780.14.
- Prepaid, loans, advances & deposits are initially recognized at fair value and subsequently carried at amortized cost. The carrying amount is considered as approximate fair value for instrument with short term maturity.
- Deposits include refundable deposits, however the tenure of deposit is neither fixed nor cancellable, hence fair value is considered to be carrying amount.
- Staff advances (loan to employee) are provided as per Human Resource Plan and are valued at fair value based on Effective Interest Rate (EIR) which is the weighted average fixed deposit interest rate of the investments of NCHL applicable at the issuance of the loan and with respect to the maturities of such advances.
- The fair value loss of staff advances is accounted as Deferred Other Benefits. Total fair value loss is divided into number of advance periods and the current year portion is recognized as expenses under Other Benefits whereas remaining expenses is deferred to remaining advance period and shall be recognized as expenses in subsequent periods proportionately.

**Note 10: Trade & Other Receivables**

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
Member Banks	34,271,823.10	22,990,361.00	16,553,278.33
Less: Provision for Doubtful Debt	(696,500.00)	(839,500.00)	(1,095,000.00)
Net Receivables	33,575,323.10	22,150,861.00	15,458,278.33
Interest Receivable	2,038,527.23	2,102,687.41	645,342.47
<b>Total</b>	<b>35,613,850.33</b>	<b>24,253,548.41</b>	<b>16,103,620.80</b>

- Trade and other receivables are initially recognized at fair value and subsequently carried at amortized cost. The carrying amount is considered as approximate fair value due to their short term maturity.
- Receivables from the Member Banks relate to the due amount from regular operations and the credit cycle remains at 31.49 days, of which NPR 32,033,191.59 will be directly debited from the member's account on 5th (or the next business day) of the month as per the billing cycle.

#### Note 11: Current Liabilities & Accounts Payable

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
Accounts Payable	2,750,193.36	481,285.23	1,028,268.67
Dividend Payable	-	-	116,983.00
TDS Payable	485,960.54	435,531.61	529,192.44
Sundry Creditors	6,006,929.95	4,092,797.58	4,953,879.41
Advances Incomes	35,230,109.45	30,796,997.72	23,387,142.54
<b>Total</b>	<b>44,473,193.30</b>	<b>35,806,612.14</b>	<b>30,015,466.06</b>

Current Liabilities & Accounts Payable are initially recognized at fair value and subsequently carried at amortized cost. The carrying amount is considered as approximate fair value due to their short term maturity.

The advance income includes the followings for the subsequent periods.

Particulars	Amount (NPR)
NCHL-Login ID Fee	11,802,329.78
NCHL-Network and Connectivity Management Fee	3,370,994.45
NCHL-Membership Renewal Fee	4,691,666.74
NCHL-Software Renewal Fee	6,120,000.16
NCHL-IPS Subscription Fee	9,177,420.79
NCHL-IPS Creditor Listing	67,697.53
<b>Total Advance Income</b>	<b>35,230,109.45</b>

#### Note 12: Provisions

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
Provision for Gratuity	2,832,947.15	1,393,749.87	155,749.87
Less: Gratuity Investment Fund	(2,653,890.20)	(1,324,672.92)	-
	179,056.95	69,076.95	155,749.87
Provision for Leave	577,439.89	381,031.12	159,338.33
Provision for Staff Bonus	24,209,510.54	17,608,118.88	7,741,938.48
<b>Total</b>	<b>24,966,007.38</b>	<b>18,058,226.95</b>	<b>8,057,026.68</b>

Provision is created when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made for the amount of obligation. Provisions are reviewed at the year end and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

- Provision for Gratuity and Leave are computed as per the Employee Service Rule and as per the prevailing Labor Act 2074. Leave provision is based on outstanding leave balances of the staff as of 32<sup>nd</sup> Ashad 2075. The total year-end liability for Staff Gratuity amounts to NPR 2,832,947.15. The eligible

gratuity amount to be deposited in Approved Retirement Fund (ARF) amounts to NPR 2,653,890.20 presented as Gratuity Investment Fund during the fiscal year. Additional provision for gratuity for FY 2074/75 amounts to NPR 1,439,197.28. Similarly, the total Staff - Leave amount against accumulated leave in FY 2074/75 is NPR 577,439.89 and the adjustment of an additional Provision of Leave of NPR 196,408.77 is accounted.

- Provision for Staff Bonus is computed at 10% of the Profit before Tax as per Bonus Act, 2030 corresponding to which NPR 24,209,510.54 is provisioned as Staff Bonus.

## Note 13: Operating Income

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
ECC Transaction Fees - NPR	133,564,550.00	134,999,935.00	93,550,495.00
ECC Transaction Fees - EUR	33,330.00	41,190.00	29,775.00
ECC Transaction Fees - GBP	22,800.00	25,320.00	23,160.00
ECC Transaction Fees - USD	1,203,000.00	1,210,650.00	889,410.00
ECC Transaction Fees - Express	93,787,700.00	43,732,400.00	13,783,100.00
ECC Transaction Fees - Archive	344,220.00	180,900.00	101,800.00
ECC Transaction Fees - High Value	24,500.00	75,100.00	61,000.00
ECC Other Fees & Charges	19,528,120.00	14,875,155.00	8,023,400.00
IPS Transaction Fees - NPR	13,677,113.00	8,430,514.00	-
IPS Transaction Fees - USD	29,745.00	12,884.00	-
IPS Transaction Fees - EUR	405.00	175.00	-
IPS Transaction Fees - GBP	435.00	102.00	-
IPS Other Fees & Charges	39,318.00	187,906.00	-
NCHL-Membership Fee	281,250.00	331,250.00	525,000.00
NCHL-Membership Fee - Renewal	9,640,625.00	13,343,750.05	12,467,708.12
NCHL Software AMC Renewal	11,244,270.80	13,941,437.48	13,237,791.41
NCHL-IPS Subscription Fee	17,148,768.94	14,859,412.71	-
NCHL-IPS Creditor Listing	98,969.13	23,333.34	-
NCHL Login ID Fee	14,311,534.18	10,814,281.20	8,183,071.51
Network Connectivity & Management Fee	6,329,445.66	8,622,919.71	9,190,113.97
<b>Total</b>	<b>321,310,099.71</b>	<b>265,708,615.49</b>	<b>160,065,825.01</b>

- The revenues includes NCHL-ECC transaction fees and charges, NCHL-IPS transaction fees and charges, and renewal charges, membership and membership renewal charges, network connectivity and management charges, NCHL-IPS subscription annual charges, creditor listing annual charges and Login Id fee, are accounted under accrual basis.
- While segregating the first billed amount between the current year's Income and Advance Income on pro-rata basis, the first day of the month is considered rather than the effective date. Such computation is automated through NCHL-CRM & Billing System.
- Although *connectIPS* e-Payment is started on a pilot basis, the transaction fees was waived till the end of the Ashad 2075 with an objective to promote the system and as approved by the Board. Hence, there is no income that is recognized in the current fiscal year from *connectIPS* transactions.
- During the period, an amount of NPR 248,508,220.00 and NPR 13,747,016.00 have been booked as transaction fees and charges of NCHL-ECC and NCHL-IPS respectively; an amount of NPR 59,054,863.71 as other annual charges including network connectivity & management fee.
- The transaction fees and annual membership/subscription fees in NCHL-ECC and NCHL-IPS are waived for Nepal Rastra Bank (NRB) in the last renewal of the membership agreement, since 14<sup>th</sup> Bhadra, 2073 in lieu of the settlement arrangements that is in place between NCHL and NRB for deferred settlement of all the systems of NCHL. However, NRB is charged for annual software AMC, network connectivity and login id fee that are related to the direct cost for NCHL.

**Note 14: Operating Expenses**

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
AMC for ECC Software - NCHL	7,332,429.46	7,385,748.74	6,972,316.02
AMC for ECC Software - BFls	29,329,717.77	29,542,995.04	27,889,264.12
AMC for IPS Software - NCHL	3,436,662.84	-	-
AMC for Oracle	662,898.89	688,896.48	698,347.14
AMC & Renewal Network / Firewall	2,360,399.71	2,388,226.47	1,386,510.00
Network Connectivity Charges	3,453,788.50	4,572,354.50	5,354,725.12
AMC Expenses-Dark Core	171,699.96	173,985.34	178,479.96
AMC Expenses-Hardware	1,524,066.64	1,515,451.54	1,282,191.87
AMC for Internal S/W & H/W	492,592.53	479,939.10	419,907.91
connectIPS Expenses	189,292.49	-	-
Data Hosting - Remote DR	763,246.56	744,559.20	738,330.08
Member Training/Orientation Expenses	617,263.35	589,375.73	2,295.00
<b>Total</b>	<b>50,334,058.70</b>	<b>48,081,532.14</b>	<b>44,922,367.22</b>

- Expenses that are directly related to service delivery are classified as operating expenses. The expenses are recognized on accrual basis.
- AMC for ECC Software, IPS Software and Oracle Software are payable on US Dollar to the software vendor corresponding to which reverse charging of VAT and TDS are grossed up.

**Note 15: Administrative Expenses**

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
<b>Administrative Expenses</b>			
Advertisement & Public Notice	346,376.68	256,736.42	185,237.77
AGM Expenses	532,096.55	520,872.46	271,363.92
Audit Expenses - ISO Certification	309,793.91	-	80,032.00
Audit Fee & Expenses Internal	168,435.00	154,275.44	125,225.00
Audit Fee & Expenses Statutory	114,095.01	112,258.00	94,203.11
Bank Commission	84,438.06	75,909.53	42,131.21
Books and Subscription Expenses	27,142.58	23,473.39	7,747.59
Business Promotion Expenses	2,383,110.87	1,809,437.26	48,000.00
Consultancy Fee	103,617.65	36,725.00	178,950.00
Courier Expenses	55,422.55	44,323.64	39,490.60
Electricity Expenses	1,514,015.88	1,279,474.00	925,440.00
Fuel Expenses	267,539.73	384,393.40	899,363.59
Insurance Expenses	302,849.22	239,634.29	331,821.25
Legal Fee	90,400.00	47,140.00	73,450.00
Local Conveyance	11,318.00	21,100.00	18,340.00
Loss on Disposal of Fixed Assets	103,686.41	-	-
Meeting Allowance & Expenses	483,695.84	397,996.00	312,288.00
Office Expenses	579,993.01	419,898.31	409,830.69
Other Expenses	142,212.73	202,641.46	13,322.31
Printing & Stationery-Office Expenses	160,380.94	106,417.78	104,183.56
Provision-Doubtful Debt	-	-	352,000.00

Amount in NPR

Particulars	Ashad 32, 2075 (16 July 2018)	Ashad 31, 2074 (15 July 2017)	Ashad 31, 2073 (15 July 2016)
Public Awareness Programme	-	-	291,397.64
Registration & Renewal	76,835.00	39,835.00	25,675.00
Rent - Building	3,349,573.29	1,956,056.63	1,727,844.80
Rent - DR Site	516,250.00	516,250.00	455,312.50
Repair & Maintenance	623,307.48	209,056.05	314,779.58
Support/Security/Driver Expenses	1,042,890.34	703,187.35	366,120.00
Telephone Expenses	118,984.76	122,368.93	118,764.39
Travelling Expenses	59,793.00	1,891,170.92	31,041.00
Website Development / Hosting Expenses	6,041.22	3,965.83	3,817.24
<b>Staff Expenses:</b>			
Staff - Dashain Allowance	736,992.00	623,700.00	518,800.00
Staff - HR Activity	180,769.40	200,000.00	87,431.50
Staff - Leave Fare Allowance	240,000.00	240,000.00	240,000.00
Staff - Provident Fund Contribution	886,753.30	777,128.67	633,050.32
Staff - Salary & Allowance Expenses	13,628,978.92	12,816,440.00	10,161,467.74
Staff - Training Expenses	467,980.13	341,064.71	130,658.50
Staff - Gratuity	1,580,786.42	388,498.34	449,144.11
Staff - Leave	516,012.77	523,612.79	168,458.33
Staff - Other Benefits	1,167,312.04	1,008,367.63	1,508,729.07
<b>TOTAL</b>	<b>32,979,880.69</b>	<b>28,493,409.23</b>	<b>21,744,912.32</b>

Administrative expenses include general expenses incurred for smooth operations of the company. The administrative expenses are recognized on accrual basis.

- Operating Lease**

The operating lease expenses are recognized on accrual basis, based on rent/lease agreement terms. The rent expenses is booked on actual basis wherein straight line method is not considered, in view of annual increment being inflationary adjustment that are supposed to be recognized in the year of increment only.

Amount in NPR

Lease Category	Lease Rental Expenses for FY 2074/75	Lease Period	Inflationary Incremental Rate
Rent - Main Office	1,066,922.37	2067/08/01 to 2076/08/30	5% p.a
Rent - Support Office	308,375.00	2074/06/15 to 2076/06/14	NA
Rent - Operations Office	1,410,240.44	2074/06/17 to 2084/06/16	8% p.a
DR Rental Charges	516,250.00	2073/01/01 to 2077/12/30	NA

The Rent - Support Office has already matured on 2074/06/14 and was not renewed. During the period, an amount of NPR 3,301,787.81 has been booked as Operating Lease.

- **Employee Benefits**

Employee benefits accounted under staff expenses are the remuneration and benefits availed to staff as per Employee Service Rule, HR Plan and prevailing Labor Act/Bylaw.

- **Remuneration and Benefits**

Remuneration and Benefits for the employee are guided by the Employee Service Rules and HR Plan. Total Staff Expenses charged against the Profit and Loss Accounts in the current fiscal year is NPR 19,405,584.98.

- **Provident Fund**

Provident Fund contributory scheme are accounted on monthly basis to the retirement fund equal to 10% of the basic salary of eligible employees. Such expenses are charged directly to Profit and Loss Account. During the period NPR 886,753.30 has been contributed to Provident Fund. This includes provisions as per the Labor Act 2074 and Labor Bylaw 2075.

- **Gratuity and Leave**

Gratuity and accumulated leave are the benefit schemes, corresponding to which the liability recognized in the Statement of Financial Position is the present value of the benefits less fair value. However, in the absence of third party actuarial valuation for gratuity and accumulated leave and the fair value of such benefits considered to be immaterial, they are computed on accrual basis and charged directly to the Profit and Loss Account. Accumulated leave more than the allowed leave is encashed and is recognized as Staff - Leave in the books of accounts and as per Employee's Service Rules (August 2015).

The total Staff Gratuity expenses amounts to NPR 1,580,786.42, which also includes additional NPR 693,625.22 equivalent to

8.33% per month required by the new Labor Act 2074 and Labor Bylaw 2075.

- **Other Benefits**

Other Benefits and facilities including mobile expenses reimbursement, fuel expense reimbursement, shift allowance, vehicle facility option (VFO), festive allowance, are recognized in the books of accounts as per Employee Service Rules (August 2015), Human Resource Plan (May 2017) and employment contract. Other Benefits also includes the current period cost of fair value loss computed for Staff Advances using Effective Interest Rate (EIR) as weighted average fixed deposit interest rate of NCHL applicable at the time of staff advance issuance. Remaining fair value loss is deferred to be recognized as an expense in respective periods.

- Dashain Allowance is one month's basic salary provided to the eligible employees amounting to total of NPR 736,992.00. The fair value loss computed on staffs advance amounts to NPR 36,111.88.

#### Note 16: Income Tax

Income tax provision is calculated as per Income Tax Act, 2058.

- **Income Tax**

The company has provided for income tax provision of NPR 59,339,814.76 considering inadmissible expenses as per Income Tax Act, 2058 which is presented under 'Provisions' after adjusting Advance Income Tax in the Statement of Financial Position.

- **Deferred Tax**

Deferred tax liability/assets is considered at the tax rate applicable to the company as per Income Tax Act, 2058, based on the temporary differences between accounting base and tax base in line with NFRS for SMEs, Section 29, Income Taxes .

Amount in NPR

Particulars	Accounting Base	Tax Base	Temporary Difference	Deferred Tax
Fixed Assets	70,595,356.19	70,444,381.67	150,974.52	(37,743.63)
Loss on Disposal of Assets	103,686.41	-	103,686.41	25,921.60
Provision for Gratuity	179,056.95	-	179,056.95	44,764.24
Provision for Leave	577,439.89	-	577,439.89	144,359.97
<b>Total</b>			<b>1,011,157.77</b>	<b>177,302.18</b>
<b>Total Deferred Tax Assets up to Last Year</b>				<b>1,323,883.86</b>
<b>Deferred Tax Expenses for This Year</b>				<b>(1,146,581.68)</b>

**Note 17: Impairment**

- A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets. The company assesses for such impairment at each reporting date.
- During the period, no impairment loss is recognized for any of the financial assets.

**Note 18: Contingent Assets and Contingent Liabilities**

- All other known liabilities are provided for as liabilities but whose future outcome cannot be ascertained with reasonable certainty, are treated as contingent and disclosed under contingent liabilities. Contingent Assets are neither recognized nor disclosed in the financial statement.
- There is no contingent liability as at the end of the fiscal year.

**Note 19: Related Party Disclosure**

Following are the related party transactions.

- **Transaction with entity with significant influence (having more than 5% equity)**  
The company has operated current account with Nepal Rastra Bank (having 10% of equity) which was opened for the purpose of settlement of fees and charges. NCHL Settlement Guarantee Fund (SGF) account is also held at Nepal Rastra Bank for the purpose of holding SGF contribution of NCHL and the members. NCHL SGF account and Current account balance at Nepal Rastra Bank as of the end of Asadh 2075 are NPR 20,000,000.00 and NPR 5,000.00 respectively.
- **Transaction with the banks represented on the Board**  
No transaction was entered with the banks represented on the Board except for fee and charges related to the normal business. However, prior to the appointment of the representatives from Himalayan Bank Ltd and ICFC Finance Ltd. as the members of the Board of Directors, NCHL had current accounts with these institutions. Current account balance at Himalayan Bank Ltd. and ICFC Finance Ltd., as of the end of Asadh 2075 are NPR 6,583.98 and NPR 9,930.96 respectively.

**Transaction with Board Members and Key Employee**

- No transactions were made with the Board Members except for the payment of meeting allowance of total of NPR 425,000.00 related to the Board Meetings, Audit Committee Meeting and HR Committee Meeting.
- The Chief Executive Officer during the fiscal year was paid NPR 4,800,000.00 as salary, NPR 866,400.00 as other benefits including provident fund contribution and NPR 5,149,081.09 as statutory & welfare bonus. He was also provided with office vehicle with a driver, total reimbursement of fuel expenses of NPR 176,237.70 and mobile expenses of NPR 18,743.82 during the fiscal year.
- There were no transactions with the employees except allowed as per the Employee Service Rules and HR Plan of the company.

**Note 20: Profit Appropriation**

- **Appropriation of Profit**  
Appropriation of Profit for Technology Enhancement Reserve, Land & Building Reserve and General Reserve & Surplus are defined under Note-2 of 'Reserve and Surplus'.
- **Proposed Dividend and Bonus Share**  
The Board of Directors has proposed 20% of Cash Dividend and 20% of Bonus Shares on Paid-Up Capital, subject to final approval in the next Annual General Meeting. Proposed dividend equivalent to NPR 36,000,000 and proposed Bonus shares equivalent to NPR 36,000,000 are not adjusted in the financial statements.

**Note 21: Risk Management and Controls**

NCHL's Board has laid down Risk Management Framework policy based on the Principles for Financial Market Infrastructures (recommended by Committee on Payment & Settlement Systems - CPSS) and ISO27001 standards for effective risk management of the company. The risks identified as per the provisions are monitored and controls implemented by the Management. The risks with their quantified likelihood and impact are recorded by the function heads in the detailed Risk Register, which is periodically assessed by the Management, reviewed by the Audit Committee and necessary considerations made by the Board.

The key risk areas for NCHL are as follows:

- **Operational Risk**

Operational risk concerns the risk of potential loss or service delay due to inadequate internal controls, human errors and external events to NCHL, which may be either general in nature or specifically related to Information Security. The company's infrastructures and resources are safeguarded from possible casualties with adequate insurance coverage. Any incident having potential impact to the operations is recorded and casual analysis is done to ensure identification as well as implementation of preventive controls. Any potential risks arising from the participants of the payments and settlement systems operated by NCHL are also identified and are appropriately managed by NCHL or at least informed to the concerned entities.

ISO 27001 standard relates to Information Security Management System which is implemented by NCHL to safeguard from information security risks, concerning confidentiality, integrity and availability of information. NCHL has obtained ISO 27001:2013 certification in the fiscal year 2071/72 and an annual surveillance audit is carried out by the ISO27001 certified auditor every year with requirement of re-certification every three years. The recertification audit was successfully conducted in this fiscal year.

- **Disaster Recovery and Business Continuity Plan**

- NCHL has set up a fully functional primary Disaster Recovery Site at Thimi, Bhaktapur, which is equipped with redundancy, load balancing and high availability of critical systems in order to mitigate the risk of data center failure. Secondary backup site is built in different seismic zone at Bhairahawa to maintain cold backup.
- Periodic disaster recovery drills are conducted to test the readiness of the primary DR site.
- Continuity of Business (COB) site is also set up at NCHL's premise to provide system access to the members in case they have a technical failure at their bank/branch. An alternate arrangement for accessing NCHL's COB site through internet is also available for the members outside Kathmandu valley.

- **General Business Risk**

- General business risk refers to any potential impairment of the NCHL's financial position due to declining revenue or increment in expenses. Such impairment may occur as a result of adverse reputational effects, poor execution of business strategy, ineffective response to competition, losses in other business lines, etc.
- NCHL maintains its business projections by analyzing past trend and future prospect of the market. Accordingly, it has developed long term strategy and plans for sustainability of its business. It also assesses interest rate volatility concerning its investments and transaction specific foreign exchange risk.

- **Liquidity and Settlement Risk**

- Liquidity risk concerns the risk that member BFIs will not be able to fulfill their financial obligations on the settlement time/date of NCHL-ECC and NCHL-IPS system, which in turn, can create systemic problems on the systems that NCHL operates. In order to manage this risk, the settlement accounts of the member BFIs maintained at NRB is used for final settlements of the system operated by NCHL. And the members are provided with facility to monitor their settlement position in the system.
- As a last resort to cover the liquidity and settlement risk in the NCHL-ECC and NCHL-IPS system, there are provisions of transaction unwinding before the settlement, in which certain transactions are cancelled equal to the amount of the settlement sort fall for a particular member.
- For *connectIPS* e-Payment System, that allows the creditor bank to credit the beneficiary account prior to the settlement, an additional arrangement of Settlement Guarantee Fund (SGF) is established to avoid settlement risk due to insufficiency of fund of the participating bank at the time of settlement.
- Another potential liquidity risk that NCHL may face is insufficiency of liquid funds to meet its financial obligations. Regular monitoring and analysis of cash flow and financial position is conducted by the management and forwarded to the Board for necessary considerations. The liquid assets are managed as per NCHL's Investment Policy.

- Credit Risk**  
 Credit risk is the current or potential loss on the NCHL's earning as a result of counterparties' inability to meet their financial or other contractual obligations to NCHL, when due. Majority of the counterparty for NCHL being BFIs, their default is very unlikely.
- Legal and Compliance Risk**  
 Legal and Compliance risks are posed due to non-compliance and ambiguity of legislations and regulations. NCHL has ensured compliance of relevant Acts and Bylaws, NRB Directives, Operating Rules, and internal policies.
- Systemic Risk**  
 Systemic risk is the risk arising due to interdependencies and possibility of transmitting disruptions beyond NCHL from one or more participants. The inability of any participant to perform as expected can result into disruption with cascading effects to other participants. In order to minimize the systemic risk, NCHL works closely with the settlement bank, Nepal Rastra Bank, and with other participating members thereby reducing the overall impact of such risk.
- Internal Control**  
 NCHL is committed to strengthen its internal controls through a set of well-established organizational structure, comprehensive policies and procedures. Such policies and procedures are formulated by the Board and the Management is responsible for their implementation. The effectiveness of internal control is assessed by the Internal Audit conducted on quarterly basis, Annual Compliance Self & Cross Functional Assessments and Annual Statutory Audit, which are reviewed by the Audit Committee and forwarded to the Board for necessary considerations.

#### Note 22: First Time Adoption to NFRS for SMEs

Due to the first time adoption of NFRS for SMEs by NCHL, the financial statements of the past two fiscal years are also adjusted/represented. And hence the major differences of such presentation between NAS and NFRS for SMEs for this fiscal year and last two fiscal years are illustrated below:

#### Comparative Statement of Financial Position:

Amount in NPR

Total Assets	As per NFRS for SMEs	As per NAS	Variance	Clarification/Justification
FY 2074/75	541,227,479.98	435,810,237.00	105,417,242.98	1. Proposed Dividend and proposed Bonus Share are adjusted in the financial statements in previous years, which are now disclosed only. 2. Current Assets and Current Liabilities are presented through set-off in previous years, which are now re-presented as separate line items.
FY 2073/74	374,044,409.48	290,179,570.39	83,864,839.09	
FY 2072/73	256,306,708.01	188,234,215.27	68,072,492.74	

### Comparative Statement of Comprehensive Income and Income Statement for FY 2074/75:

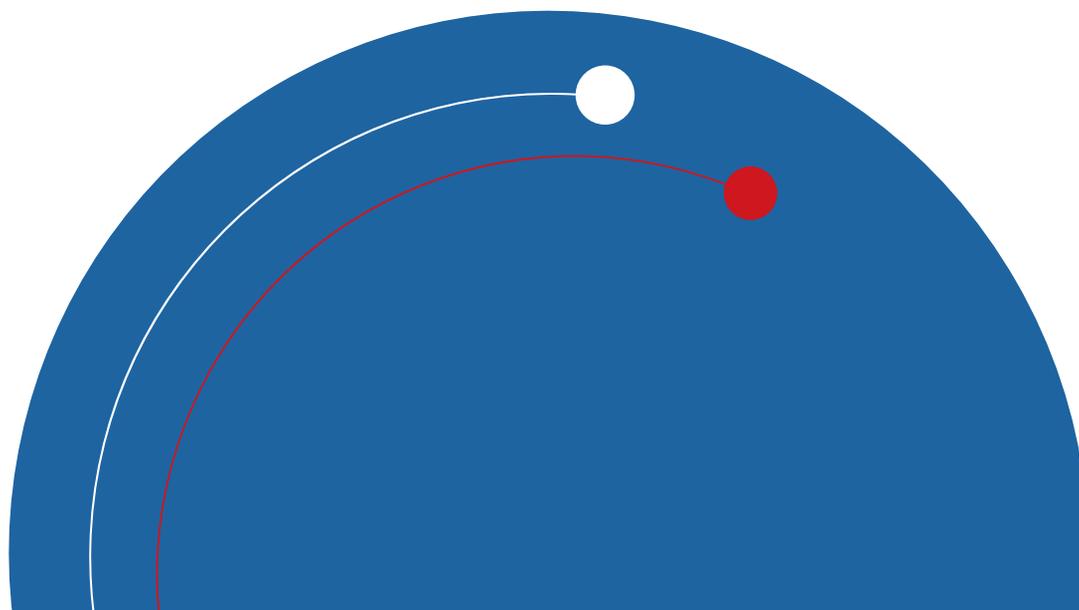
Since there were no changes in Statement of Comprehensive Income and Income Statement for last fiscal years, comparative Statement of Comprehensive Income and Income Statement for this year as per NFRS for SMEs and NAS is as presented below:

Amount in NPR

Particulars	As per NFRS for SMEs	As per NAS	Variance	Reason
Total Revenue	322,963,099.71	322,963,099.71	-	
Total Other Income	38,814,234.39	38,797,084.44	17,149.95	Impact of fair value adjustment of interest income on Employee Loan
Total Income	361,777,334.10	361,760,184.15	17,149.95	
Total Operating Expenses	50,334,058.70	50,334,058.70	-	
Total Admin Expenses	32,979,880.69	32,943,768.80	36,111.89	Impact of fair value loss on carrying amount of Employee Loan (Staff Advance)
Depreciation and Amortization	12,158,778.82	12,158,778.82	-	
<b>Total Expenditure</b>	<b>95,472,718.21</b>	<b>95,436,606.32</b>	<b>36,111.89</b>	
<b>Net Profit before Bonus and Tax</b>	<b>266,304,615.89</b>	<b>266,323,577.83</b>	<b>(18,961.94)</b>	
Staff Bonus	24,209,510.54	24,211,234.35	(1,723.81)	
<b>Profit before Tax</b>	<b>242,095,105.36</b>	<b>242,112,343.48</b>	<b>(17,238.12)</b>	
Provision for Income Tax	59,339,814.76	59,335,096.32	4,718.44	Impact of disallowed adjustment made for NFRS for SMEs adoptions
Deferred Tax Surplus (Deficit)	1,146,581.68	1,146,581.68	-	
<b>Net Profit after Tax</b>	<b>181,608,708.92</b>	<b>181,630,665.49</b>	<b>(21,956.57)</b>	
Other Comprehensive Income / (Expenses)	-	-	-	
<b>Total Attributable Profit for the Year</b>	<b>181,608,708.92</b>	<b>181,630,665.49</b>	<b>(21,956.57)</b>	

### Note 23: Subsequent Events

Adjusting event are adjusted and non-adjusting events, if any, are disclosed in the financial. And there are no any occurrences after the reporting date considered as adjusting event requiring provisioning. Previous year's figures are regrouped or rearranged wherever necessary.



### सातौं वार्षिक साधारण सभा सम्बन्धि सूचना

श्री शेयरधनी महानुभावहरू,

यस कम्पनीको सञ्चालक समितिको मिति २०७५/०६/०२ मा बसेको ११६ औं बैठकको निर्णय बमोजिम यस कम्पनीको सातौं वार्षिक साधारण सभा निम्न लिखित मिति, स्थान र समयमा निम्न विषयहरूमा छलफल तथा निर्णय गर्न बस्ने भएको हुँदा कम्पनी ऐन, २०७४ को दफा ६७(२) अनुसार सबै शेयरधनी महानुभावहरूको जानकारीको लागि यो सूचना प्रकाशित गरिएको छ ।

सभा हुने मिति, स्थान र समय :-

मिति : २०७५ साल असोज महिना २६ गते शुक्रवार (12<sup>th</sup> October 2018)

स्थान : होटेल याक एण्ड यति, दरबारमार्ग, काठमाडौं ।

समय : बिहान ११:०० बजे

छलफल गर्ने विषयहरू :-

क. साधारण प्रस्ताव:

१. सञ्चालक समितिको आ. व. २०७४/०७५ को प्रतिवेदन पारित गर्ने ।
२. लेखा परिक्षण प्रतिवेदन सहितको २०७५ आषाढ मसान्त सम्मको वासलात तथा सोहि मितिमा समाप्त आ.व. २०७४/०७५ को नाफा नोक्सान हिसाब तथा नगद प्रवाह विवरण स्वीकृत गर्ने ।
३. सञ्चालक समितिले प्रस्ताव गरे बमोजिम २० प्रतिशत नगद लाभांश स्वीकृत गर्ने । (बोनस शेयर समेतको कर सहित)
४. आ.व. २०७५/७६ को लागि लेखा परिक्षकको नियुक्ति तथा निजको पारिश्रमिक निर्धारण गर्ने । (वर्तमान लेखापरिक्षक श्री जोशी एण्ड भण्डारी पुनः नियुक्त हुन योग्य रहनु भएकोले लेखा परिक्षण समितिबाट पुनः नियुक्तिको निमित्त सिफारिस भएको ।)
५. समूह 'ख-१' र 'ख-२' बाट प्रतिनिधित्व गर्ने एक/एक सञ्चालकको पद पदावधिको बीचमा रिक्त भएकोमा सञ्चालक समितिले सो रिक्त स्थानमा गरेको नियुक्तिलाई अनुमोदन गर्ने ।

ख. विशेष प्रस्ताव:

१. सञ्चालक समितिले प्रस्ताव गरे बमोजिम २० प्रतिशत बोनस शेयर स्वीकृत गर्ने ।
२. २० प्रतिशत बोनस शेयर हिसाब गर्दा हुन आउने आंशिक बोनस शेयर ०.५ भन्दा माथिलाई Round Up तथा ०.५ भन्दा तललाई Round Down गरी नगद लाभांशमा समायोजन गर्न स्वीकृत गर्ने ।
३. बोनस शेयर बराबर चुक्ता पुँजी वृद्धि गर्न प्रबन्धपत्रको संशोधन स्वीकृत गर्ने ।
४. स्वतन्त्र व्यवसायिक सञ्चालकको नियुक्ति सम्बन्धि व्यवस्था परिमार्जन गरी नियमावलीको संशोधन स्वीकृत गर्ने ।
५. प्रस्तावित संशोधनमा नियमनकारी निकायहरूबाट कुनै फेरबदल वा सुझाव आएमा आवश्यक फेरबदल गर्न कम्पनीको सञ्चालक समिति वा सञ्चालक समितिले तोकेको कुनै पदाधिकारीलाई अधिकार प्रत्यायोजन गर्ने अख्तियारी दिने ।

ग. विविध ।

सञ्चालक समितिको आज्ञाले  
कम्पनी सचिव

### साधारण सभा सम्बन्धि अन्य जानकारी

- (१) शेयरधनीज्यूहरूको ठेगानामा हुलाक/कुरियरबाट पठाइने वार्षिक साधारण सभाको प्रतिवेदन यस कम्पनीको वेबसाइट [www.nchl.com.np](http://www.nchl.com.np) मा पनि हेर्न सकिनेछ। कुनै कारणले प्रतिवेदन प्राप्त नगर्नु हुने शेयरधनीज्यूहरूले यस कम्पनीको रजिष्टर्ड कार्यालयमा शेयरधनी प्रमाण-पत्र प्रस्तुत गरी सो प्राप्त गर्न सक्नु हुनेछ।
- (२) लेखापरिक्षकको प्रतिवेदन सहित कम्पनीको वार्षिक आर्थिक विवरण, सञ्चालक समितिको प्रतिवेदन, कम्पनी ऐन, २०७४ को दफा ७८ बमोजिमको प्रतिवेदन समेतका कागजातहरू कम्पनीको रजिष्टर्ड कार्यालय, कमलादी काठमाडौंमा कार्यालय समय भित्र निरीक्षण गर्न तथा त्यसको प्रतिलिपी माग गरेमा प्रतिलिपी दिने व्यवस्था मिलाईएको छ।
- (३) सभामा उपस्थित हुने शेयरधनी कम्पनीको प्रतिनिधित्व गर्ने आधिकारिक पत्र साथमा लिई आउनुहुन अनुरोध छ। कथम कदाचित् सो सम्भव नभए शेयरधनी प्रमाण-पत्र साथमा लिई आउनुहुन अनुरोध छ, अन्यथा सभाकक्ष भित्र प्रवेश गर्न पाइने छैन।
- (४) सभामा भाग लिन प्रतिनिधि (प्रोक्सी) नियुक्त गर्न चाहने शेयरधनीज्यूहरूले सभा सुरु हुने समय भन्दा कम्तीमा ४८ घण्टा अगावै यस कम्पनीको केन्द्रीय कार्यालयमा प्रोक्सी फारम दर्ता गरिसक्नु पर्नेछ। सभामा भाग लिन र मतदान गर्नका लागि प्रतिनिधि नियुक्त गरिसकेपछि उक्त प्रतिनिधि बदर गरी अर्कै मुकर्रर गर्ने भएमा सोको लिखित सूचना सोही अवधिभित्र कम्पनीको केन्द्रीय कार्यालयमा दर्ता गरिसक्नुपर्नेछ।
- (५) शेयरधनीज्यूहरूको सुविधाको लागि हाजिरी पुस्तिका सभास्थलमा सभा हुने दिन विहान १०:३० बजे देखि सभा चालु रहेसम्म खुल्ला रहनेछ।
- (६) अन्य कुनै जानकारीका लागि कम्पनीको रजिष्टर्ड कार्यालय, कमलादी, काठमाडौंमा सम्पर्क गर्नु हुन अनुरोध छ।



#### नेपाल क्लियरिङ हाउस लिमिटेड

तेश्रो तल्ला, कमलादी कम्प्लेक्स, कमलादी, काठमाडौं  
पो.ब.नं. २१४००, फोन नं. ४२३२३८६, ४२३२३८७

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## प्रोक्सी फाराम

श्री सञ्चालक समिति,

नेपाल क्लियरिङ हाउस लिमिटेड  
कमलादी कम्प्लेक्स तेस्रो तल्ला  
कमलादी, काठमाण्डौ ।

विषय : प्रतिनिधि नियुक्ति गरेको बारे ।

महाशय,

.....जिल्ला.....न.पा./गा.पा. वडा नं.....बस्ने म/हामी .....

.....ले

त्यस कम्पनीको शेयरधनीको हैसियतले २०७५ साल असोज महिना २६ गते शुक्रवारका दिन हुने सातौं वार्षिक साधारणसभामा स्वयंम उपस्थित भइ छलफल तथा निर्णयमा सहभागी हुन नसकेको उक्त सभामा भाग लिन तथा मतदान गर्नका लागि ..... न.पा./गा.पा. वडा नं. ....बस्ने त्यस कम्पनीका शेयर धनी श्री .....शेयर प्रमाणपत्र नं. .... लाई मेरो /हाम्रो प्रतिनिधि मनोनित गरी पठाएको छु /छौं ।

निवेदक :-

दस्तखत:-

नाम:-

ठेगाना:-

शेयरधनी परिचय नं:-

शेयर प्रमाणपत्र नं:-

कि.नं. .... देखि..... सम्म

मिति:-

द्रष्टव्यः यो निवेदन साधारणसभा हुनुभन्दा कम्तीमा ४८ घण्टा अगावै कम्पनीको रजिष्टर्ड कार्यालयमा पेश गरिसक्नु पर्नेछ ।



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