

COLLABORATION FOR DIGITAL TRANSFORMATION



ANNUAL REPORT
2076-77 (2019-20)



NEPAL
CLEARING
HOUSE

नेपाल राष्ट्र बैंकबाट “भुक्तानी प्रणाली संचालक” को
कार्य गर्न अनुमतिपत्र प्राप्त संस्था

NEPAL CLEARING HOUSE LTD.

राष्ट्रिय भुक्तानी पूर्वाधार विकासमा प्रतिबद्ध



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| O1 OVERVIEW

CORPORATE PROFILE

Company Name

Nepal Clearing House Ltd.

Url

www.nchl.com.np
www.connectips.com

Head Office

3rd Floor, Kamaladi Complex,
Kamaladi, Kathmandu, Nepal
Tel: +977-1-4232386
Fax: +977-1-4255309
Email: info@nchl.com.np

Operations Office

2nd Floor, DD Plaza, Shanta Marg,
Kamaladi, Kathmandu, Nepal
Tel: +977-1-4225306
Helpdesk Support: Ext: 102-107
Email: support@nchl.com.np

Legal Form

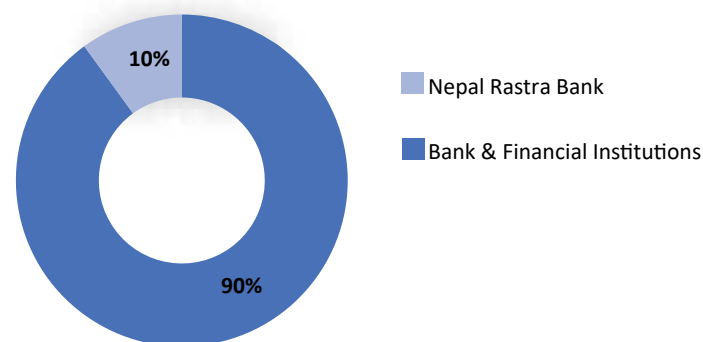
Incorporated as a Public Limited company under the sub section 1 of Section 5 of Companies Act, 2063 (First Amendment 2074) on 8th Poush 2065 (23rd December 2008).

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 Ltd., established under the leadership and guidance of the Central Bank of Nepal, has holding of 10% by Nepal Rastra Bank and 90% by various banks and financial institutions. The banks and financial institutions include commercial banks, development banks and finance companies.



External Auditor

Joshi & Bhandary
Chartered Accountants
Koshi Compound, Dillibazar
Kathmandu, Nepal
Tel: +977-1-4419364, 4423550
Email: jb@jb.com.np

Internal Auditor

M.B. Shrestha & Co.
Chartered Accountants
Sankhamul Road, New Baneshwor
Kathmandu, Nepal
Tel: +977-1-4781818

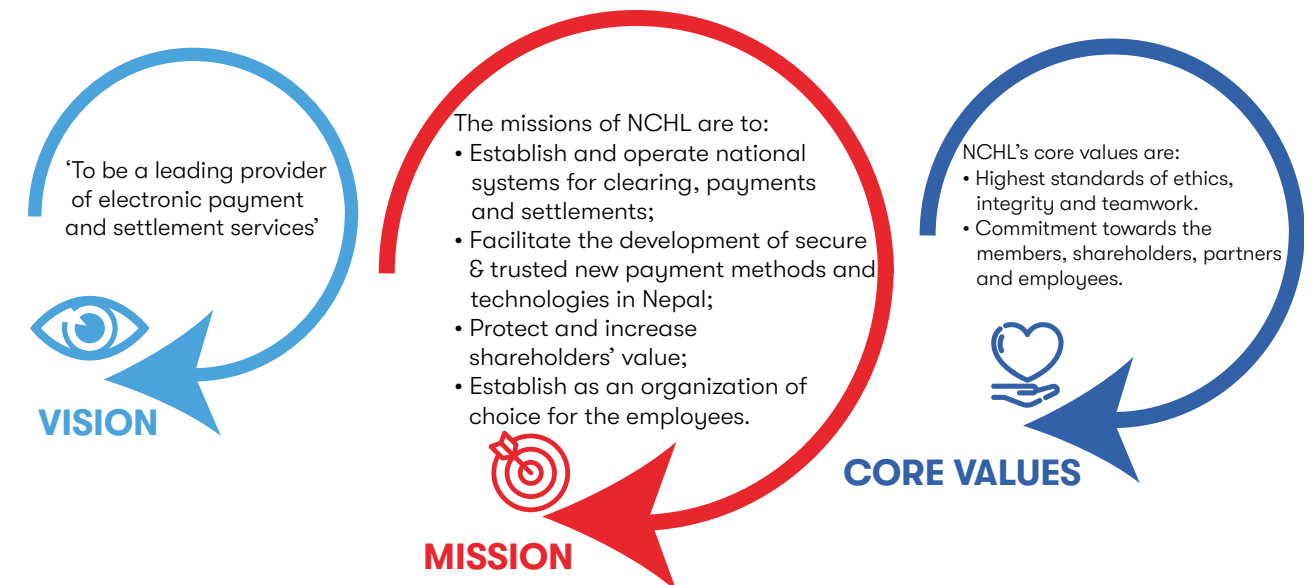
ISO 27001 Auditor

URS Nepal Pvt. Ltd.
Rani Marg, Lazimpat
Kathmandu, Nepal
Tel: +977-1-4386324

Preamble of the Report

This annual report presents comprehensive position of NCHL from its financial, operational, risk & control and related perspectives, as at the end of FY 2076/77 (2019/20). NCHL has adopted full NFRS in the preparation of the financial statements (which was NFRS for SME until last year), which has been duly audited, approved by the Board of Directors and needed approval obtained from Nepal Rastra Bank.

VISION, MISSION & CORE VALUES



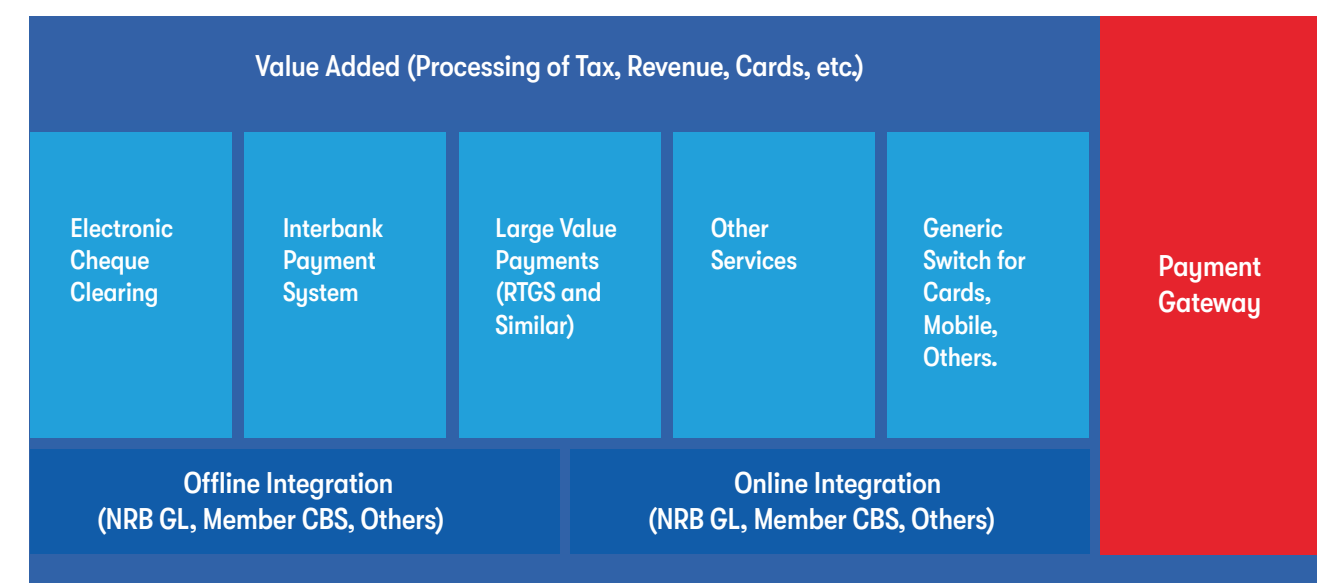
Our Commitment and Code of Conduct Principles

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

- Every member of the 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.



LIST OF SHAREHOLDERS AS AT CHAITRA END 2077

S.No.	Shareholders	No. of Shares	Value in NPR
Group 'A' Shareholders			
1	Nepal Rastra Bank	298,080	29,808,000
Group 'B' Shareholders			
2	Agricultural Development Bank Ltd.	9,158	915,800
3	Bank of Kathmandu Ltd.	106,346	10,634,600
4	Century Commercial Bank Ltd.	42,460	4,246,000
5	Citizens Bank International Ltd.	58,653	5,865,300
6	Civil Bank Ltd.	101,950	10,195,000
7	Everest Bank Ltd.	49,680	4,968,000
8	Global IME Bank Ltd.	213,083	21,308,300
9	Himalayan Bank Ltd.	49,680	4,968,000
10	Kumari Bank Ltd.	79,024	7,902,400
11	Laxmi Bank Ltd.	51,667	5,166,700
12	Machhapuchchhre Bank Ltd.	49,680	4,968,000
13	Mega Bank Nepal Ltd.	45,757	4,575,700
14	Nabil Bank Ltd.	49,680	4,968,000
15	Nepal Bangladesh Bank Ltd.	49,680	4,968,000
16	Nepal Bank Ltd.	49,680	4,968,000
17	Nepal Credit & Commerce Bank Ltd.	82,035	8,203,500
18	Nepal Investment Bank Ltd.	106,346	10,634,600
19	Nepal SBI Bank Ltd.	49,680	4,968,000
20	NIC Asia Bank Ltd.	99,360	9,936,000
21	NMB Bank Ltd.	104,688	10,468,800
22	Prabhu Bank Ltd.	109,406	10,940,600
23	Prime Commercial Bank Ltd.	53,654	5,365,400
24	Rastriya Banijya Bank Ltd.	49,680	4,968,000
25	Sanima Bank Ltd.	45,757	4,575,700
26	Siddhartha Bank Ltd.	366,144	36,614,400
27	Standard Chartered Bank Nepal Ltd.	49,680	4,968,000
28	Sunrise Bank Ltd.	58,653	5,865,300
29	Deva Bikas Bank Ltd.	25,371	2,537,100
30	Excel Development Bank Ltd.	1,987	198,700
31	Gandaki Bikas Bank Ltd.	23,729	2,372,900
32	Garima Bikas Bank Ltd.	12,294	1,229,400
33	Jyoti Bikas Bank Ltd.	17,565	1,756,500
34	Kailash Bikas Bank Ltd.	27,608	2,760,800
35	Kamana Sewa Bikas Bank Ltd.	12,173	1,217,300
36	Lumbini Bikas Bank Ltd.	47,326	4,732,600
37	Mahalaxmi Bikas Bank Ltd.	84,144	8,414,400
38	Miteri Development Bank Ltd.	9,366	936,600
39	Mukthinath Bikas Bank Ltd.	5,962	596,200
40	Shangri-la Development Bank Ltd.	18,382	1,838,200
41	Shine Resunga Development Bank Ltd.	8,199	819,900
42	Tinau Mission Development Bank Ltd.	4,100	410,000
43	Best Finance Co. Ltd.	40,243	4,024,300

S.No.	Shareholders	No. of Shares	Value in NPR
44	Central Finance Ltd.	13,970	1,397,000
45	Crystal Finance Ltd.	1,987	198,700
46	Goodwill Finance Ltd.	38,256	3,825,600
47	Guheshwori Merchant Banking & Finance Ltd.	6,986	698,600
48	Gurkhas Finance Ltd.	1,987	198,700
49	Himalaya Finance Ltd.	1,987	198,700
50	ICFC Finance Ltd.	6,986	698,600
51	Janaki Finance Co. Ltd.	6,986	698,600
52	Lalitpur Finance Ltd.	6,986	698,600
53	Multipurpose Finance Co. Ltd.	1,987	198,700
54	Nepal Finance Ltd.	22,483	2,248,300
55	Nepal Share Markets & Finance Ltd.	1,987	198,700
56	Pokhara Finance Ltd.	6,986	698,600
57	Progressive Finance Ltd.	1,987	198,700
58	Reliance Finance Ltd.	21,518	2,151,800
59	Samriddhi Finance Co. Ltd.	1,987	198,700
60	Shree Investement & Finance Co. Ltd.	8,973	897,300
61	Srijana Finance Ltd.	1,987	198,700
62	United Finance Ltd.	6,984	698,400
GRAND TOTAL		2,980,800	298,080,000

*Changed with effect from 4th Magh 2077



MEMBER LIST

AS AT CHAITRA END 2077

S.No.	Members	NCHL-ECC	NCHL-IPS	connectIPS	connectRTGS	NPI	CORPORATEPAY
DIRECT MEMBERS							
1	Nepal Rastra Bank	✓	✓				
2	Nepal Infrastructure Bank Ltd.	✓	✓		*		
Commercial Banks							
3	Agricultural Development Bank Ltd.	✓	✓	✓	✓	✓	
4	Bank of Kathmandu Ltd.	✓	✓	✓	✓	✓	*
5	Century Commercial Bank Ltd.	✓	✓	✓	✓	✓	*
6	Citizens Bank International Ltd.	✓	✓	✓	✓	✓	*
7	Civil Bank Ltd.	✓	✓	✓	✓	✓	✓
8	Everest Bank Ltd.	✓	✓	✓		✓	
9	Global IME Bank Ltd.	✓	✓	✓	✓	✓	✓
10	Himalayan Bank Ltd.	✓	✓	✓	✓	✓	✓
11	Kumari Bank Ltd.	✓	✓	✓	✓	✓	
12	Laxmi Bank Ltd	✓	✓	✓	✓	✓	
13	Machhapuchchhre Bank Ltd.	✓	✓	✓	✓	✓	✓
14	Mega Bank Nepal Ltd.	✓	✓	✓	✓	✓	✓
15	Nabil Bank Ltd.	✓	✓	✓	✓	✓	*
16	Nepal Bangladesh Bank Ltd	✓	✓	✓	✓	✓	✓
17	Nepal Bank Ltd.	✓	✓	✓	✓	✓	✓
18	Nepal Credit & Commerce Bank Ltd.	✓	✓	✓	✓	✓	*
19	Nepal Investment Bank Ltd.	✓	✓	✓		✓	
20	Nepal SBI Bank Ltd.	✓	✓	✓	✓		*
21	NIC Asia Bank Ltd.	✓	✓	✓	✓	✓	✓
22	NMB Bank Ltd.	✓	✓	✓	✓	✓	✓
23	Prabhu Bank Ltd.	✓	✓	✓	✓	✓	✓
24	Prime Commercial Bank Ltd.	✓	✓	✓	✓	✓	*
25	Rastriya Banijya Bank Ltd.	✓	✓	✓	✓	✓	

S.No.	Members	NCHL-ECC	NCHL-IPS	connectIPS	connectRTGS	NPI	CORPORATEPAY
26	Sanima Bank Ltd.	✓	✓	✓	✓	✓	✓
27	Siddhartha Bank Ltd.	✓	✓	✓	✓	✓	
28	Standard Chartered Bank Nepal Ltd.	✓	✓				
29	Sunrise Bank Ltd.	✓	✓	✓	✓	✓	
Development Banks							
30	Corporate Development Bank Ltd.	✓	✓				
31	Excel Development Bank Ltd	✓	✓	✓	*	✓	*
32	Garima Bikas Bank Ltd.	✓	✓	✓	✓	✓	✓
33	Green Development Bank Ltd.	✓	✓	✓		✓	
34	Jyoti Bikash Bank Ltd.	✓	✓	✓	✓	✓	
35	Kamana Sewa Bikas Bank Ltd.	✓	✓	✓	✓	✓	✓
36	Karnali Development Bank Ltd.	✓	✓	*	*		
37	Lumbini Bikas Bank Ltd.	✓	✓	✓	✓	✓	✓
38	Mahalaxmi Bikas Bank Ltd.	✓	✓	✓	✓	✓	*
39	Miteri Development Bank Ltd.	✓	✓	✓		✓	
40	Muktinath Bikas Bank Ltd.	✓	✓	✓	✓	✓	*
41	Narayani Development Bank Ltd.	✓					
42	Sahara Bikash Bank Ltd.	✓	✓	*			
43	Saptakoshi Development Bank Ltd.	✓	✓	✓	*		
44	Shangri-la Development Bank Ltd.	✓	✓	✓	✓	✓	✓
45	Shine Resunga Development Bank Ltd.	✓	✓	✓	✓	✓	
46	Sindhu Bikas Bank Ltd.	✓	✓	✓			
Finance Companies							
47	Best Finance Company Ltd.	✓	✓	✓	*		
48	Central Finance Ltd.	✓	✓	✓		✓	
49	Goodwill Finance Ltd.	✓	✓	✓		✓	✓

S.No.	Members	NCHL-ECC	NCHL-IPS	connectIPS	connectRTGS	NPI	CORPORATEPAY
50	Guheshwori Merchant Banking & Finance Ltd.	✓	✓	✓	*		
51	Gurkhas Finance Ltd.	✓	✓	✓	*		*
52	ICFC Finance Ltd.	✓	✓	✓	✓	✓	*
53	Janaki Finance Company Ltd.	✓	✓				
54	Lalitpur Finance Ltd.	✓	✓				
55	Manjushree Finance Ltd.	✓	✓	✓	✓	✓	
56	Nepal Finance Ltd.	✓	*	*			
57	Pokhara Finance Ltd.	✓	✓	✓			
58	Progressive Finance Ltd.	✓	✓	✓		✓	
59	Reliance Finance Ltd.	✓	✓	✓			*
60	Samriddhi Finance Company Ltd.	✓	✓	✓		✓	
61	Shree Investment and Finance Co. Ltd.	✓	✓	✓	*		
62	Srijana Finance Ltd.	✓	✓				
63	United Finance Ltd.	✓	✓	✓		✓	
		63	61	52	34	43	16
INDIRECT/TECHNICAL MEMBERS							
1	Citizen Investment Trust (CIT)		✓	✓		✓	
2	Employee Provident Fund (EPF)		✓	✓		✓	
3	Nepal Stock Exchange Ltd. (NEPSE)		✓	✓		✓	
4	Social Security Fund (SSF)		✓	✓		*	
5	Dharan Municipality		*	**		✓	
6	Dhulikhel Municipality		*	**		✓	
7	Harion Municipality		*	**		*	
8	Walling Municipality		*	**		✓	
9	Department of Foreign Employment (DOFE)		✓	***		✓	
10	Nepal Oil Corporation		*	*		*	
11	Rastriya Beema Sansthan		*	*		*	
12	Global IME Capital Ltd.		✓				
13	Asian Life Insurance Co. Ltd.		*	✓		*	

S.No.	Members	NCHL-ECC	NCHL-IPS	connectIPS	connectRTGS	NPI	CORPORATEPAY
14	Citizens Life Insurance Co. Ltd.		✓	*		*	
15	IME Life Insurance Co. Ltd.		✓	*		*	
16	Prime Life Insurance Co. Ltd.		✓	✓		✓	
17	Reliable Nepal Life Insurance Ltd.		*	*		*	
18	Union Life Insurance Co. Ltd.		✓	*		*	
19	Bhatbhateni Money Transfer Pvt. Ltd.		✓	✓		✓	
20	Cashway Money Transfer Pvt. Ltd.		✓	✓		✓	
21	City Express Money Transfer Pvt. Ltd.		✓	✓		✓	
22	Easylink Remittance Pvt. Ltd.		✓	✓		✓	
23	Esewa Money Transfer Pvt. Ltd.		✓	✓		✓	
24	GME Remit Pvt. Ltd.		✓	✓		✓	
25	IME Ltd.		✓	✓		✓	
26	Ipays Remit Pvt. Ltd.		✓	✓		✓	
27	Lalit Money Transfer Pvt. Ltd.		✓	✓		✓	
28	Nepal Remit International Pvt. Ltd.		✓	✓		✓	
29	Samsara Remit Pvt. Ltd.		*	*		*	
30	Hamro Technology Pvt. Ltd.		*	*		*	
31	Zinob Inc. Pvt. Ltd.		*	*		*	
32	Nepal Payment Solution Pvt. Ltd. (PSO)		✓	✓		✓	
33	Cellcom Pvt. Ltd. (PSP)		✓	✓		✓	
34	CG Pay Nepal Pvt. Ltd. (PSP)		*	****		*	
35	DigiPay Pvt. Ltd. (PSP)		*	*		*	
36	E-Net Payment Pvt. Ltd. (PSP)		✓	✓		✓	
37	Focusone Payment Solution Pvt. Ltd. (PSP)		*	*		*	
38	GME Pay Pvt. Ltd. (PSP)		*	✓		✓	
39	Goldmine Business Group Pvt. Ltd. (PSP)		✓	✓		✓	
40	icash Pvt. Ltd. (PSP)		✓	✓		✓	
41	IME Digital Solutions Ltd. (PSP)		✓	✓		✓	
42	iPay Pvt. Ltd. (PSP)		✓	✓		✓	

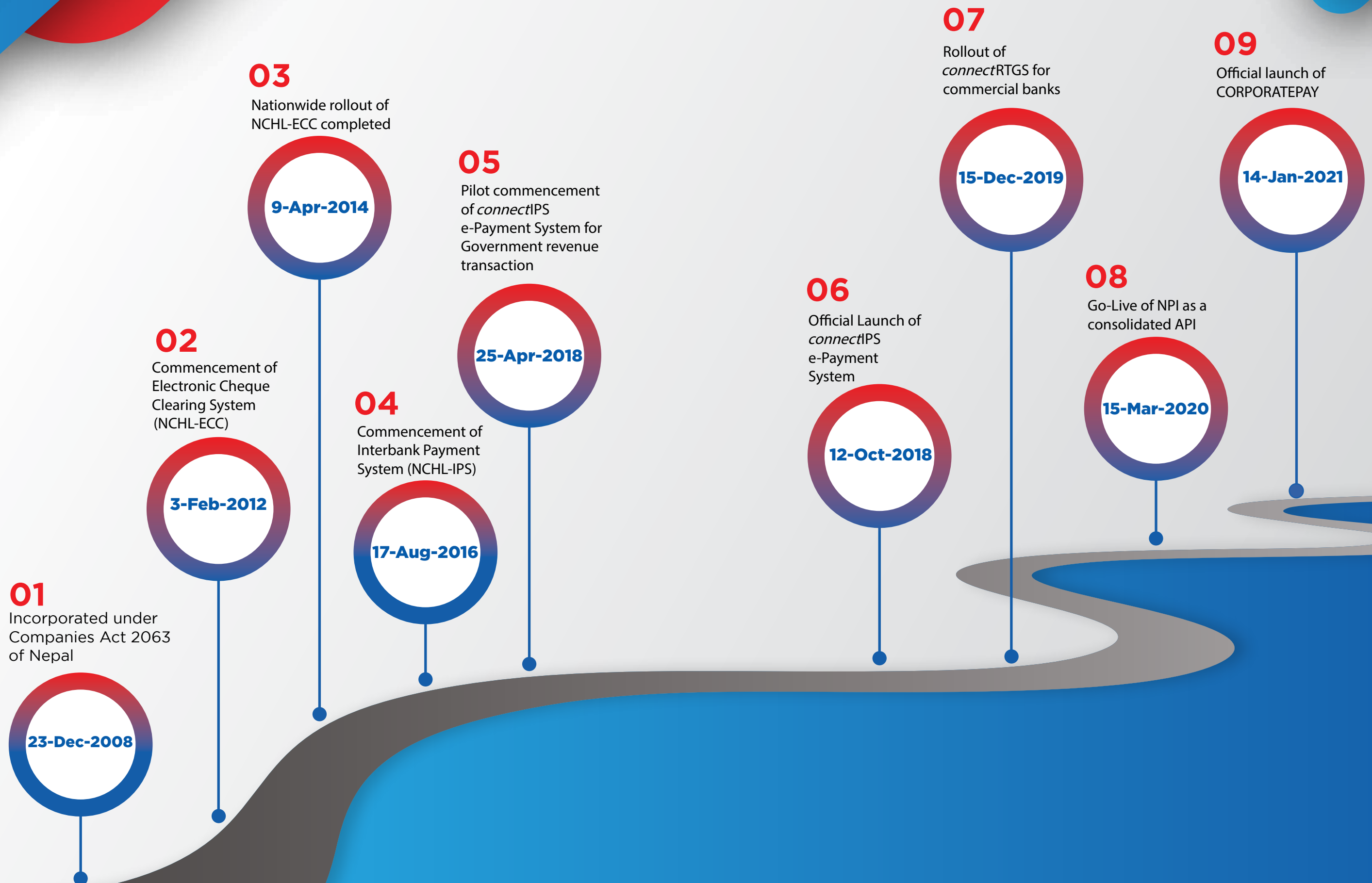
S.No.	Members	NCHL-ECC	NCHL-IPS	connectIPS	connectRTGS	NPI	CORPORATEPAY
43	Lenden Sewa Pvt. Ltd. (PSP)		✓	✓		✓	
44	Nepal E-biz Management Pvt. Ltd. (PSP)		*	*		*	
45	Nepal Pay Time Pvt. Ltd. (PSP)		✓	✓		✓	
46	PayNep Pvt. Ltd. (PSP)		✓	✓		✓	
47	Paywell Nepal Pvt. Ltd. (PSP)		*	*		*	
48	Prabhu Technology Pvt. Ltd. (PSP)		✓	✓		✓	
49	Qpay Pvt. Ltd. (PSP)		✓	✓		✓	
50	Sajilo Pay Payment Services Pvt. Ltd. (PSP)		*	*		*	
51	Smart Card Nepal Pvt. Ltd. (PSP)		*	***		✓	
52	Sparrow Pay Pvt. Ltd. (PSP)		✓	✓		✓	
53	Sulav Pay Pvt. Ltd. (PSP)		*	*		*	
54	Subisu Cablenet Pvt. Ltd.		✓	✓		✓	
55	Vianet Communication Pvt. Ltd.		✓	✓		✓	
56	Agni Incorporated Pvt. Ltd.		✓	✓		✓	
		-	36	33	-	36	-
	TOTAL DIRECT + INDIRECT/TECHNICAL	63	97	85	34	79	16

✓ Live * Subscribed **Live (Only Gateway) ***Live(Collection) ****Live (Wallet Load)



CONTRIBUTION TOWARDS BUILDING DIGITAL PAYMENT ECOSYSTEM

MAJOR MILESTONES



FINANCIAL HIGHLIGHTS

NET WORTH PER SHARE

NPR 287 PER SHARE

A decrease by 8% in comparison to preceding fiscal year due to the increased capital from bonus shares issued.

EARNING PER SHARE

NPR 62 PER SHARE

A decrease by 44% in comparison to preceding fiscal year is mainly due to increased capital from bonus shares issued.

OPERATING REVENUES

NPR 383 MILLION

A decrease of 11% in comparison to preceding fiscal year is mainly due to covid pandemic and lockdown during the last fiscal year.

INDIRECT INCOMES

NPR 69 MILLION

An increase of 29% shows an increase in company’s supportive other income sources other than the primary business incomes.

OPERATING CASH FLOWS

NPR 152 MILLION

A decrease in cash inflow from operating activities by 39% as compared to previous year due to decrease in revenue and increased Settlement Guarantee Fund.

INVESTING CASH FLOWS

NPR 207 MILLION

The investing cash outflows has remained approximately static compared to previous year showing continuous investment in new technology enhancement and future income generating activities.

NET PROFIT AFTER TAX

NPR 185 MILLION

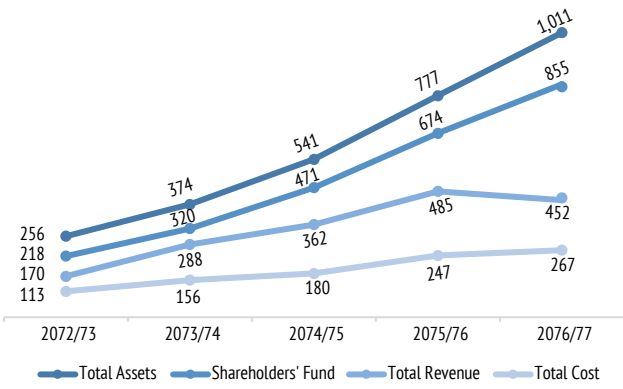
A decrease of 22% in comparison to preceding fiscal year due to negative impact in revenue due to covid pandemic and lockdown.

RESERVE & SURPLUS

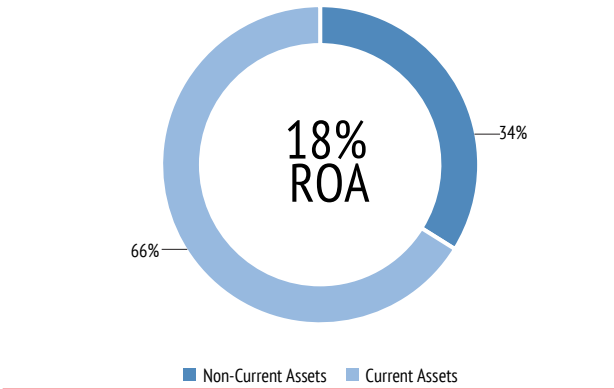
NPR 556 MILLION

An increase of 22% in comparison to preceding fiscal year that is supporting re-investment into payment infrastructures.

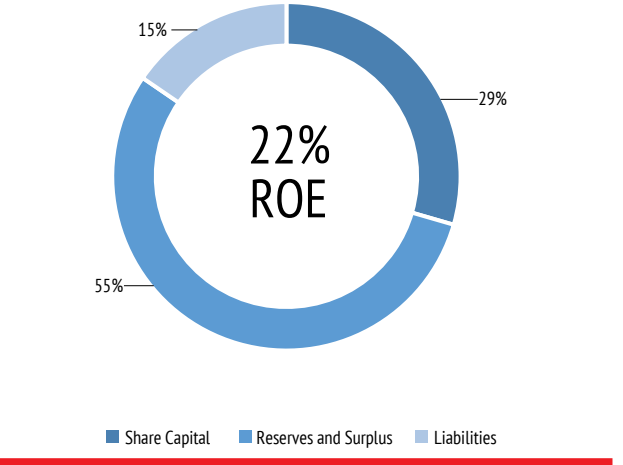
1. Financial Summary (in Millions)



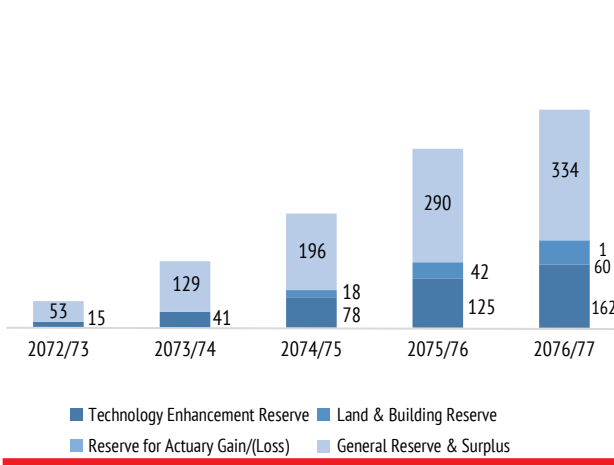
2. Total Assets Distribution FY 2076/77



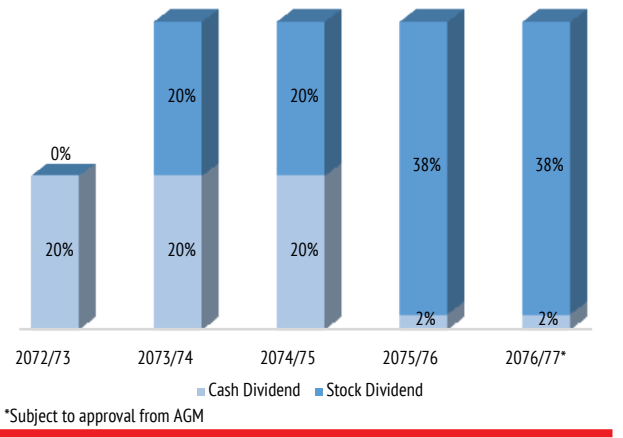
3. Total Equity/Liabilities Distribution FY 2076/77



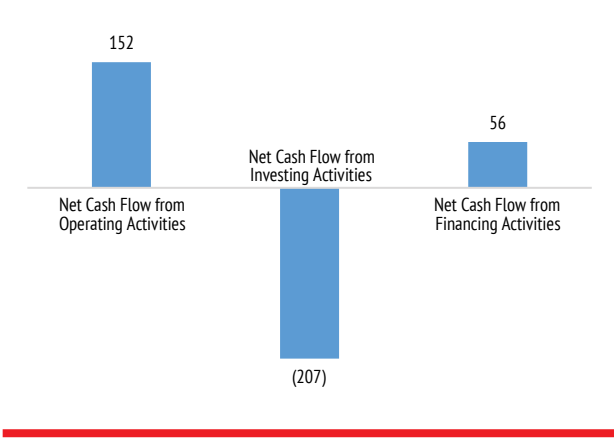
4. Reserves (in Millions)



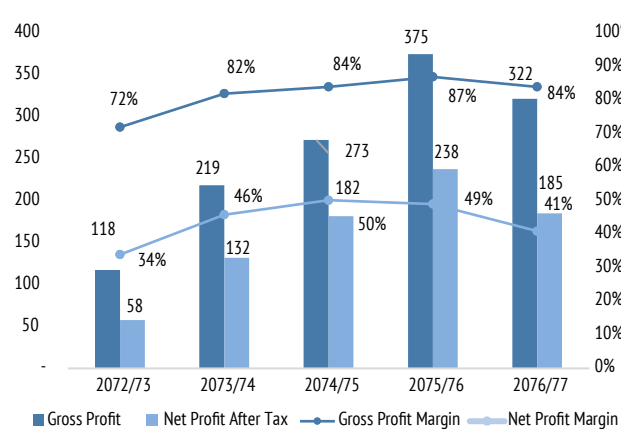
5. Dividend Distribution



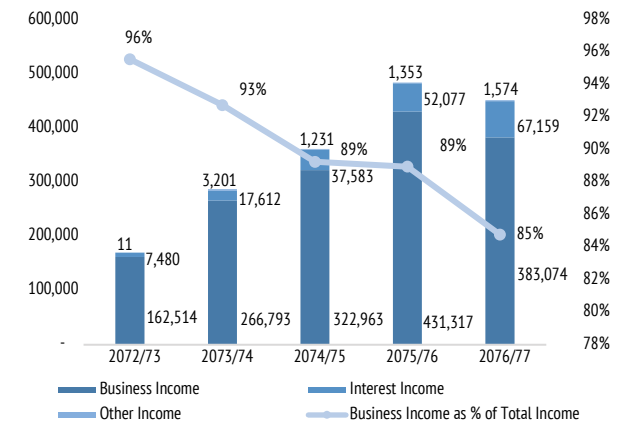
6. Cash Flows FY 2076/77 (in Millions)



7. Profitability Analysis (in Millions)

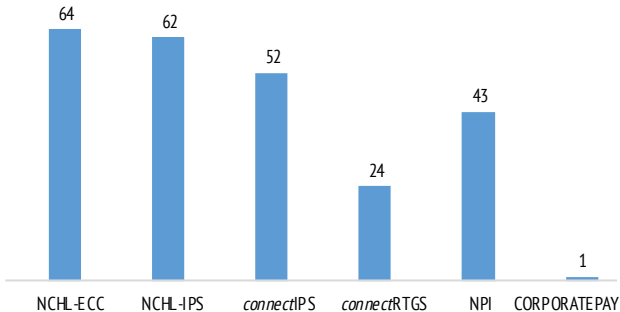


8. Revenue Analysis (in'000)

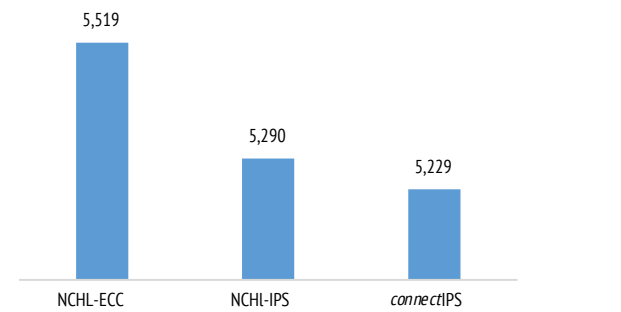


OPERATIONAL HIGHLIGHTS

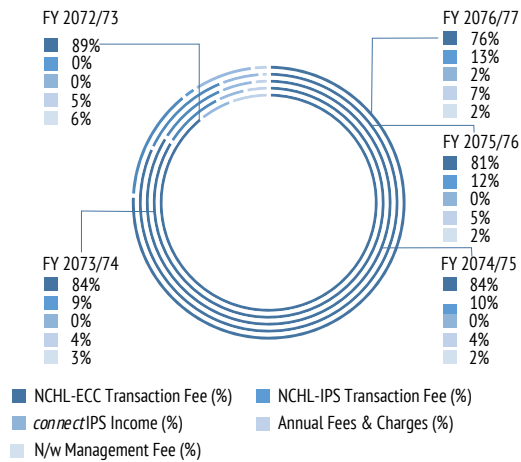
NCHL Members
As of Asadh end, 2077



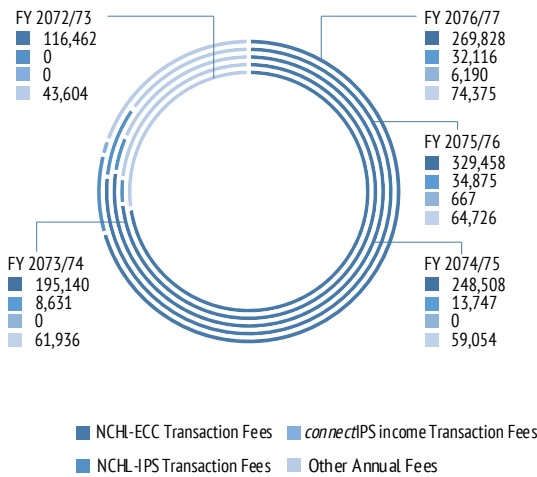
NCHL Member Branches
As of Asadh end, 2077



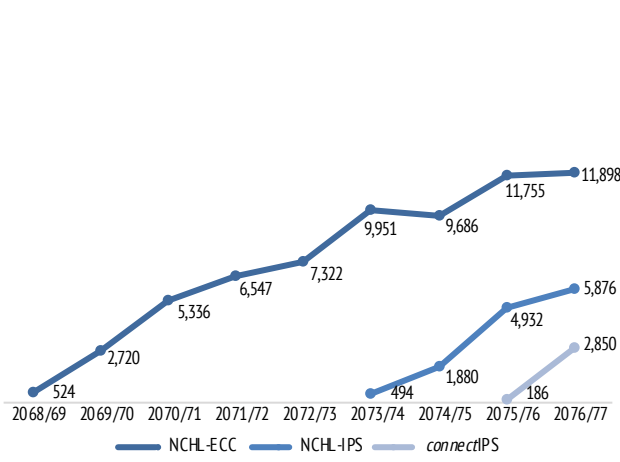
9. Business Revenue Mix



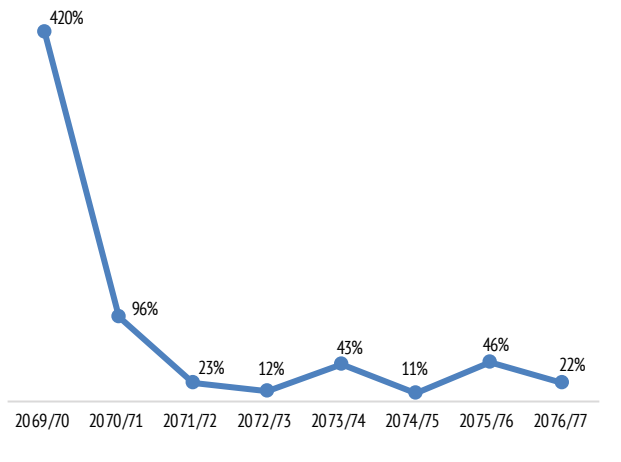
10. Annual Operating Revenue (in'000')



System-wise Transaction Count (in '000)



Total Transaction Count Growth (%)



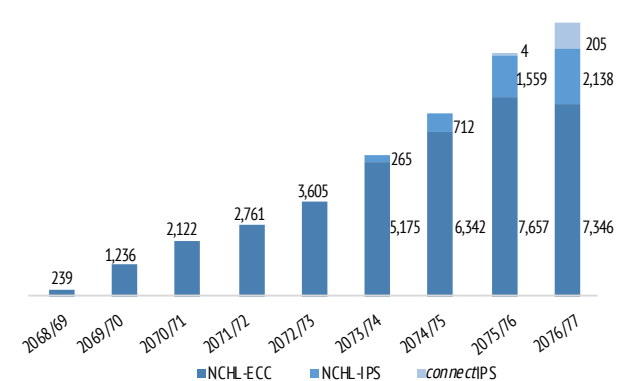
नेपाल राष्ट्र बैंक सँगै ८० बैंक तथा वित्तीय संस्थाहरुको विश्वासले बनेको

NEPAL CLEARING HOUSE LTD.

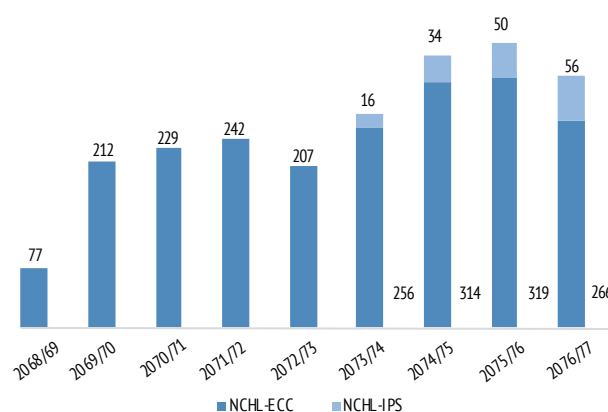
राष्ट्रिय मुक्तानी पूर्वाधार विकासमा प्रतिबद्ध



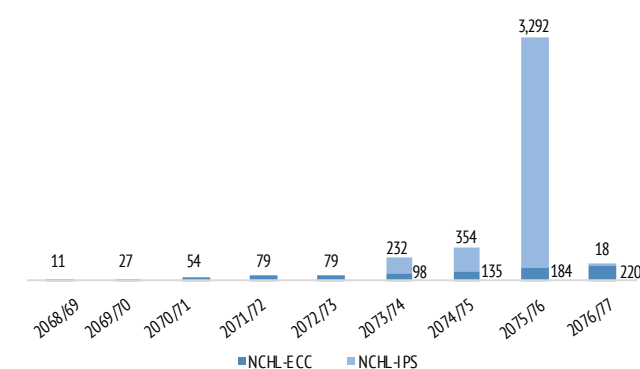
NPR Transaction Value (in Billions)



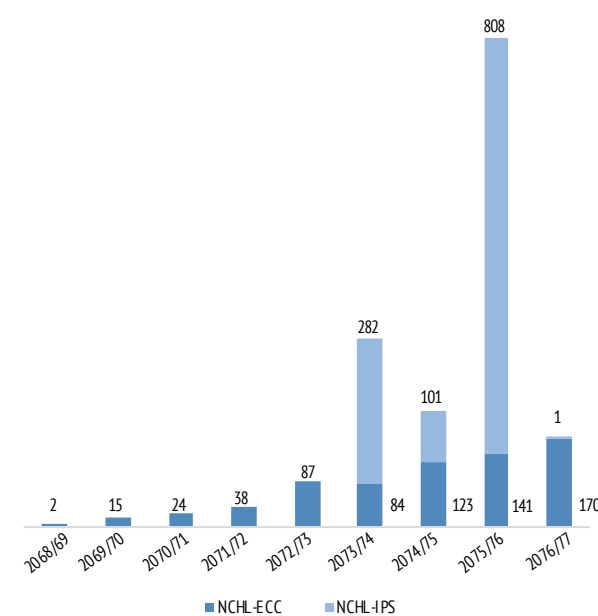
USD Transaction Value (in Millions)



EUR Transaction Value (in '000)



GBP Transaction Value (in '000)



connectIPS
pay direct from bank

“connectIPS मार्फत

शेयर कारोबारको भुक्तानी र आम्दानी सजिलो छ।”

connectIPS को app वा website मार्फत आफ्नो बैंक खाताहरू लिङ्क गरी शेयर कारोबारको भुक्तानी सिधै बैंक खाताबाट गर्नुहोस् र शेयर बिक्रिपछि पाउने रकम पनि सजिलै बैंक खातामा प्राप्त गर्नहोस्।



Broker Payment



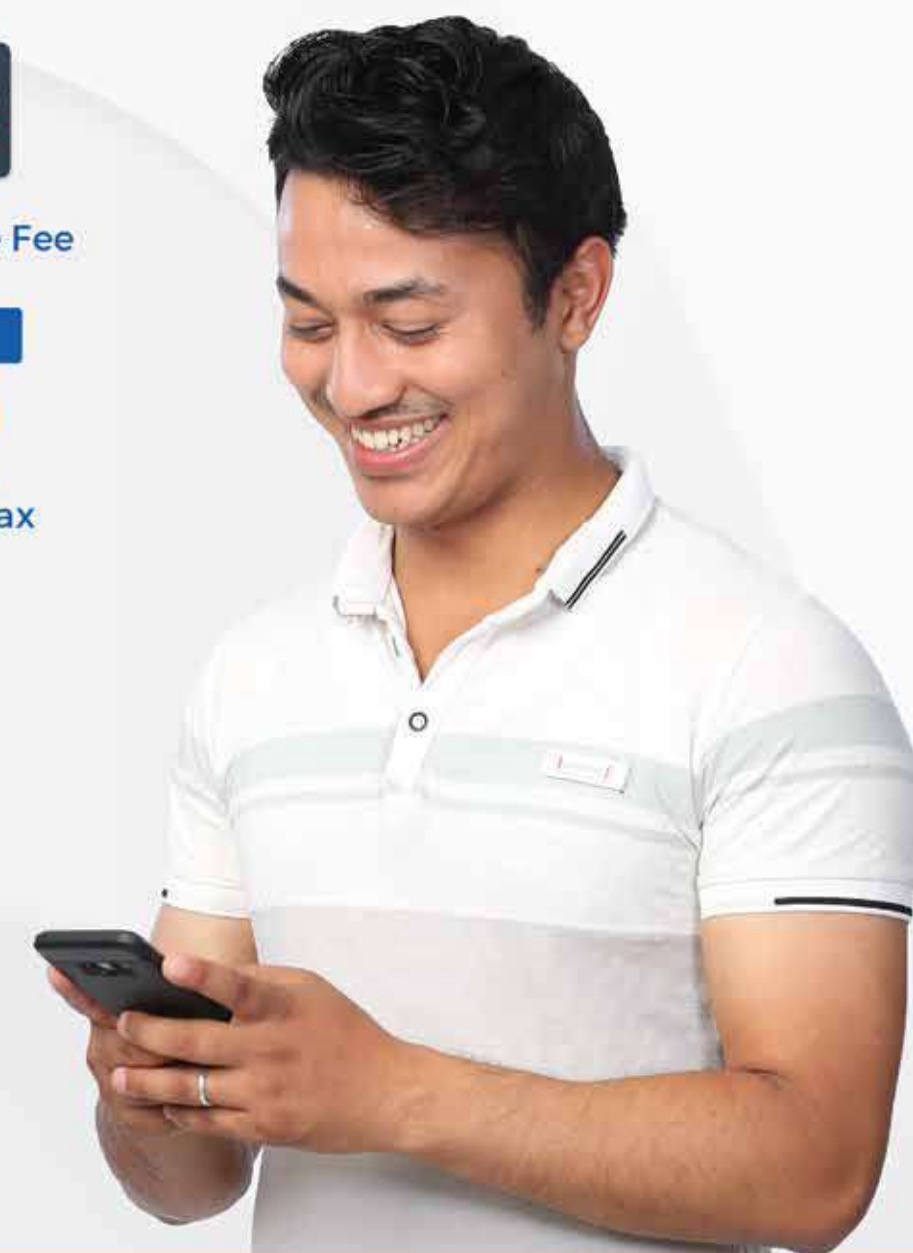
Mero Share Fee



DMAT Fee



Bonus Tax



Available on:
www.connectips.com



नेपाल राष्ट्र बैंक र बैंक तथा वित्तीय संस्थाहरूबाट प्रवर्द्धित
(नेपाल राष्ट्र बैंकबाट “भुक्तानी प्रणाली सञ्चालक” को
कार्य गर्न अनुमतिपत्रप्राप्त संस्था)

MESSAGE FROM CHAIRMAN



Dear Shareholders,

It is with great pleasure and privilege, on behalf of the Board of Directors, to present the Annual Report and the Audited Accounts of Nepal Clearing House Ltd. (NCHL) for the fiscal year 2076/77 (2019/20).

Over the years, NCHL has established itself as the primary institution in Nepal for providing national payments and settlement services. It is closely integrated with almost all banks and financial institutions (BFIs), non-bank financial service providers and key institutions including Government, Semi-Government entities and large number of institutions of the financial market. We believe, NCHL has played an instrumental role in establishing the payment infrastructures, generate momentum for digital transaction growth, facilitate various sectors to enroll within digital eco-system and has positively impacted the economy. NCHL's payments, clearing and settlement infrastructures and to collaborate with the major stakeholders has helped to move closer towards our vision of 'being a leading provider of electronic payment and settlement services' in Nepal. Moreover, we are committed to continue driving NCHL in the similar direction in the years to come.

During the fiscal year 2076/77, licenses have been issued by Nepal Rastra Bank (NRB) to different institutions as payment system operators (PSOs)

and payment service providers (PSPs) due to which there has been notable increase in the number of such non-bank institutions in the payments industry. The increasing numbers also provides an impression that the sector has grown and expanded rapidly in the last fiscal year. NCHL has supported NRB's initiative to expand the payment industry through non-bank entities by opening up NCHL's payments infrastructure to such PSOs/PSPs. Along with the BFIs, such PSOs/PSPs have been enrolled within NCHL as Indirect/Technical Members through National Payments Interface (NPI).

By end of the fiscal year, there were 64, 81 and 68 members in NCHL-ECC, NCHL-IPS and *connectIPS* respectively. The total members in NCHL-IPS includes 62 direct (BFIs) members and 18 indirect/technical members. Similarly, the total members in *connectIPS* e-Payment system includes 52 direct (BFIs) members and 18 indirect/technical members. Besides, 5,500 and 5,290 bank branches are included within the network of NCHL-ECC and NCHL-IPS respectively, while 143,252 customers of the BFIs including 192,170 bank accounts were linked within *connectIPS* system until the end of FY 2076/77.

The last fiscal year has been major challenging year due to COVID-19 pandemic and the nationwide lockdown since mid of Chaitra 2076. NCHL's services being considered as critical services, all the payment systems and related services were operated during the lockdown period with additional facilitation to provide entire services at zero transaction fee. The impact and the risk of Covid-19 is still in prevail nevertheless, we are committed to enhance and support the industry through promoting digital payments.

Despite the challenging situation, the company still managed to achieve over 20.6 million transaction counts with settlement value of over 9.7 Trillion (for NPR transactions only) from its various systems, which is an increment of 23% and 5% in terms of volume and value respectively. The average daily transaction in NCHL-ECC system slightly declined from 47,085 to 44,269. Likewise, the settlement value of NCHL-ECC system declined from NPR 7.7 trillion to NPR 7.3 trillion. The average daily transaction of NCHL-IPS increased from 19,653 to 22,345 in number with settlement value increased from NPR 1.6 trillion to NPR 2.1 trillion. Similarly, the average number of daily transaction in *connectIPS* system increased from 741 to 10,836 with settlement value increased from NPR 4 billion to NPR 205 billion. The company expects further growth in the digital payment transactions in the coming days,

partly due to the digital payment adoption post COVID lockdown and additional services of digital Channels provided like: NPI and CORPORATEPAY.

The merger and acquisition policy taken by Nepal Rastra Bank since the last couple of years has significantly reduced the number of direct members resulting the decrease of membership and subscription fees for NCHL. However, the company has taken alternative initiatives to increase the number of branches and indirect/technical members as compensating measures. In addition, with the growth of technology-based payment transactions and gradual growth in financial literacy/awareness, it is expected to have more business and opportunities to grow in the days to come.

In anticipation of the increase in digital transactions, members and additional use cases, further expansion/investment in current infrastructure and cyber security has been considered as the primary challenge of NCHL. In order to minimize these risks, the company has implemented NCHL Risk Management Framework, corresponding to which information security management and infrastructure capacity enhancement plan has been given prime importance, for which, we are quite aware to minimize the risks and face the challenge with continuous effort and proper investment in these areas.

The pandemic also affected the financial performance of the company, due to the reduced number of transaction and waiver of the charges for all the payment systems from March 24, 2020 till the end of fiscal year. The Profit After Tax (PAT) was hence reduced by 22 percent to NRs. 186 million for the year. The Operating Profit and Net Profit for the review period has declined by 18 percent and 22 percent respectively and the net profit of the company stood at NPR 185,585,078. In view of the excessive requirement to re-invest on infrastructures, introduced additional systems, security appliance and in line with the principle of re-investment, the Board as proposed to raise the capital by issuing 38% of bonus share and 2 percent of cash dividend (for tax purposes). The existing provision of appropriating 20 percent and 10 percent of the profit to Technology Enhancement Reserve and Land & Building Reserve respectively has been kept unchanged. As part of our commitment on financial disclosure, we have adopted and prepared the financials in compliance to the Full NFRS from this fiscal year.

Lastly, on behalf of the Board of Directors and myself,

I would like to express sincere gratitude to Nepal Government, Nepal Rastra Bank, other regulatory bodies, our shareholders along with other stakeholders for their continuous support and cooperation. I congratulate and thank the management team of NCHL for their excellent performance in the fiscal year 2076/77 (2019/20). I also thank the members of the Board of Directors for their due engagement and full support. I would like to express my strong confidence that continuous support and cooperation will be extended by Nepal Government, Nepal Rastra Bank, Shareholders and all the stakeholders to develop NCHL in future as more effective, reliable and credible facilitating institution in the payment industry of Nepalese Financial Market.

I would like to thank you for your presence and once again welcome in the 9th Annual General Meeting of our company.

Ram Bahadur Manandhar
Chairman

CEO'S STATEMENT



The realization of digital transformation can be achieved only when the Government and the regulators not only issue their policies or directives towards digitization but become the role models for adopting digital transaction. This is exactly what is being seen as a transformation, such that Government of Nepal (GoN) has taken initiatives to adopt digital governance and digital payment for revenue collection and payout. Similarly, Nepal Rastra Bank (NRB) on itself is driving the promotion for adoption of retail payments. The Covid-19 situation that has grappled the entire society and economy with grim view on how long its impact will be, the adoption of digital payments by the businesses and the general public is expected to increase. With the appropriate collaboration between multiple stakeholders, digital transformation in Nepal seems to be not so far. NCHL has remained at the fore-front to drive such collaboration for implementation, operating and expansion of the digital payment services through multiple payment and settlement systems in Nepal. And we are committed to supporting such collaborations with all the stakeholders such that we can provide impact by means of reducing Cash-to-GDP ratio in Nepal.

The fiscal year 2076/77 (2019/20) has been an interesting and challenging year for NCHL. The

adoption of our real-time retail payment system (connectIPS e-Payment System) and the consolidated API based payment services (National Payments Interface - NPI) have kept us drive the needed innovation, while we have rolled out connectRTGS during the fiscal year, as an additional channel platform for the member BFs to interconnect with RTGS system operated by NRB for large value payments. NCHL-ECC has still remained as the primary sourcing product for NCHL with NCHL-IPS and connectIPS remaining as star products. Although the overall transactions have increased, the Covid-19 situation with complete lockdown during since 3rd and 4th quarter of the fiscal year has given us an opportunity to service our valued members and general public with complete waiver of fees and charges. This has partly dented the financials but we remain extremely positive to improve in the coming years, given the additional opportunity for digitization as a result of the Covid-19 situation.

The strategy that NCHL has adopted to collaborate with BFs, PSOs, PSPs, Government agencies and other larger institutions, with the principle to re-invest into national payment infrastructures, has played an instrumental role for placing NCHL at the center stage of digital transformation in Nepal. Extension and acceptance of connectIPS and NPI

have opened up an opportunity towards with real-time retail payments and open API based payments. And this is expected to be the primary infrastructure for expanding digitizing of major services including Government, Institutions, non-bank financial service providers and other service entities.

During the last fiscal year, we were able to add 2, 2 and 11 new member BFs each in NCHL-ECC, NCHL-IPS and connectIPS respectively. Although the number of participating member BFs is decreasing due to the ongoing mergers, we have also been focusing on onboarding of indirect/ technical members within our network, which currently remains at 36 (live), as of Chaitra 2077. Additional channel platforms of connectRTGS and NPI have total membership of 34 and 79 respectively, as of Falgun 2077. Some of the indirect and technical members include GoN's FCGO, Inland Revenue Department, Office of Company Registrar, Public Service Commission, Department of Passport, Department of Customs, Nepal Stock Exchange Ltd., Citizen Investment Trust, Employee Provident Fund, Social Security Fund, remittance companies, payment service providers, payment system operators, insurance companies, merchant banks, etc. NPI has also been extended to the alternate delivery channels of the BFs including their mobile banking, internet banking and corporate channels.

The average daily cheques transaction volume in NCHL-ECC has decreased to 44,269 as against 47,085 in the previous year. The daily transaction settlement value has decreased to NPR 27.3 Billion from NPR 30.6 Billion in the previous year. It is anticipated that the NCHL-ECC transaction volume may stagnate from the current level. The daily average transaction volume and average daily settlement value in NCHL-IPS was 22,345 and NPR 8.1 Billion as against 19,653 and NPR 6.2 Billion in the previous year. And the daily average transaction volume and settlement value in connectIPS was 10,836 and NPR 779.5 Million as against 741 and NPR 16.1 Million in the previous year. We have given the highest priority for adding payment products/ services, secured operations and implementing prudent risk management. We have continued for further strengthen our risk management framework that is based on the Principles for Financial Markets Infrastructures (PFMI) suggested by BIS and ISO27001 standards.

The profitability for the fiscal year has been impacted due to the waiver of all the fees and charges as part of supporting the BFs and general public for digital transactions during the Covid situation. The operating profit of the company remained at NPR 280,453,997

as against NPR 338,837,212 in the previous year. The net profit for the year stood at NPR 185,585,078 as against NPR 237,735,786 in the previous year. The shareholders fund has increased to NPR 854,789,144 with book value per share at NPR 286.76. We are optimistic to improve the financials position of the company in the next fiscal year.

As part of our strategy to support Nepal Rastra Bank's policy to support and improve digital payment ecosystem, we will continue to play necessary role within the payments industry and to work together with the licensed PSPs/ PSOs and other key entities in a collaborative model. We look forward to realizing our principle of re-investment in the planned implementation of National Payment Switch (NPS) in the coming fiscal years. Given the Covid-19 situation, there are uncertainty on how the economy will move, but we see silver lining for increased acceptance of digital payments that gives a positive outlook for payments industry in the current and coming years. We will remain focus on improving the resilience and security of our core infrastructure.

Lastly, I would like to thank our NCHL team, 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.

Neelesh Man Singh Pradhan
Chief Executive Officer

BOARD OF DIRECTORS



**Mr. Ram Bahadur Manandhar,
Chairman**

Mr. Manandhar is the Executive Director at Nepal Rastra Bank and has been working at the central bank since 2055 BS. He has a rich experience at various functions and departments of the central bank for over two decades. He holds Masters degrees in Economics. He is a member of the Board of NCHL representing Nepal Rastra Bank since 4th Chaitra 2077.



**Mr. Ujjal Rajbhandary,
Director**

Mr. Rajbhandary is the General Manager-Business Development & System Support at Himalayan Bank Ltd. He has over twenty-seven 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 6th Ashwin, 2074.



**Mrs. Umang Sharma,
Director**

Mrs. Sharma is the Assistant Chief Executive Officer at Citizens Bank International Ltd. She has over 16 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 6th 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 23 years of experience including 20 years in banking sector. He is a member of the Board of NCHL representing commercial bank shareholders since 8th Ashadh, 2075.



**Mr. Madhav Prasad Upadhyay,
Director**

Mr. Upadhyay is Deputy Chief Executive Officer of Garima Bikas Bank Ltd. He has more than 13 years of experience in banking sector and 17 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 8th Ashadh, 2075.



**Mr. Samaj Prakash Shrestha,
Director**

Mr. Shrestha is the Deputy Chief Executive Officer of Reliance Finance Ltd. He has been in the banking sector for more than 14 years with over 26 years of total experience. He has also held the position of CEO of two finance companies prior to existing employment. He holds Bachelor in Commerce degree from Tribhuvan University, Nepal and a semi-qualified Chartered Accountancy degree from ICAI, India. He is a member of the Board of NCHL representing finance company shareholders since 14th Mangsir 2075.

MANAGEMENT TEAM



Neelesh Man Singh Pradhan, Chief Executive Officer

Mr. Pradhan has experience of over 19 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).



Vivek Giri, Head Business Development

Mr. Giri has experience of over 11 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.



Munni Rajbhandari, Chief Operating Officer

Mrs. Rajbhandari has experience of over 16 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.



Chhabi Lal Sapkota, Head Business Applications

Mr. Sapkota has experience of over 12 years in information & financial technology industry and is associated with NCHL since September 18, 2015. He was earlier working with United Telecom Ltd. (UTL) in the capacity of Sr. Network & System Engineer and later worked as System Integrator and Business Development Manager at Everest Tech & Solutions Pvt. Ltd. prior to joining NCHL. He holds BE in computer Engineering degree from IOE Tribhuvan University, Nepal



Dilli Man Shakya, Chief Technology Officer

Mr. Shakya has experience of over 17 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 degrees from Tribhuvan University and MSc-IT from Sikkim Manipal University. He is also a Certified ISO 27001 Lead Auditor, Certified Data Center Professional (CDCP), ITIL Foundation Certified and Microsoft Certified Technology Specialist.



Prajana Kayastha, Head Risk & Compliance

Mrs. Kayastha is a qualified Chartered Accountant from the Institute of Chartered Accountant of Nepal (ICAN) with over 6 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 Tribhuvan University, Nepal.



Bikash Saran, Chief Product & Innovation Officer

Mr. Saran has experience of over 14 years in the field of IT Management & Operations and is associated with NCHL since October 23, 2019. He was earlier working with IME Digital Solution Ltd. as Chief Technology Officer (CTO) and Finaccess Pvt. Ltd. in the capacity of CTO. Mr. Saran has comprehensively been involved in designing, developing & implementing FinTech based solutions. He holds the Bachelor of Information Management from Tribhuvan University.

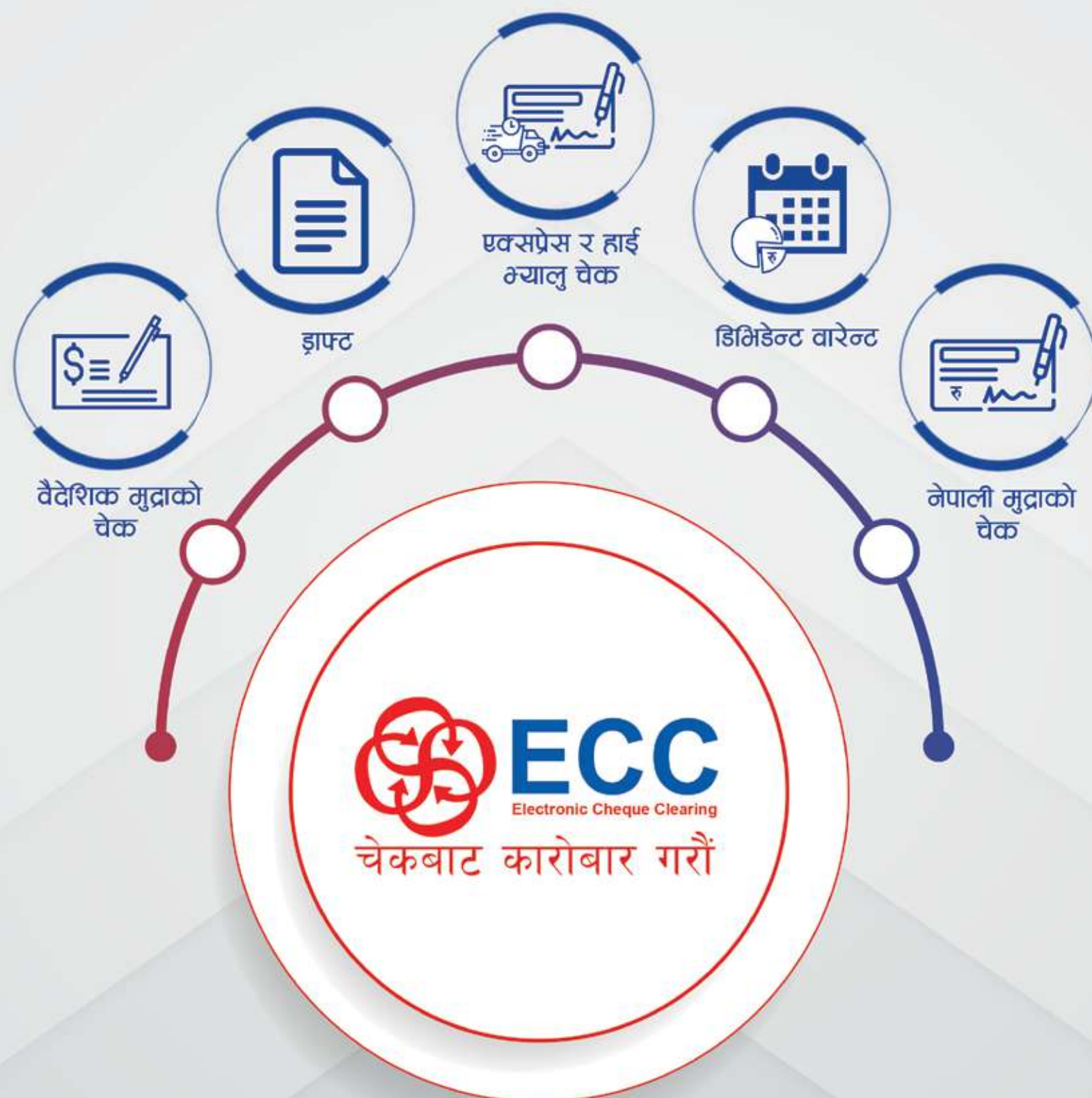


Anesh Shrestha, Finance & Admin Officer

Mr. Shrestha is a qualified FCCA with over 8 years of experience in the field of Auditing and Accounting. He is associated with NCHL since January 13, 2019. Prior to joining NCHL he was associated with CARE Nepal as Finance Officer. He completed his Practical Experience Requirement (PER) at Baker Tilly Dev Associates, Chartered Accountants. He also holds a MBS degree from Tribhuvan University, Nepal.

विद्युतीय चेक क्लियरिङ्ग

ELECTRONIC CHEQUE CLEARING



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. The cheque does not require to be physically travelled 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 13:30 are cleared and settled on the same day.

Various clearing services in the NCHL-ECC system and their 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 BFI and their customers to present and realize cheques faster. Currently, there are two express clearing sessions for four currencies NPR, USD, GBP and EUR. Both the 1st and 2nd express session are available from Sunday to Friday for NPR and from Monday to Friday for FCY (USD, GBP and EUR).

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 for NPR and from Monday to Friday for FCY (USD, GBP and EUR).

Cheque Clearing Cut-off Times

Cheque Clearing Cut-off Timings	Regular Clearing	1 st Express Clearing	2 nd Express Clearing	High Value Clearing
Presentment cut-off time	13:30	10:00 to 11:00	11:00 to 12:00	10:00
Pay Bank Response cut-off time	15:00	11:30	12:30	11:00
Settlement time	15:30	12:00	13:00	12:00

However, the cut-off timings set by the member BFIs seems border from table pulled upto this letter be different seems border from table pulled upto this letter on their seems border from table pulled upto this letter operational arrangements for NCHL-ECC system.

NCHL-ECC Transaction Fee (charged to Presenting member in NPR)

S.No.	Details	Transaction Amount Based Slab			
		Up to 500	>500-50,000	>50,000-200,000	>200,000
1	Regular Clearing (NPR)	-	5	10	15
2	Regular Clearing (FCY)			15	
3	Express Clearing			100	
4	High Value Clearing			100	

To facilitate the member BFI and their customers, the transaction fee of NCHL-ECC was downward revised with effect from 1st Shrawan 2077 (16th July 2020), which was earlier revised on 15th Chaitra 2075 (29th March 2019). The presentment fees for cheques presentment of slab NPR 5,000 to 50,000 has been changed from NPR 10 to NPR 5. Similarly presentment fee for transaction above NPR 200,000 and foreign currency denominated cheques were also revised from NPR 25 to NPR 15. Also, 15% discount on transaction for full implementation of MICR cheques has been continued to incentivize the BFI for issuing MICR cheques. NRB through its unified directive has mandated for implementation of full MICR cheques.

हत्तार भो?
एक्सप्रेस चेक विल्यरीङ्ग छदै छ नि...

ECC
Electronic Cheque Clearing
चेकवाट कारोवार गरौं

NEPAL CLEARING HOUSE
नेपाल राष्ट्र बैंक र बैंक तथा वित्तीय संस्थाहरुबाट प्रवर्द्धित



सरल भुक्तानीको माध्यम



Installment
Payment



Insurance
Payment



IPO Refund
Payment



Remittance
Payment



Salary Payment



Supplier Party
Payment



Collection
Payment



Treasury
Payment



Credit Card
Payment



Customer
Payment



Dividend Payment



Fees Payment



Government Payment



नेपाल राष्ट्र बैंक र बैंक तथा वित्तीय संस्थाहरुबाट प्रवर्द्धित
(नेपाल राष्ट्र बैंकबाट "भुक्तानी प्रणाली सञ्चालक" को
कार्य गर्न अनुमतिपत्रप्राप्त संस्था)

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 collectivv on (direct debit) related transactions on deferred net settlement basis. Such transactions could be one-to-one, recurring or bulk up to 10,000 transactions in a single batch. 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 presented to the earliest available exchange session.



NCHL-IPS currently supports transaction in four currencies 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, 22 Direct Credit product (purposes) are available in the system.

Category Purpose/Product	Purpose Description
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 payment of international remittance proceeds to beneficiary account
Domestic Remittance Payment	Transaction is related to domestic remittance to beneficiary account
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
Collection Payment	Transaction is related to a Collection of payment
Social Security Payment	Transaction is related to payment of social security benefits by government or other institutions
Pension Payment	Transaction is related to payment of pension by Government or other institutions
Investment & Securities	Transaction is related to payment of mutual funds, investment products and shares
Provident Fund Saving	Transaction is related to the collection of EPF and CIT savings
PF Disbursement	Transaction is related to the fund disbursement of EPF and CIT
Government To Government Payment	Transaction is related to Government to government institutional transfer
SSF Collection Payment	Transaction is related to collection of SSF Payments

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 product (purposes) are available in the system.

Category Purpose/Product	Purpose Description
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

Cut-off times for transactions through NCHL-IPS are as follows:

Particulars	Exchange					
	0	1	2	3	4	5
Presentment cut-off time	10:00	10:00-13:00	10:00-11:00	11:00-12:00	12:00-13:00	13:00-15:00
Cancellation cut-off time	10:30	13:30	11:15	12:15	13:15	NA
Reply cut-off time	11:30	14:30	11:30	12:30	13:30	15:15
Settlement of the session	12:00	15:30	12:00	13:00	14:00	15:30

Exchange Sessions 0, 2, 3 are available from Sunday to Friday, except that foreign currency sessions are not available on Sunday. Exchange Sessions 1, 4, and 5 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.	Price Scheme	Transaction Amount Based Slab		
		Up to 500	>500-50,000	>50,000
1	NPR Transactions	2	5	10
2	FCY Transactions (Fee in NPR)	10		

* Transaction fee are waived for Dividend and IPO Refund payments transaction amount up to NPR 100.
**Liability of the transaction fees charged by NCHL is at one side only either on sender or receiver, depending on the type of the product.

To facilitate member BFIs and their customers, the transaction of NCHL-IPS has been downward revised with effect from 1st Shrawan 2077 (16th July 2020). The transaction fee for amount above NPR 5,000 to 50,000 has been changed from NPR 10 to NPR 5. Similarly, transaction fees above NPR 50,000 and foreign currency transactions have been chaned from NPR 15 to NPR 10.

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 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.

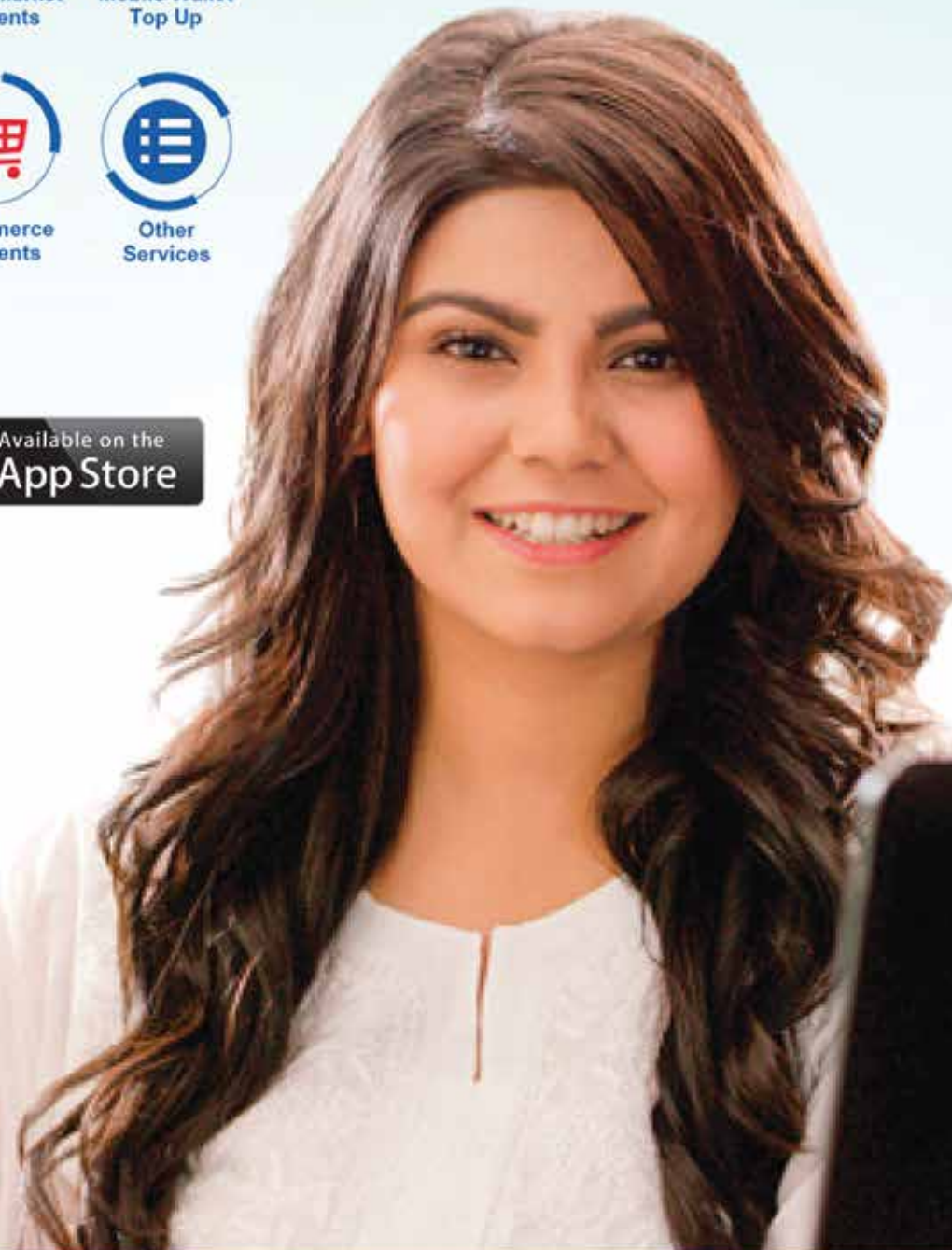
National NCHL-IPS Archive

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.

connect IPS मार्फत आफ्नो बैंक खाताबाट भुक्तानी कारोबार सजिलो छ ।



Available on:
www.connectips.com



connectIPS SYSTEM

connectIPS System is a payments infrastructure for online real-time payments directly through the bank accounts to handle instant payments initiated or processed through multiple channels. It has connectIPS e-payment as core switch and alternate channel platform of mobile and web; integration components to interconnect with the BFI's core banking system; and API extended to NPI for integrating with the overlaying services for full automation of payment transactions.

connectIPS e-Payment

connectIPS e-Payment System is a faster payment system implemented as a standardized single payment platform for real-time retail payments. It provides multiple channels of web portal, mobile app, payment gateway and open APIs for initiating and processing a transaction. The system has also been extended in a branch assisted model for payment initiation from bank branches through Bank Outward Module, whereby the bank branches can initiate such transactions based on the instruction received from its customers.



The transactions being processed through connectIPS includes citizen-to-government (C2G), government-to-citizen (G2C), peer-to-peer (P2P) fund transfers and biller payments (C2B), capital market related payment proceedings, interoperability between bank account and wallet, etc. All payment transactions are processed directly from/to bank accounts. P2P fund transfer could be based on beneficiary's bank account details or mobile number as virtual private address (VPA), without having to share the bank account details.

The user can also link its bank account with self-verification process, whereby it can link online.

The system allows to link multiple bank accounts for a user, for which such user needs to enroll, link its bank accounts with one-time verification through the respective bank upon submission of the downloaded and duly signed link bank account application form. It is available at www.connectips.com and also on mobile app (Android and iOS). The transaction limit in connectIPS e-Payment is up to NPR 1,000,000 through web channel and NPR 100,000 through mobile app.

The transactions processed in connectIPS are on real-time such that the finality of the payment is on instant basis with debtor and creditor accounts are reflected on real-time. However, the Nostro banks are settled on deferred basis, corresponding to which the settlement risk is backed by Settlement Guarantee Fund (SGF). SGF provides certainty of settlement by utilizing the fund and/or some alternative guarantee mechanism as the last resort after having exhausted all available options for the participant that are unable to settle its obligation.

connectIPS Integration Module

The integration module of the connectIPS System provides mechanism for the banks to integrate their CBS with the NCHL-IPS, connectIPS e-Payment and other payment systems. This allows the banks for processing of their outward and inward transactions. There are additional APIs available to connect bank's existing alternate channels (like internet banking, mobile banking and corporate channels) through which the transactions could be initiated by the end customers and routed to the core systems.

Bank Central Module

Bank users can initiate payment transactions and make various service payments through the underlying systems based on the instruction received from its customers. And the customer does not require connectIPS enrollment for using such transactions. This module also allows bank user role management, account linking & management for connectIPS users, enrol corporates and businesses for CORPORATEPAY and for accessing reports for necessary reconciliation.

connectIPS e-Payment Transaction Fee (in NPR)

connectIPS is provided to the member BFIs without any additional recurring fee and the transaction processed from connectIPS e-payment module are chargeable on per transaction basis, which is on a revenue sharing basis between NCHL, ODFI and RDFI. Portion of the transaction fee is further contributed toward settlement guarantee fund (SGF) by NCHL.

Following is the transaction fee structure corresponding to which charge liability is on end customer

S.No.	Particulars	Transaction Amount Based Slab			
		Up to 500	500-5,000	5,000-50,000	Above 50,000
1	Fund Transfer	2	5	10	15
2	Other Creditor/ Biller Payments	Not Exceeding 15			

The transaction fee for Government of Nepal tax payments for Inland Revenue Department (IRD) is set at NPR 2 for transaction upto NPR 10,000 and NPR 5 for transaction above NPR 10,000. The transactions fees on the creditor payments with charge liability on such creditors is 0.75% with minimum of NPR 2 and maximum of NPR 100. For such payments, there are no charges applied to the end customer.

CREDITOR LISTING

Any service providers having businesses that require receiving payments (collection) from its customers/ agent/dealers can request through their banks and financial institutions for a creditor enrollment in connectIPS e-payment system and/or NCHL-IPS. Bank account of such corporate/service providers are white labelled in the system(s) allowing them to receive payments without having to provide the entire bank account details to the end customers. This will also ease the payer for fund transfer as the beneficiary’s bank account details need not be remembered. The creditor/service payments enlisted have been extended with the concept of global creditor. Potential corporates/service providers for such creditor listing are small/mid-sized corporates, manufacturing companies, distributors, schools, colleges, cable/internet service providers, travel agents, airlines and others. The Creditors are on boarded through the respective banks and financial institutions. The annual recurring fee for such creditor listing has been completely waived off.

NATIONAL PAYMENTS INTERFACE (NPI)

National Payments Interface (NPI) is a consolidated APIs of multiple payment systems of NCHL, which is implemented in a concept of open APIs to facilitate financial message standardization, interoperability of various retail payment systems and to automate the overlaying services. NPI supports seamless routing of transactions to NCHL’s underlying payment systems. It supports seamless integration to the payment systems hosted by NCHL, for real-time instant payment through connectIPS e-payment System and for deferred credit payments through NCHL-IPS System. It can also be extended to the alternate delivery channels of the member BFIs (internet banking, mobile banking, remittance channels, etc.), PSPs/PSOs; and to enroll commercial & non-commercial billers as overlaying services.



The institutions are on-boarded as Indirect/ Technical Members with direct member BFIs as its settlement banks. Some of the institutions like Government institutions, large fund managers (Employee Provident Fund, Social Security Fund, Citizen Investment Trust, etc.), Nepal Stock Exchange Ltd., PSPs/PSOs, remittance companies, insurance companies, and different channels of the BFIs have been integrated through NPI.

connectRTGS SYSTEM

connectRTGS is a customized extension of connectIPS Integration System for member banks and financial institutions to process inward and outwards transactions in the Real-Time Gross Settlement (RTGS) system. The system is in operations with 24 commercial banks, 8 development banks, 2 finance companies as of mid April 2021 (Chaitra end 2077) and are being extended to other member BFIs. The RTGS system is hosted at Nepal Rastra Bank and supports transactions in NPR, USD, EUR, GBP and JPY. The system is live since December 2019 (Mangsir 2076).



CORPORATEPAY SYSTEM

CORPORATEPAY is a business payments platform for the business and corporate customers of the member BFIs to enable them for initiating and processing their payments to various underlying payment systems. Currently the platform is available with underlying systems of NCHL, namely, connectIPS and NCHL-IPS and later can be extended to third party systems including RTGS. This is a multi-bank, multi-account platform for business/corporate users to manage and monitor payment transactions. The platform is being provided to the member BFIs by NCHL on a hosted infrastructure, corresponding to which the BFIs will provide such channels to their corporate customers.

The corporate customer enrollment, account linking and their control setups (including signatory setups) will have to be done by the respective member BFIs on the request of its customers. The system provide facility to transfer funds and service payments. The system provides controls for multi-authentication for system login and multi-authorizations for transaction processing, as part of the risk control.



CORPORATEPAY was officially launched on 1st Magh 2077. As of mid April 2021 (Chaitra end 2077), 29 BFIs have already subscribed for the platform out of which, 16 BFIs are already Live.



Official launch of CORPORATEPAY through virtual media by Mr. Maha Prasad Adhikari, Governor, Nepal Rastra Bank

व्यावसायिक भुक्तानीलाई सरल बनाउँदै

- रकम ट्रान्सफर
- तलब भुक्तानी
- भेन्डर पेमेन्ट
- सरकारी राजस्वको भुक्तानी
- अन्य भुक्तानीहरू

प्रणालीमा आवद्ध हुन आफ्नो बैंक/वित्तीय संस्थामा सम्पर्क राख्नु होला

03 FINANCIAL REVIEWS

REPORTING PRONOUNCEMENTS

NCHL had adopted Full Nepal Financial Reporting Standard (NFRS) from the fiscal year 2076/77 (2019/20) for better presentation and transparency of financial reporting. Until previous year, NFRS for SMEs was being followed.

SNAPSHOT OF LAST 5 YEARS PERFORMANCES

Past five 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 2076/77 (2019/20) in comparison with last four fiscal years are presented in the following table.

Amount in NPR '000

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	FY 2072/73 (2015/16)	CAGR*
Paid up capital	298,080	216,000	180,000	150,000	150,000	19%
Reserve & Surplus	556,709	457,524	291,788	170,180	68,234	69%
Investment & Placements	637,249	444,474	346,500	255,000	120,000	52%
Non-Current Assets	342,459	259,241	163,748	82,223	46,117	65%
Current Assets	668,544	517,959	377,479	291,821	210,190	34%
Operating Income	383,074	431,317	322,963	266,793	162,514	24%
Operating Expenses	61,249	56,296	50,334	48,082	44,922	8%
Gross Profit	321,826	375,020	272,629	218,711	117,591	29%
Interest/ Other Income	68,733	53,430	38,814	20,813	7,491	74%
Administrative Expenses	50,514	29,928	13,574	11,575	7,847	59%
Human Resource Expenses	59,591	59,684	43,615	34,527	21,640	29%
Operating Profit	280,454	338,837	254,254	193,423	95,596	31%
Depreciation/ Amortization	33,788	21,784	12,159	17,342	18,176	17%
NET PROFIT /(LOSS) FOR THE YEAR	185,001	237,736	181,609	131,945	57,736	34%

*Compounded Annual Growth Rate



AWARDS AND RECOGNITIONS
2019



NCHL receiving Best Presented Annual Report Awards, 2019 from The Institute of Chartered Accountants Nepal



Best Presented Annual Report (BPA) Award 2019 Certificate, ICAN



NCHL receiving Best Presented Annual Report Awards, Integrated Reporting Awards & SAARC Anniversary Awards for Corporate Governance Disclosures, 2019 from South Asian Federation of Accountants



Best Presented Annual Report Awards, Integrated Reporting Awards & SAARC Anniversary Awards for Corporate Governance Disclosures, 2019 Certificate at SAFA

2018



Best Presented Annual Report (BPA) Award 2018 Certificate.



SAFA Best Presented Annual Report Awards and SAARC Anniversary Awards for Corporate Governance Disclosures, 2018

PERFORMANCE OF CURRENT YEAR

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 854,789 thousands as against NPR 673,524 thousands in the previous year. The increase is mainly due to adjustment of Bonus Share Capital of 38% on Paid-up Capital approved for FY 2075/76 (2018/19) and additional profit transferred to Reserve and Surplus from attributable profit of FY 2076/77 (2019/20).

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. Additionally, 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 office premise (Land & Building) in future. A reserve for actuarial gain/loss has been created from the fiscal year 2076/77 (2019/20) due to impact of adoption of full NFRS on account of actuarial valuation of superannuation and leave benefits.

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. Reserve for Actuarial Gain/(Loss)
- 5. Dividend and/or Bonus to Shareholders
- 6. General Reserve & Surplus

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	Amount in NPR '000	
			Growth	
			Volume	%
Paid up Capital	298,080	216,000	82,080	38%
Reserve & Surplus	556,709	457,524	99,185	22%
Technology Enhancement Reserve	162,110	125,110	37,000	30%
Land & Building Reserve	60,435	41,934	18,500	44%
Reserve for Actuary Gain/(Loss)	584	-	584	100%
General Reserve & Surplus	333,580	290,479	43,101	15%
TOTAL	854,789	673,524	181,265	27%

The Board of Directors has proposed 38% of Bonus Shares equivalent to NPR 113,270,400 and cash dividend of 2% equivalent to NPR 5,961,600 from the profit of fiscal year 2076/77 (2019/20), 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 investment 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 and debentures at various banks and financial institutions.

Total investment and placements (long, short and cash equivalent) of NCHL has increased to NPR 704,249 thousands in FY 2076/77 (2019/20) as against NPR 529,474 thousands in the previous year. The interest income has increased to NPR 67,159 thousands as against NPR 52,077 thousands with growth of 29%. The interest income includes income from investments and call deposits.

Amount in NPR '000

Particulars	2076/77 FY 2019/20	2075/76 FY 2018/19	Growth	
			Volume	%
Fixed Deposits and Debentures	704,249	529,474	174,775	33%
Investments and Placements (Maturity above 3 months)	637,249	444,474	192,775	43%
Cash Equivalent (Maturity less than 3 months)	67,000	85,000	(18,000)	(21%)
Interest Income*	67,159	52,077	15,082	29%

*Including interest income from call deposits.

Operating Income

Total operating income for the FY 2076/77 has decreased to NPR 382,509 thousands as against NPR 429,727 thousands in the previous year. Decrease in operating income is mainly due to impact of transaction fees waiver provided during lockdown from Chaitra 11, 2076 to Ashadh 31, 2077 (24th March 2020 to 15th July 2020), which was provided to support the BFIs and general public for digital transaction during the lockdown of COVID-19 pandemic and as per the approval of 147th Board Meeting. A total transaction fee of NPR 44,037,669 was waived off during the period.

Amount in NPR '000

Particulars	FY 2076/77 2019/20	FY 2075/76 2018/19	Growth	
			Volume	%
NCHL-ECC Transaction Fees	107,299	152,002	(44,703)	(29%)
NCHL-ECC Express & High Value Transaction Fees	142,177	157,282	(15,105)	(10%)
NCHL-ECC Other Fees & Charges	20,352	20,174	178	1%
Total NCHL-ECC Transaction Fees	269,828	329,458	(59,630)	(18%)
NCHL-IPS Transaction Fees	32,101	34,787	(2,686)	(8%)
NCHL-IPS Other Fees & Charges	15	88	(72)	(83%)
Total NCHL-IPS Transaction Fees	32,116	34,875	(2,758)	(8%)
connectIPS Income	12,508	1,334	11,174	838%
Less: connectIPS Revenue Sharing.	(6,318)	(667)	(5,651)	847%
Net connectIPS Income	6,190	667	5,523	828%
NCHL-ECC Annual Fees & Charges	20,125	20,614	(489)	(2%)
NCHL-IPS Subscription Charges	19,024	17,317	1,707	10%
NCHL-IPS Creditor Listing	343	121	222	183%
Network Connectivity & Management Fee	7,149	6,611	537	8%
Login ID fee	27,735	20,063	7,671	38%
Total Annual Fees & Charges	74,375	64,727	9,648	15%
TOTAL OPERATING INCOME	382,509	429,727	(47,217)	(11%)

Other Income

Total other income of NPR 1,574 thousands has been reported in the FY 2076/77 (2019/20) against NPR 1,353 thousands in the previous year. Other income comprises of income related to interest income on employee loan and other miscellaneous income.

Operating Expenses

Total operating expenses has increased by 9% to NPR 61,249 thousands as against NPR 56,296 thousands in the previous year. The major increment is due to the increase on AMC on NCHL-ECC and NCHL-IPS system due to increase in US\$ exchange rate. The NCHL-ECC and NCHL-IPS software 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\$ 28,350 for IPS software are payable in US Dollars on half yearly basis.

The Oracle software license was upgraded to enterprise edition during FY 2075/76 (2018/19) with increase in number of licenses, corresponding to which the increased AMC has been reflected in the FY 2076/77 (2019/20) also. Operating expenses related to new hardware and connectIPS e-payment system have also contributed to increase in the operating expenses.

Amount in NPR '000

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	Growth	
			Volume	%
ECC Software AMC - BFIs & NCHL	40,688	39,329	1,359	3%
IPS Software AMC	4,409	4,237	172	4%
Oracle Software AMC	4,769	1,835	2,934	160%
Network Connectivity	6,159	6,023	136	2%
Other AMC & Expenses	5,224	4,872	352	7%
TOTAL OPERATING EXPENSES	61,249	56,296	4,952	9%

Administrative Expenses

Total administrative expenses have increased to NPR 50,514 thousands as against NPR 29,928 thousands in the previous year, equivalent to increase of 69%. This is mainly due to increase in number of staff, business promotion expenses conducted as a part of Sakchyam Challenge Fund project and donation to PM's Corona Relief Fund.

Amount in NPR '000

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	Growth	
			Volume	%
Administrative Expenses	15,778	23,636	(7,859)	(33%)
Grant Project	34,736	6,292	28,444	452%
Program Specific Expenses	70,328	12,584		
Less: Grant Contribution	(35,592)	(6,292)		
TOTAL ADMINISTRATIVE EXPENSES	50,514	29,928	20,585	69%

Human Resource Expenses

Total human resource expenses have decreased to NPR 59,591 thousands as against NPR 59,684 thousands in the previous year, equivalent to decrease of 0.16%. This is mainly due to decrease in the staff bonus provision set aside from the profit of FY 2076/77.

Amount in NPR '000

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	Growth	
			Volume	%
Human Resource Expenses	54,906	58,937	(4,031)	(7%)
Grant Project	4,684	747	3,937	527%
Human Resource Expenses	11,865	1,495		
Less: Grant Contribution	(7,180)	(747)		
TOTAL HUMAN RESOURCE EXPENSES	59,591	59,684	(94)	(0%)

Profits and Corporate Tax

During the review period, NCHL has generated net profit of NPR 185,001 thousands as against the net profit of NPR 237,736 thousands in the previous year thereby registering decrease of 22%. Decrease in profit is mainly due to the transaction fees waiver for all the payment systems viz. NCHL-ECC, NCHL-IPS and connectIPS provided from Chaitra 11, 2076 to Ashadh 31, 2077 in order to support digital payments during the lockdown caused by COVID-19 pandemic. The income tax provision has consequently decreased to NPR 62,178 thousands as against NPR 78,157 thousands in the previous year.

Amount in NPR '000

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	Growth	
			Volume	%
Gross Profit	321,826	375,020	(53,195)	(14%)
Operating Profit	280,454	338,837	(58,383)	(17%)
Income Tax Provision	62,178	78,157	(15,979)	(20%)
Net Profit After Tax	185,001	237,736	(52,735)	(22%)


AUDITORS' ASSOCIATION OF NEPAL


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Now pay AUDAN training fees online easily from connect IPS



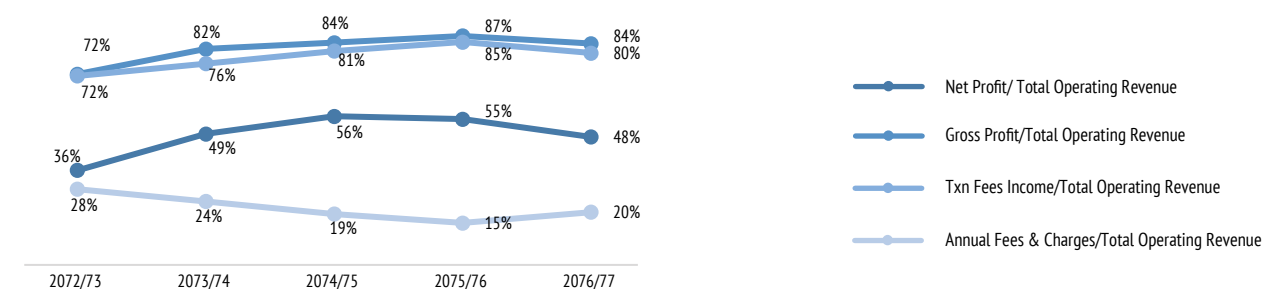

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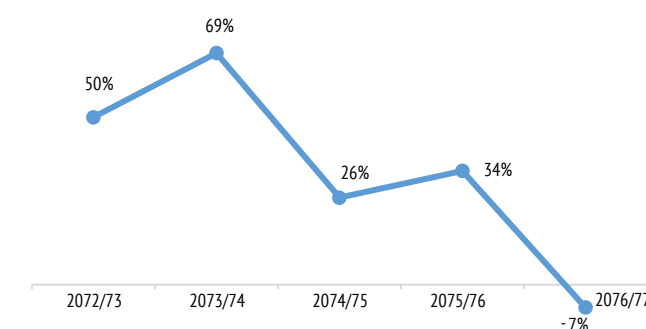


FINANCIAL RATIOS

Revenue Indicators



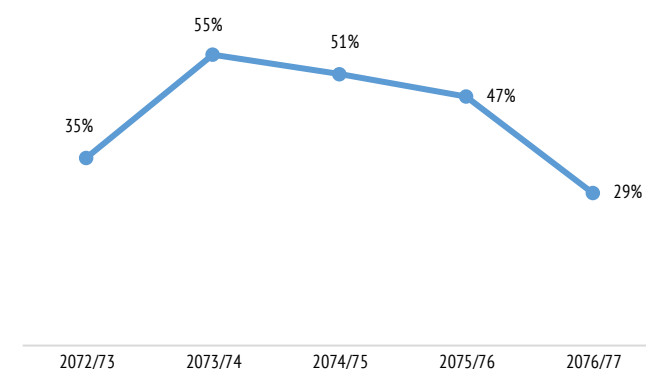
Revenue Growth Rate



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

Revenue has decreased by 7% in the current fiscal year compared to the last fiscal year amidst COVID-19 crisis and the following waivers of the transaction fees during the lockdown period.

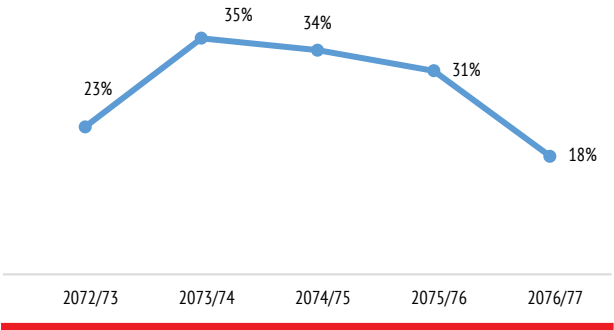
Return on Capital Employed



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

Due to the increase in the Share Capital and decrease in the profit of the year, ROCE has decreased by 18% as against the previous year.

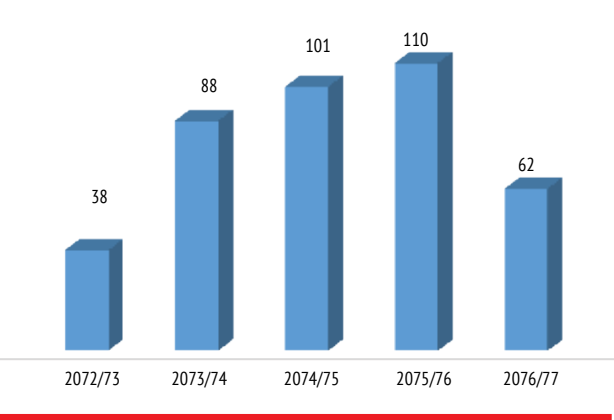
Return on Total Assets



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

With the increase in the total assets and decrease in the total revenue, the return on total assets has dropped from 31% in the previous year to 18% in the current fiscal year.

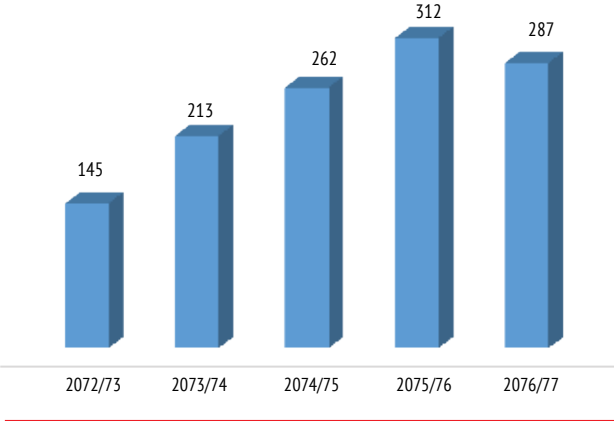
Earnings Per Share



Earnings 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 addition of the bonus shares within the capital and decrease in total revenue in comparison to the last year has reduced the EPS to NPR 62 at the end of the year.

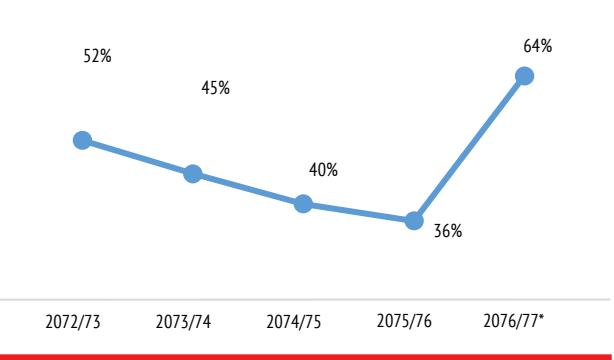
Net Worth per Share



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 Net Worth per share has slightly decreased however, remains at NPR 287 per share, mainly due to the increase in paid-up capital through issuance of bonus shares.

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 increased to 64% as compared to the previous year due to constant dividend rate against decreased Net Profit during the FY 2076/77. However, dividend for FY 2076/77 is subject to approval by the AGM.

*Subject to approval by AGM

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 decreased to NPR 341,107 thousands as against NPR 399,222 thousands in the previous year.

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	Growth	
			Volume	%
Direct Income	383,074	431,317	(48,242)	(11%)
Indirect Income	68,733	53,430	15,303	29%
Less: Operating Expenses	61,249	56,296	4,952	9%
Less: Administrative Expenses (Excluding expenses incurred for stakeholders)	49,451	29,228	20,223	69%
TOTAL VALUE ADDITION	341,107	399,222	(58,114)	(15%)

Application of Value Generation

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

Applied to Stakeholders	FY 2076/77 (2019/20)	%	FY 2075/76 (2018/19)	%	Growth	
					Volume	%
Government	62,178	18%	78,157	20%	(15,979)	(20%)
Employee	59,591	17%	59,684	15%	(94)	(0%)
Directors	1,063	0%	700	0%	363	52%
Shareholders*	119,232	35%	86,400	22%	32,832	38%
Entity:						
• Reserves	65,769	19%	151,336	38%	(85,567)	(57%)
• Deferred Tax	(513)	(0%)	1,160	0%	(1,673)	(144%)
• Depreciation & Amortization	33,788	10%	21,784	5%	12,004	55%
TOTAL VALUE ADDITION	341,107	100%	399,222	100%	(58,114)	(15%)

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

अब सामाजिक सुरक्षा कोषको १० लाख
भन्दा माथिको भुक्तानी नजिकैको बैंक
शाखा मार्फत सजिलै गर्नुहोस्।



04 OPERATIONAL REVIEW

With operational review, NCHL intends 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 to ensure it complies with the organization's internal policies, statutory, regulatory compliances and enhances the operational processes.

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 reviews the infrastructure capacity enhancements and necessary upgrade plans on regular basis. 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 upgraded before they reach end of life/support.

The overall transaction volume and value of the various systems at NCHL during the fiscal year is as follows:

Amount in NPR '000

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	Growth	
			Change	%
Total Transaction Count	20,624	16,873	3,751	22%
Total Transaction Value (NPR)	9,689,151,214	9,220,394,634	468,756,580	5%
Total Transaction Value (USD)	321,880	369,408	(47,528)	(13%)
Total Transaction Value (EUR)	237,764	187,680	50,084	27%
Total Transaction Value (GBP)	171,173	141,897	29,276	21%
Average Daily Transaction Count	77	67	10	15%
Average Daily Transaction Value	36,217,865	36,856,667	(638,802)	(2%)

It also includes Government of Nepal e-payments (through NCHL-IPS and *connectIPS* systems) during the fiscal year, equivalent to NPR 219 Billion as payout transactions (Off-Ups only) and NPR 3.12 Billion as revenue collection transactions. The annualized growth in transaction value and volume from the payment systems operated by NCHL since 2067/68 (2010/11) till date has reached over 58.85%, which has remained as the major contribution of NCHL in the digital payment value chain within Nepal.

NCHL has been operating multiple national clearing and settlement systems including NCHL-ECC, NCHL-IPS and *connectIPS* e-payment system. Additionally, it has been facilitating the industry with its channel platforms including National Payments Interface (NPI) and *connectRTGS*.

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

1. Transactional Growth: Total of 20.6 million number of transactions (increase of 22.2%), equivalent to total settlement value of NRs 9.69 Trillion (increase of 5%). Daily average transaction in NCHL's payment system for the fiscal year remained at 77,115 equivalent of NRs 36.2 Billion in settlement.
2. Transparency and Governance: NCHL has been awarded with “Certificate of Merit” for the year 2018 in the category Public Sector Entities under ‘SAFA Best Presented Annual Report Awards’.
3. NCHL Membership and specific products
 - Despite merger of 11 BFIs during the review period the membership base of NCHL was 99 due to 35 Indirect/technical members added. Total of 14 PSPs/PSOs added as Technical Members.
 - Government entities that were enabled for digital payments were Office of Company Registrar, Department of Passport and Department of Customs (apart from existing FCGO, Inland Revenue Department, Lok Sewa). EPF, CIT, SSF, NEPSE were semi-govt. entities that went live.
 - Completed development and rollout of *connectRTGS* for 34 commercial banks.
 - Major growth of *connectIPS* e-Payment System transactions achieved and starting of Bank Central module as branch assisted transactions for real time transactions is expected to grow further.
 - Full-fledged rollout of National Payments Interface (NPI) for various institutions. 57 alternate channels (mobile, internet, remittance) of 35 BFIs connected through NPI.
 - *connectIPS* e-Payment upgraded for additional features of Self-verification for link bank account, QR Pay, High value limit etc.
 - Development of CORPORATEPAY system completed as a business payments platform for corporate (SMEs/ MSMEs) customers of the BFIs.
4. Other initiatives: Member BFIs user training/orientation and joint promotion campaigns with BFIs.

NCHL MEMBERS

NCHL-ECC and NCHL-IPS members from BFIs have almost reached its maturity with members of 65 and 63 respectively by the end of the FY 2076/77 (2019/20). Samriddhi Finance Ltd. had subscribed for NCHL-ECC system and gone Live during the fiscal year. Similarly, Nepal Finance Ltd. has also resumed its operation in NCHL-ECC systems after being released from its problematic status. Corporate Development Bank Ltd. and Samriddhi Finance Co. Ltd. were added as members in NCHL-IPS during the fiscal year as direct members. Out of the total BFIs subscribed for *connectIPS* e-Payment System, 52 BFIs were Live with 3 BFIs yet to be Live as of Ashadh end 2077 (2019/20).

NCHL-IPS and *connectIPS* e-Payment systems have been extended to Direct and Indirect/Technical members through National Payments Interface (NPI). Out of the 35 Indirect/Technical members through NPI, 15 indirect/technical members were Live for both the underlying systems and 3 others were Live for only one system by FY 2076/77 (2019/20).

Following is the summary of the Live members as of Chaitra end 2077.

NCHL Members	NCHL-ECC	NCHL-IPS	<i>connectIPS</i>	<i>connectRTGS</i>	NPI	CORPORATEPAY
Total Live Members	63	97	85	34	79	16
Nepal Rastra Bank	1	1	-	-	-	-
NIFRA	1	1	-	-	-	-
Commercial Banks	27	27	26	24	25	11
Development Banks	17	16	13	8	11	4
Finance Companies	17	16	13	2	7	1
Indirect/Technical	-	36	33	-	36	-
Total Subscribed but not Live*	-	21	25	8	19	13
BFIs	-	1	3	8	0	13
Indirect/Technical	-	20	15	-	19	-
Partially Subscribed	-	-	7	-	-	-

* Members who have subscribed but are yet to be live.

Driven by the policies of the central bank, the market has seen major mergers and acquisitions of the BFIs in the last few years. During the review year of FY 2076/77 (2019/20), 12 member BFIs (1 commercial bank, 10 development banks and 1 finance company) merged during the review period in NCHL-ECC. And the total number of member BFIs which have merged till date remains 92 for NCHL-ECC. 11 member BFIs (1 commercial bank and 10 development banks) were merged during the review period making a total number of members merged/terminated as 29 in NCHL-IPS. Similarly, 8 member BFIs (1 commercial bank and 7 development banks) were merged during the review period in *connectIPS* e-payment system making a total of 10 merged member BFIs as of FY 2076/77 (2019/20). With the continuous focus of the central bank on merger policy, it is anticipated that further BFIs will continue to merge in the coming fiscal year too.

Following is the summary of the merged/terminated members.

Members	NCHL-ECC	NCHL-IPS	<i>connectIPS</i> e-Payment
Membership as of date	157	128	93
Merged/Terminated as of date	92	29	10
Merged/Terminated in FY 2076/77	12	11	8

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 various systems.

NCHL-ECC SYSTEM

NCHL-ECC system is the core system for electronic cheque clearing. 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 2076/77 (2019/20) remained at 44,269. Total of 11,898,333 cheques were presented during the review period out of which 10,150,290 cheques were cleared/accepted.

The overall transaction volume and value in the NCHL-ECC system during the fiscal year is as follows:

Figures in '000'

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	Growth	
			Change	%
Total Transactions Count	11,898	11,755	143	1%
Total Transaction Value (NPR)	7,346,061,561	7,657,199,772	(311,138,210)	(4%)
Total Transaction Value (USD)	265,875	318,979	(53,104)	(17%)
Total Transaction Value (EUR)	219,908	184,389	35,519	19%
Total Transaction Value (GBP)	169,952	141,090	28,863	20%
Average Daily Transaction Count	44	47	(3)	(6%)
Average Daily Transaction Value	27,308,779	30,628,799	(3,320,020)	(11%)

Despite the decrease in transaction volume during the lock down period for over 3.5 months, the transaction volume has not decreased considerably. The peak transaction processed in a single day in NCHL-ECC system since its inception is 193,354 transactions.

Over 5,500 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 5,178 branches are currently providing outward clearing service, which was 3,492 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 been increasing considerably. The transaction processed through express clearing which was 14.84% of the total transaction up to Falgun end 2076 (mid-February 2020) came down to 12.32% against total transaction by end of the FY 2076/77, as the express sessions were discontinued during the lockdown period. In the last FY, the express clearing constitutes 13.38% of total cheques being cleared.

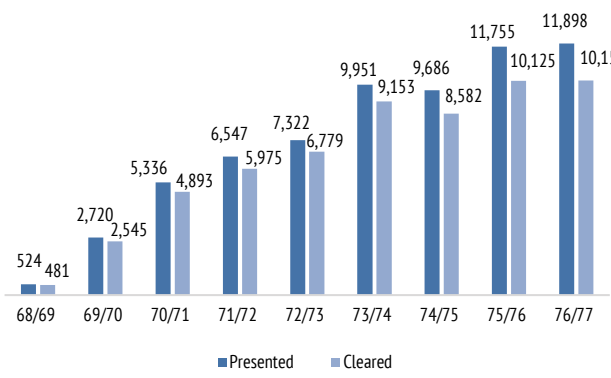
Following is the product wise transaction volume in NCHL-ECC.

Sessions	FY 2076 /77	FY 2075/76	FY 2074/75	FY 2073/74	FY 2072/73
High Value	288	310	245	751	610
Express	1,466,094	1,572,514	937,877	437,324	137,831
Regular	10,431,951	10,182,248	8,748,155	9,513,194	7,184,271
TOTAL	11,898,333	11,755,072	9,686,277	9,951,269	7,322,712

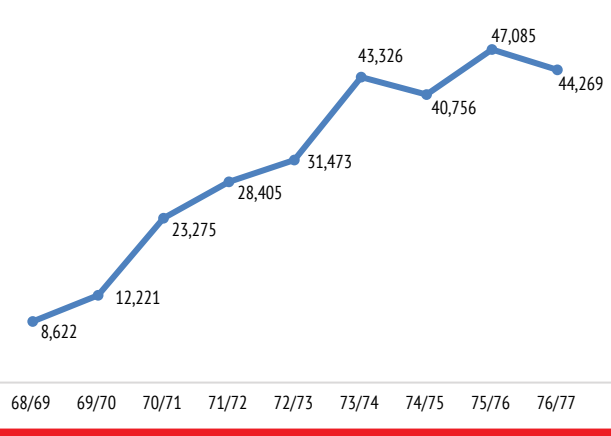
Implementation of full MICR cheques is expected to help the member BFIs to reduce operational risks by reducing cheque rejections due to manual errors and also support implementing alternate channels of cheque deposits/collections. NRB through its Payment Systems related Unified Directive has instructed and mandated BFIs to implement full MICR code line i.e. Cheque Serial Number, Bank Code, Branch Code and Account Number fields. However, the full MICR code line has been implemented only by few BFIs as of date. Hence, in order to encourage usage of Full MICR cheques, a discount of 15% on the total transaction fee collected against full MICR cheques presentment in the system have been continued. A discount of total NPR 508,538 was provided against the full MICR to member BFIs during the FY 2076/77.

SNAPSHOTS OF NCHL-ECC TRANSACTIONS

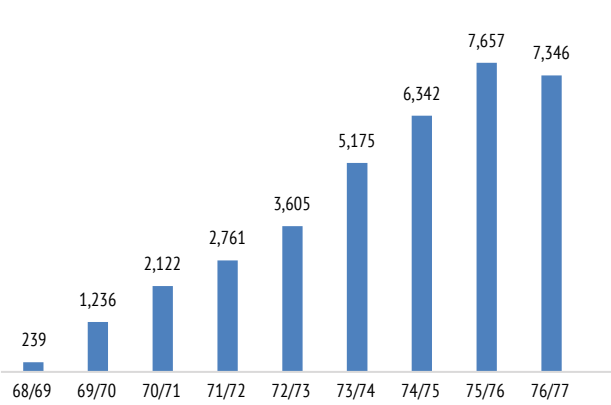
Transaction Count (in ‘000)



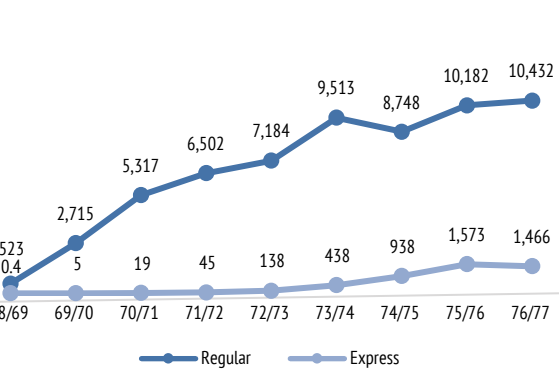
Average Daily Cheque Volume



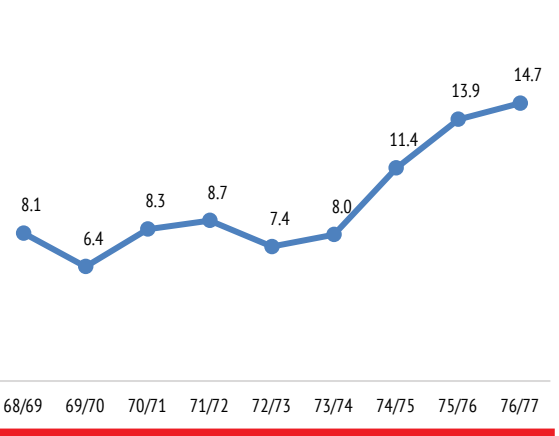
NPR Transaction Value (in Billions)



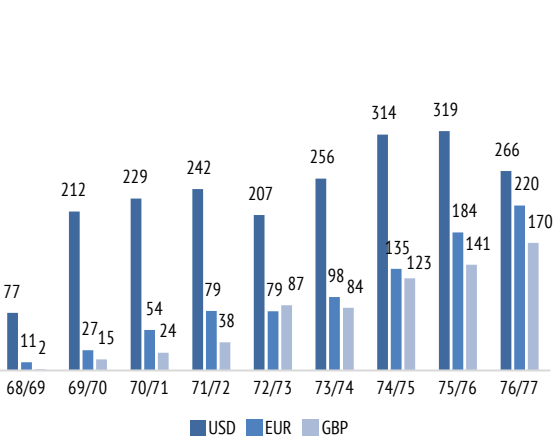
Regular & Express Clearing Transaction Count (in ‘000)



Average Cheque Return (in %)



FCY Transaction Value (in Millions)



NCHL-IPS SYSTEM

Acceptability of NCHL-IPS system is reflected with the increase in the total transaction volume, which has increased by 19% as compared to the previous year. The primary focus of NCHL during the year for NCHL-IPS system was to extend the service to large corporates/institutions to facilitate their bulk transactions by means of automating their internal systems through NPI. Out of the total transactions 5,875,765, the transaction processed through NPI comprise of 3.94% during the review period which is expected to increase in the coming years.

The overall transaction volume and value in the NCHL-IPS system during the fiscal year is as follows:

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	Growth	
			Change	%
Total Transaction Count	5,876	4,932	944	19%
Total Transaction Value (NPR)	2,138,073,275	1,559,150,560	578,922,715	37%
Total Transaction Value (USD)	56,006	50,431	5,575	11%
Total Transaction Value (EUR)	17,857	3,293	14,565	442%
Total Transaction Value (GBP)	1,222	808	413	51%
Average Daily Transaction Count	22	20	3	14%
Average Daily Transaction Value	8,129,556	6,211,755	1,917,801	31%

Providing necessary trainings/awareness to the members and facilitating various institutions including Government, Semi-Government institutions and other larger corporates were the primary focus for NCHL during the year. NCHL-IPS was extended to more than 5,290 branches across the country. The peak transaction processed in a single day in NCHL-IPS system since its inception is 153,407 transactions.

ANALYSIS OF NCHL-IPS TRANSACTIONS

Government Payments

With an intent to facilitate Government of Nepal (GoN) for its payout transactions directly to the bank accounts of the beneficiaries and for Government to Government, special products namely GOVT and G2GB are made available in the system. The category purpose G2GB was added during the review period (Mangsir 2076 – Mid Dec 2019) having transaction limit up to NPR 2 Billion. Similarly, GON has also started salary payout transactions directly into the bank account of the employees through NCHL-IPS system, using SALA and SALC category purposes. NCHL processed total of NPR 221.09 Billion payout transactions including G2GB during the year as against NPR 166.33 Billion in the previous year.

The GoN’s pay-out transactions that was pilot launched from Falgun 2073 has now been extended to almost all 77 district offices, such that DTCO can initiate their payout transactions directly into the beneficiary bank accounts through NCHL-IPS using its designated expense handling banks. The extended APIs of NCHL-IPS system is provided through its designated banks for full integration of its EFT system. A process to migrate the individual integration of GoN’s EFT system with each of the designation banks with NPI as a single integration is under process and is expected to go-live in the initiate months of FY 2077/78. This will give GoN’s EFT an access to both NCHL-IPS system and connectIPS for all types of its payout transactions including Off-Us and On-Us.

Treasury Transactions

Treasury transactions (TREA) related to the treasury operations including placements and fund management of the BFIs are being processed through NCHL. Such transactions through NCHL-IPS system has increased to NPR 826.22 Billion during the year against NPR 519.66 Billion last year. The usages of RTGS system in future is expected to gradually impact the TREA transaction in NCHL-IPS system.

Customer Transfer and Supplier Payment (CUST/SUPP)

Transactions 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 952.71 Billion during the year as against NPR 739.17 Billion in the previous year.

Remittance (REMI/ REMD)

The remittance companies can directly process their transactions to the beneficiary bank accounts under remittance transactions (REMI / REMD). Some of the remittance companies have joined NCHL as Indirect Member for full integrations through NPI, while others are processing their transactions through their respective banks. Despite the COVID situation throughout the last quarter of the review year, the remittance transaction value remained almost at the same range of NPR 107.56 Billion against NPR 106.51 Billion in the previous year.

Dividend and IPO Refunds (DIVI/IPOR)

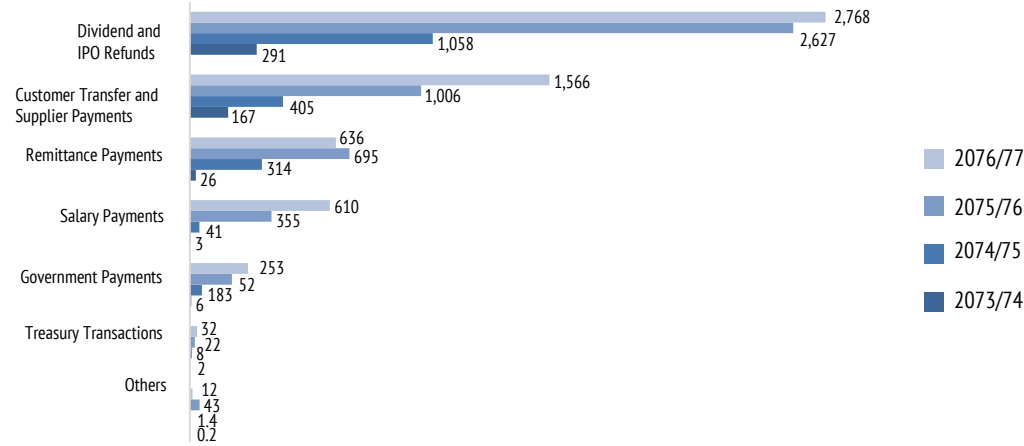
Almost all cash dividend payouts and refunds are being processed through NCHL-IPS system. Such transactions processed through NCHL-IPS system was 2,768 thousand during the review period against 2,627 thousand in last year. However, due to the increased market practice of issuing bonus share against cash dividend, they are decreasing in terms of value, which has remained at NPR 17 Billion against NPR 20 Billion in the previous year.

Salary Payments (SALA/ SALC)

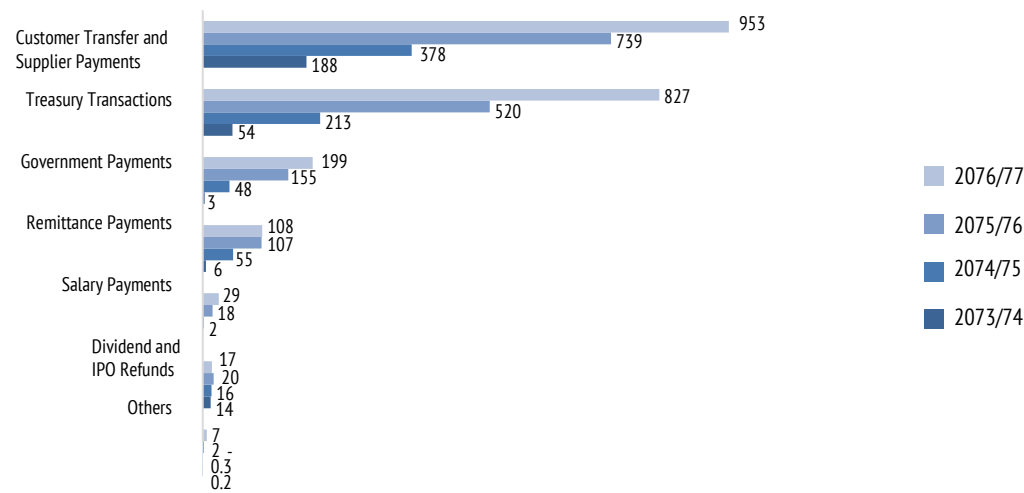
Salary payment was also widely used payments through which the employer can disburse their salary at any of the bank accounts of the employee. Many of the large corporates are using SALA/SALC category to post their salary disbursement using NCHL-IPS system. Government of Nepal has also started payment of salary through NCHL-IPS. A total of 610 thousand salary transactions equivalent to NPR 29 Billion were processed during the year against total of 355 thousand transactions equivalent to NPR 18 Billion in the previous year.

Following is the transaction volume and value of the major categories in NCHL-IPS system.

Category Wise Transaction Volume (in ‘000)

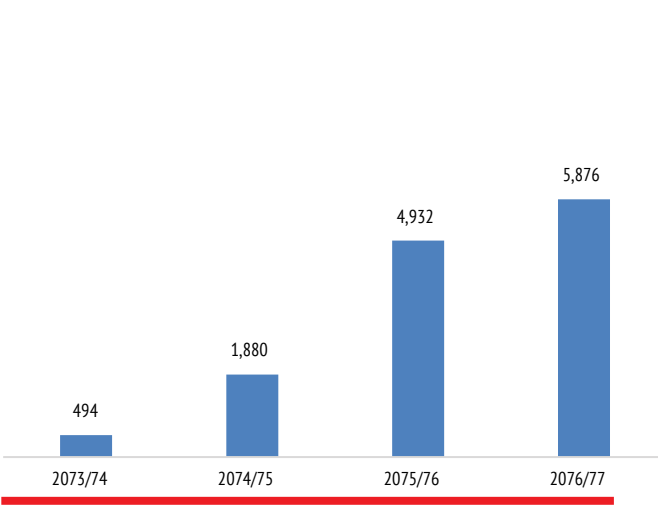


Category Wise NPR Transaction Value (in Billions)

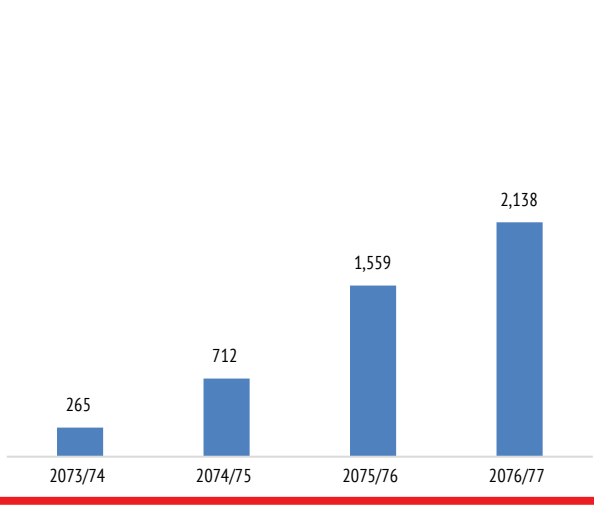


SNAPSHOTS OF NCHL-IPS TRANSACTIONS

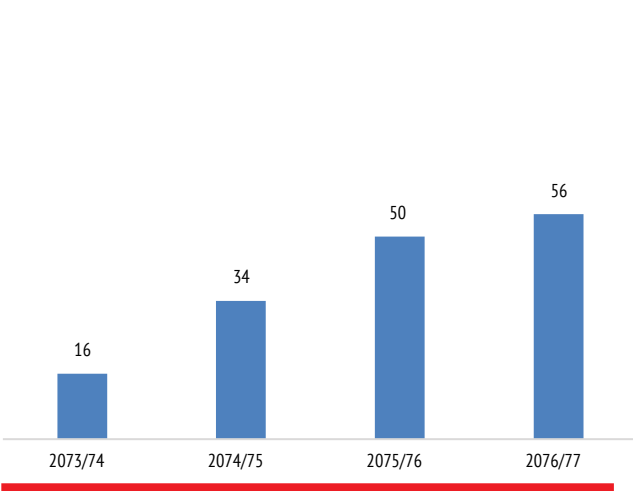
Transaction Count (in ‘000)



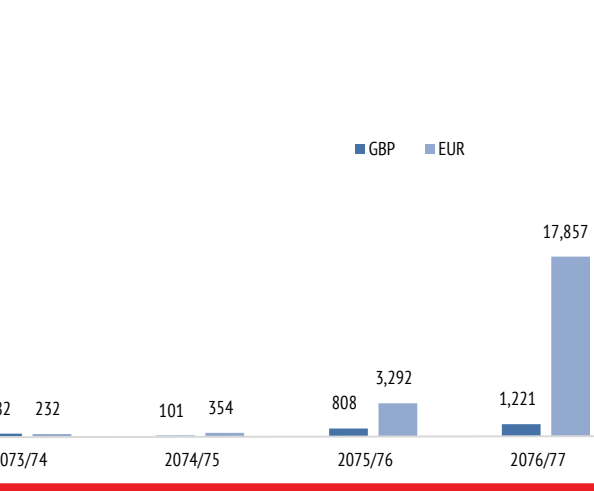
NPR Transaction Value (in Billions)



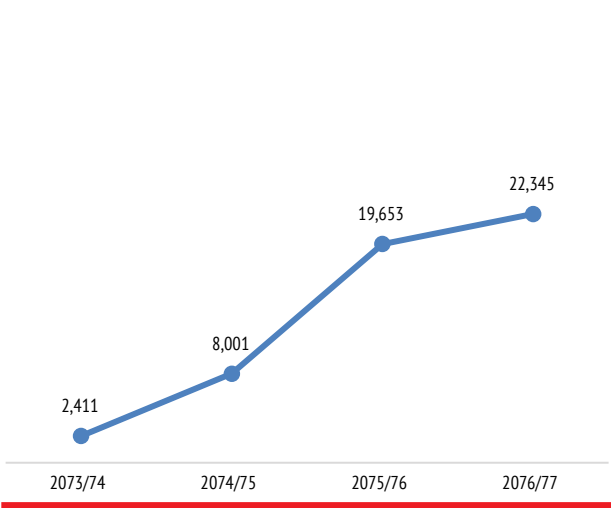
USD Transaction Value (in Millions)



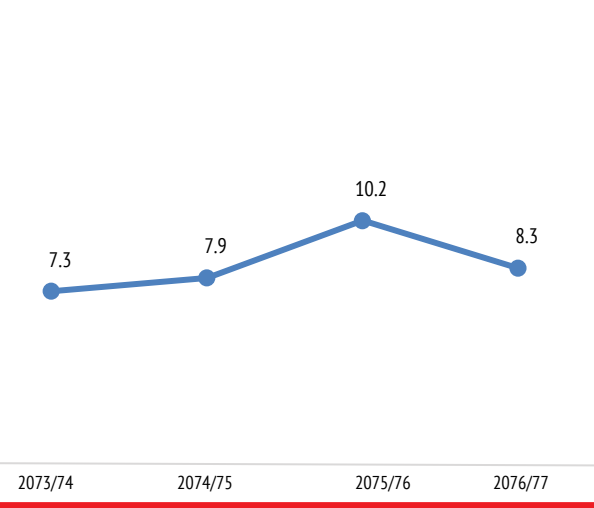
GBP and EUR Transaction Value (in Millions)



Average Daily Transaction Volume



Average Daily Transaction Return (in %)



connectIPS E-PAYMENT

connectIPS e-Payment system is a faster payment system for processing and clearing of instant payments directly from/to the bank account It was pilot launched since Baisakh 2075 (May 2018) for e-payment of Government revenue (P2G) and the online fund transfer (P2P). The system also includes channel platforms of payment gateway, mobile App, web channel and open APIs extended to NPI. It is subscribed by 55 BFIs, out of which 52 BFIs are now in operations as of Ashadh end 2077. The system is available 24x7x365. The existing transaction limit is NPR 1 million per transaction in online (web) and NPR 100,000 in mobile app.

Bank customers can access the connectIPS system through www.connectips.com, mobile app for both Android and iOS in which the customer needs to enroll, link at least one bank account with one-time verification through the bank. Options of manual verification through bank and online self-verification by the customers are available. A total of 143,252 users were registered for the service with 192,170 linked bank accounts by the end of the review period. The services are also extended to its Bank Central Module that allows the bank branches to initiate transactions. And the APIs of connectIPS are also available on NPI for extending connectIPS fund transfer and services in the alternate channels of the BFIs and other indirect/ technical members. If the services is extended to the channels of the BFIs, it does not require separate enrollment to use connectIPS from such channels.

With wide services being available, transaction being processed on real time basis, increase in the transaction limits, feature of linking multiple bank account in same platform and possibility of direct integration of the system with third party systems through NPI, the acceptability of the system was overwhelming from the BFI customers and the members, which was reflected with the increase in the total transaction volume. It has increased to 2,850 thousand transactions (out of which 2,784,574 transactions were cleared/ accepted) during the review year against 186 thousands in the previous year.

Amount in '000

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	Growth	
			Change	%
Total Transaction Count	2,850	186	2,664	1432%
Total Transaction Value (NPR)	205,016,377	4,044,302	200,972,075	4969%
Average Daily Transaction Count	11	1	10	1362%
Average Daily Transaction Value	779,530	16,113	763,417	4738%

The peak transaction processed in a single day through connectIPS system since its inception is 35,643 transactions amounting to NPR 2.97 Billion as of the fiscal year end of 2076/77 (2019/20).

Following is the channel wise transaction distribution within connectIPS system:

Value in NPR '000

Particulars	FY 2076/77 (2019/20)	% of Total
connectIPS Bank Module	69,181	2
connectIPS Mobile App	227,588	8
connectIPS Web (connectips.com)	1,108,490	39
connectIPS through NPI	1,444,705	51
TOTAL TRANSACTIONS COUNT	2,849,964	100
connectIPS Bank Module	12,727,563,700	6
connectIPS Mobile App	2,900,569,397	1
connectIPS Web (connectips.com)	72,046,651,383	35
connectIPS through NPI	117,341,593,074	57
TOTAL TRANSACTIONS VALUE	205,016,377,554	100

Various awareness drives were executed to promote digital transactions through connectIPS using NCHL's platform, BFIs alternative channels and through gateways of the service providers. Some of the major non-conventional creditor services enrolled on connectIPS by the respective member BFIs including GoN Inland Revenue (IRD) collection, GoN Public Service Commission (Loksewa) application Fee, Office of Company Registrar fee payment, Department of Passport fee payment, Citizens Investment Trust, collection of Social Security Fund, Employee Provident Fund, Nepal Stock Exchange Ltd. (NEPSE) & its brokers, etc. Some of

the other overlaying services enrolled are hire purchase installment payment, insurance premium payment, credid card bill payments, utility payments, cash-in/out for mobile wallets, utility payments and other commercial creditor/biller payments.

ANALYSIS OF connectIPS E-PAYMENT TRANSACTIONS

Online Fund Transfer (P2P)

Account based online real-time fund transfer between any of the member BFIs is the most used service in connectIPS. It has seen sizeable growth in fund transfer transactions to 2,433 thousand equivalents to NPR 196.08 Billion during the review year against 116 thousands equivalent to NPR 3.3 Billion in the previous year. The growth was mainly due to the extension of connectIPS systems to alternate channels of the member BFIs, APIs extended to Indirect/technical members for their outgoing payments through NPI. This is expected to increase further with the Government policy of promoting digital payments, convenience for the customers and the need for process automation.

Government Payments (P2G)

connectIPS e-Payment is used for payment to Government of Nepal through various departments as P2G transactions. It is being used by Financial Comptroller General Office (FCGO), Inland Revenue Department (IRD), Public Service Commission (Loksewa), Office of Company Registrar (OCR), Department of Passport with few other under consideration. Payment processor (gateway) and retail modules of connectIPS e-Payment is used for such P2G payments. Total of NPR 3.1 Billion of Government revenue was collected online using the system during the review period against NPR 0.4 Billion in the previous year. Few other GoN departments/ offices and some of the local governments are also under consideration to enable e-payment through connectIPS, few of which have already entered into an understanding to initiate the implementation.

Capital Market Payments

connectIPS e-Payment and NCHL-IPS systems have been extended to establish use cases related to capital market payments. Payment gateway of connectIPS and NPI was integrated with the online trading platform (TMS) of the stock brokers, the system provided by Nepal Stock Exchange Ltd. (NEPSE), to process the payments leg of DVP payments. Other capital market related payments that are currently being used include stock broker payments, DMAT renewal, Meroshare fee payment, etc. During the review period a total of NPR 2.3 Billion was paid to brokers by the investors and a total of NPR 39.9 Million was paid to the investors by the brokers using the connectIPS system.

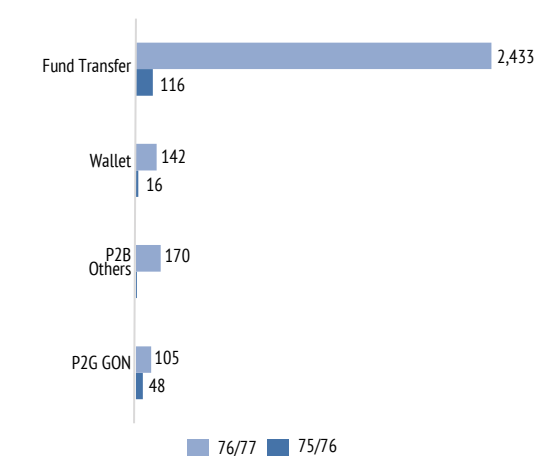
Cash In/Out for PSPs (W2A/ A2W)

PSPs are also using connectIPS e-Payment for their Wallet To Account and Account To Wallet transactions to support their cash-in, cash-out and settlement requirements. 6 major wallet providers IME Pay, Khalti, Prabhu Pay, QPay, Moru and Paytime were in operations within NCHL's network by the end of FY 2076/77 (2019/20) and is anticipated to add more PSPs/PSOs corresponding to which 8 have already subscribed. The total number of transactions processed from/to PSPs in connectIPS was 289,792, equivalent to NPR 24 Billion Million.

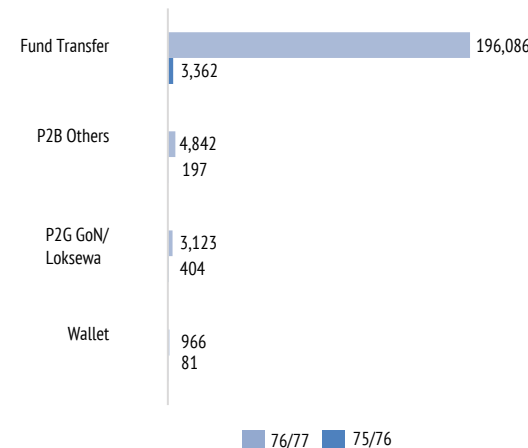
Other Transactions (P2B)

Insurance premium payments, loan repayments including EPF and CIT, payment to SSF, credit card bill payments of various banks, payments for other utility, travel agent payments, payments to airlines, e-commerce sites, payments to educational institutions, telephone and mobile bill payments etc. are also available in connectIPS as overlaying services. All such services are enrolled through one of the direct members as a global creditor.

Service Wise Transaction Volume (in '000)

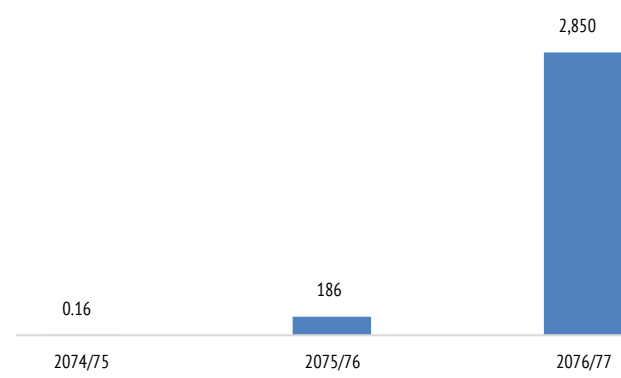


Service Wise Transaction Value (in Millions)

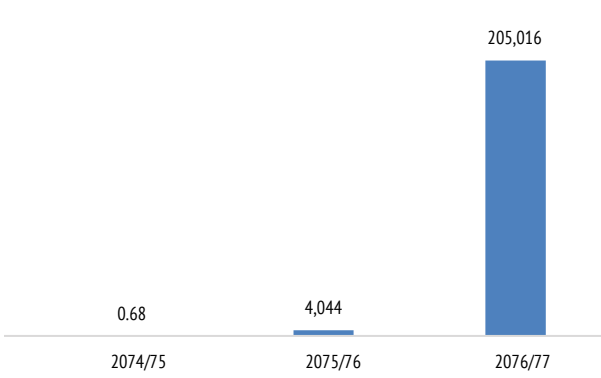


SNAPSHOTS OF *connectIPS* e-PAYMENT TRANSACTIONS

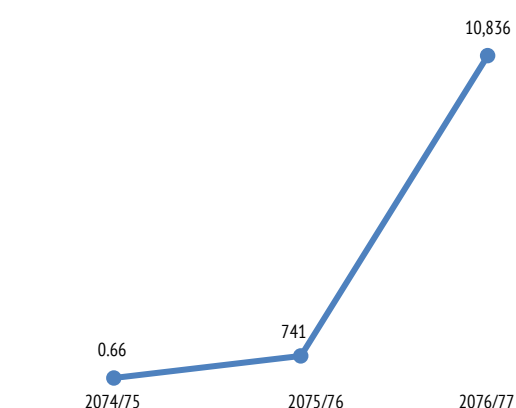
Yearly Transaction Count (in '000)



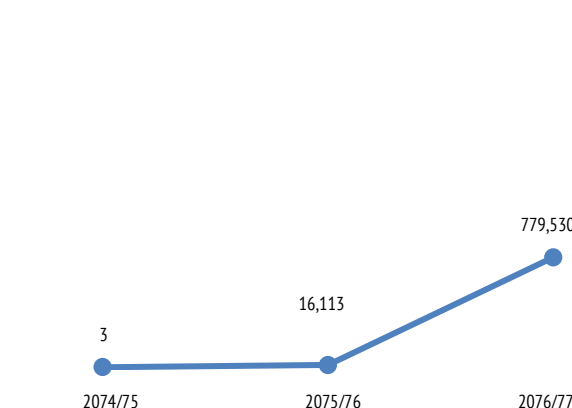
Yearly Transaction Value (in Millions)



Average Daily Transaction Volume



Average Daily Transaction Value (in '000)



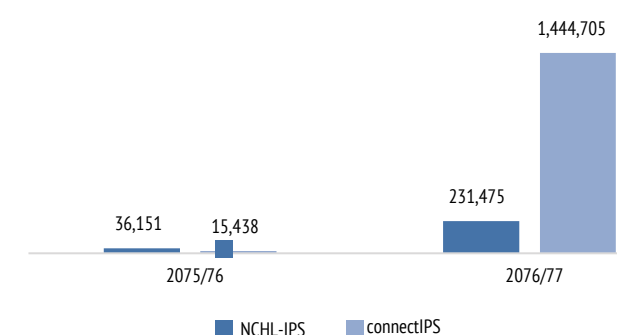
NATIONAL PAYMENTS INTERFACE (NPI)

National Payments Interface (NPI) is a consolidated APIs of the underlying payment systems available at NCHL to enable integration with different members to initiate and process payment transactions. The currently available underlying systems are NCHL-IPS and *connectIPS* e-Payment systems. The bulk and other the transactions that can be processed on deferred credit basis are processed through NCHL-IPS, whereas the low value real-time transactions are processed through *connectIPS*. The member BFIs are using NPI to extend the NCHL-IPS and *connectIPS* services into their alternate channels, where as other indirect/ technical members including large institutions are using NPI to integrate with their back-office system to process their transactions with direct members as its settlement banks. 7 remittance companies, 6 PSPs, Social Security Fund (SSF), Employee Provident Fund (EPF) and Nepal Stock Exchange Ltd. (NEPSE - TMS) were live through NPI by the end of the review period. Similarly, mobile banking of 33 BFIs, internet banking of 12 BFIs, corporate banking of 3 BFIs and remittance of 10 BFIs were Live through NPI by the end of the review period.

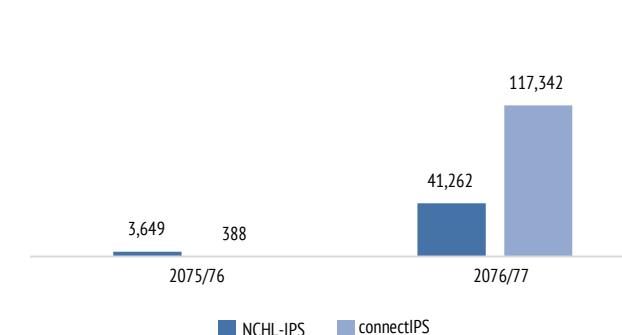
With establishment of various use cases in NPI, the transactions volume being processed through NPI have grown in the underlying systems to 19.2% during the review year against 1% in previous year. A total of 1,676,180 transactions were processed in the underlying system through NPI. The transactions through the alternate channels of the member BFIs constituted 40.9% and the transaction processed by member remittance companies constituted of 39.7% of the total transactions routed through NPI.

SNAPSHOTS OF TRANSACTIONS PROCESSED THROUGH NPI

Transaction Volume Processed through NPI (in Million)



Transaction Value Processed through NPI (in Million)



connectIPS INTEGRATION MODULE

Growth in number of transactions in NCHL-IPS and *connectIPS* e-Payment systems largely depend on the number of BFIs 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. Out of the 63 member BFIs in NCHL-IPS system, 54 member BFIs are integrated through *connectIPS* Integration module. NCHL will continue to assist the member BFIs for integration with their CBS and even to extend those integration APIs to alternate channels and their corporate customers.

connectRTGS

connectRTGS is a customized integration between the CBS of the BFIs and RTGS system, which is operated by Nepal Rastra Bank that came into operation from Mangsir 2076. *connectRTGS* is currently being used by 34 commercial banks, such that they can initiate and process transactions for RTGS in automated way. 1 additional commercial bank and 8 development banks, who have already subscribed for *connectRTGS*, are under testing for rollout of RTGS. NCHL has also joined RTGS system as a Special Member for processing of the Deferred Net Settlement (DNS) files of the systems operated by NCHL. The deferred net settlement positions from NCHL-ECC, NCHL-IPS and *connectIPS* systems of the member BFIs are processed through RTGS system as DNS files on the member BFI's settlement accounts held at NRB.

NCHL-HELPDESK

NCHL-Helpdesk is the first level of support for the members. They provide necessary information and handle the issues/queries of the users of such members. NCHL-Helpdesk function is backed by resources having both technical and operational expertise. Member BFIs are 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/Toll Free number or an email. With implementation of *connectIPS*, NCHL's helpdesk team has also been supporting the end users and creditors/merchant on boarded by the member BFIs for any technical issues. However, support related to transactions are done by the onboarding banks with needed support and coordination by NCHL

NCHL INTERNAL SYSTEMS

A product development team of NCHL has developed various internal and business applications including *connectIPS* Integration Module, e-Payment System, N CHL-CRM & Billing System, *connectRTGS* and National Payments Interface (NPI). NCHL-CRM & Billing System is in place for internal processes of recording information of members and their billing details. The system automates the billing process of all the systems with facility to generate direct debit of the fees and charges from the member BFIs.

MEMBER TRAININGS, ORIENTATIONS AND PUBLIC AWARENESS

NCHL provides multiple trainings and orientations to the users of the members including BFIs and other institutions. The training schedules are normally published in advance to all members such that they can nominate and send their participants for the trainings. NCHL has also shared its resources with the members for conducting their in-house trainings. NCHL has scaled-up the training activities during the review period to promote account based transactions with focused to enroll non-conventional creditors, awareness and orientations for BFI users. The orientation/trainings also covered recommendations for process improvements. BFIs orientation, demo and training was also conducted for CORPORATEPAY systems which is at the final stage of its rollout. The regional training and orientation programs were conducted jointly with Nepal Rastra Bank at Itahari, Janakpur, Butwal, Bhairahawa, Pokhara, Surkhet and Ilam. NCHL will continue the trainings and awareness programs in the coming year also.

Details of various trainings and orientations conducted during the FY 2076/77 (2019/20) are as follows:

Training/Orientation	Count	Participants
Member BFIs at central-Kathmandu	17	185
Regional for member BFIs and their Branches	10	536
Indirect Technical Members	5	71
CORPORATEPAY related	2	40
TOTAL	44	832

As a part of initiative to jointly promote bank account based digital transactions using *connectIPS* e-payment system, a joint campaign with various member BFIs were executed during the review period. NCHL invested for public awareness and promotion campaigns which included ATL and BTL activities within Kathmandu and outside the valley.

Operation of NCHL on Public holiday/Saturdays

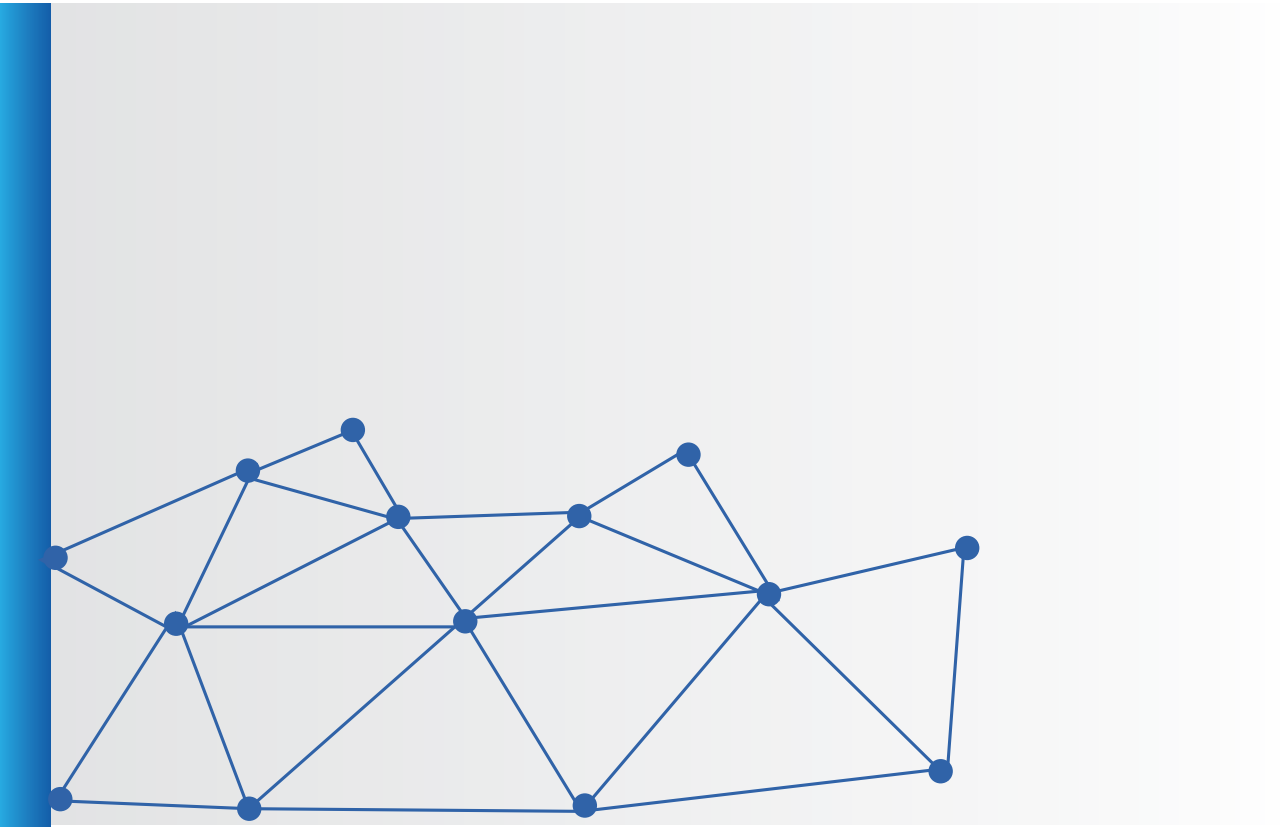
With reference to NRB's Notice # 12 of FY 2074/75 (2017/18), NCHL has made necessary arrangements for operations including settlement arrangement at NRB during the selected public holidays and Saturdays as prescribed. NCHL operated on the public holidays and Saturdays if such public holidays fall on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

PARTNERSHIP WITH SAKCHYAM CHALLENGE FUND (ACCESS TO FINANCE)

NCHL entered into a grant agreement with UKaid Sakchyam – Access to Finance Programme (Sakchyam) for a projected titled “Promoting e-payments, establishing National Payments Interface (NPI) and extending Settlement Guarantee Fund (SGF)”, corresponding to which the execution was started from 3rd May 2019. The project which was planned to be completed at the end of July 2020 was further extended due to the Covid situation up to June 2021. However, the major activities of the partnership were already completed with few activities pending which were delayed or halted due to pandemic. The partnership aimed for extension of payment infrastructure for an integrated mobile and web-based payment services such that it will support in establishing an efficient and reliable digital payment ecosystem in Nepal. The three major components of the project include Promotion, awareness and training of *connectIPS* e-Payment system; Development and rollout of NPI; and Extension of Settlement Guarantee Fund (SGF). The project supported in the product development of NPI and CORPORATEPAY, major promotional & awareness for acceptance of *connectIPS* & NPI and contribution in the SGF.



The details of the project financials are included in Notes 8.18 & 9.2 of Financial and Related Information.



Glimpses of Member Training, Orientation and Awareness Activities



Orientation of connectIPS & NPI held on 16 Feb, 20



Orienation for BFs



Training at Itahari



Training at Butwal



Training at Pokhara



Training at Janakpur



सञ्चय कोषको कर्जाको किस्ता भुक्तानी
connectIPS माफत आफ्नो बैंक
खाताबाट गर्नुहोस् ।

भुक्तानी गर्नका लागि www.connectips.com
मा login गर्नुहोस् ।

(भुक्तानीका लागि योगदानकर्ताले सञ्चय कोषबाट अनिवार्य KYC (UCIN) Number प्राप्त गरेको हुनपर्ने।)

connectIPS

Dashboard • Government • EPF Loan Re-Payment

EPF LOAN RE-PAYMENT

Account Number: abcd1234 Transaction Amount: 50000

PAYMENTS DETAILS

Service Provider: EPF Loan Re-Payment Deposit Type: Special Loan

Mobile Number: 956214XXXX UCIN: XXXXXXXXXXXXXXXX

Contributor Name: abcd

Transfer



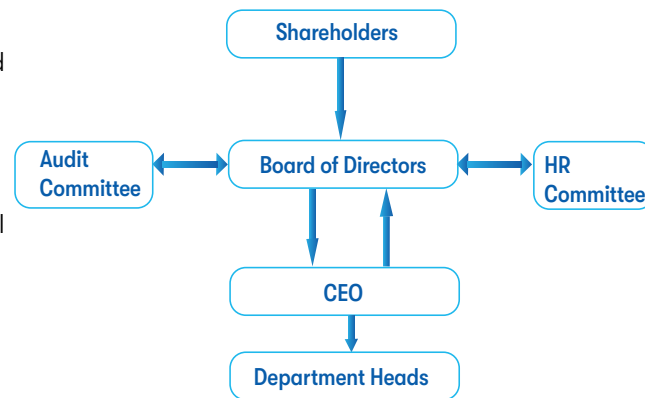
नेपाल राष्ट्र बैंक र बैंक तथा वित्तीय संस्थाहरुबाट प्रवर्द्धित
(नेपाल राष्ट्र बैंकबाट “भुक्तानी प्रणाली सञ्चालक” को
कार्य गर्न अनुमतिपत्रप्राप्त संस्था)

05 GOVERNANCE & RISK MANAGEMENT

CORPORATE GOVERNANCE

NCHL has inculcated a culture of robust corporate governance to achieve its objectives towards the development of national payments infrastructures. A good corporate governance structure is the foundation for enabling prudent as well as effective management 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 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 devliver 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:

1. Companies Act, 2063 (First Amendment, 2074)
2. Negotiable Instrument Act, 2034
3. Electronic Transactions Act, 2063
4. Payment and Settlement Act, 2075
5. Payment and Settlement Bylaw, 2077
6. Licensing Policy for Institution/Mechanism for Operating Payment Related Activities, 2073
7. Nepal ECC Rule Book and Nepal ECC Operating Rule
8. NCHL-IPS Operating Rules
9. Operating Procedure for Settlement Guarantee Fund
10. 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.

As 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	90%	3
B-2	Development Banks		1
B-3	Finance Companies		1
	Independent Director		1

* This is subject to approval from the AGM.

Following are the members of the Board of Directors as on March 2021:

Name of Director	Institutions Represented
Mr. Ram Bahadur Manandhar, Chairman	Nepal Rastra Bank
Mr. Ujjal Rajbhandary, Director	Himalayan Bank Ltd.
Mrs. Umang Sharma, Director	Citizens Bank International Ltd.
Mr. Surendra Bhushan Shrestha, Director	Nepal Bangladesh Bank Ltd.
Mr. Madhav Prasad Upadhyay, Director	Garima Bikash Bank Ltd.
Mr. Samaj Prakash Shrestha, Director	Reliance Finance Ltd.

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

There have not been any changes in the representations in the Board during FY 2076/77 (2019/20). During the current FY 2077/78, after the sale of shares by Smart Choice Technologies Ltd. to Siddhartha Bank Ltd., the Director Ms. Kusum Lama (representative of Smart Choice Technologies Ltd. - Group 'C') has discontinued. Also, during the FY 2077/78, the representation of Nepal Rastra Bank has been changed from Mr. Naresh Shakya to Mr. Ram Bahadur Manandhar, who has also been unanimously elected as the Chairman of the Board.

Board Meetings

The Board has appointed the Chief Executive Officer and given additional responsibility as Company Secretary also, who helps 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. The Minutes of the board meeting are retained by the Company Secretary.

During the review period, a total of 23 board meetings were conducted and a summary of the attendance of the Directors in the Board meeting is as shown in the following table.

Name of Director	Meetings Held	Meetings Attended
Mr. Naresh Shakya	23	23
Mr. Ujjal Rajbhandary	23	15
Mrs. Umang Sharma	23	22
Mr. Surendra Bhushan Shrestha	23	21
Mr. Madhav Prasad Upadhaya	23	19
Mr. Samaj Prakash Shrestha	23	21
Ms. Kusum Lama*	23	17

*Ms. Kusum Lama departed from the Board after the sale of the shares by Smart Choice Technologies Ltd.

AUDIT COMMITTEE

Audit Committee is formed pursuant to Section 164 of Companies Act, 2063 and functions as per the provisions of Section 165 of the same Act. It comprises of three Directors from the Board as its Members and the Finance/Admin Officer acting as its Member Secretary. The committee reports directly to the Board on the matters concerning financial reporting, internal control, risk management and auditing.

Current members of the Audit Committee are as follows:

Name of Member	Role
Mr. Ujjal Rajbhandary, Director	Chairperson
Mr. Surendra Bhushan Shrestha, Director	Member
Mr. Samaj Prakash Shrestha, Director	Member
Mr. Anesh Shrestha, Fin/Admin Officer	Member Secretary

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. The Audit Committee periodically updates the Board on the controls and risk related matters.

A total of 5 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	Meetings Held	Meetings Attended
Mr. Ujjal Rajbhandary, Director	5	5
Mr. Surendra Bhushan Shrestha, Director	5	5
Mr. Samaj Prakash Shrestha, Director	5	5
Mr. Anesh Shrestha, Fin/Admin Officer	5	5

Report on the Major Activities of Audit Committee

The Audit Committee conducted the functions as mandated by Section 165 of the Companies Act, 2063. Accordingly, followings were the major activities conducted by the Audit Committee in the FY 2076/77 (2019/20):

1. Reviewed financial statements of the FY 2075/76 (2018/19) and recommended to the Board for approval.
2. Discussed over matters concerning appointment of Statutory Auditor for the FY 2076/77 (2019/20) and recommended the name to be proposed in the 8th AGM.
3. Discussed over matters concerning appointment of Internal Auditor for the FY 2076/77 (2019/20) and recommended to the Board of Directors. It also 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 June 2019, December 2019 and June 2020 as well as the annual Compliance Self-assessment & Cross-functional Audit reported by the management.
7. Reviewed the audit report and the Financial Statement of the grant project.

HR COMMITTEE

HR Committee of NCHL comprises of three members from the Board of Directors with an objective to formulate needed policies and plans in order to develop and retain necessary human resource at the company.

Current members of the HR Committee are as follows:

Name of Member	Role
Mrs. Umang Sharma, Director	Chairperson
Mr. Madhav Prasad Upadhyay, Director	Member
Ms. Kusum Lama*	Member

*Ms. Kusum Lama departed from the Board after the sale of the shares by Smart Choice Technologies Ltd.

All the policies related to employee recruitment, salary and benefits, performance appraisal and other related issues are overseen by the Committee. HR Committee provides necessary recommendations to the Board for changes in human resource policies.

A total of 2 meetings of the HR Committee were held during the review period. The attendance details of the HR committee's members in the meeting are as follows:

Name of Member	Meetings Held	Meetings Attended
Mrs. Umang Sharma, Director	2	2
Mr. Madhav Prasad Upadhyay, Director	2	2
Ms. Kusum Lama, Director	2	2

Report on the Activities of HR Committee

The HR Committee conducted following functions in the FY 2076/77 (2019/20) exercising powers conferred by NCHL's Board.

1. Reviewed and recommended for the revision of the organizational structure along with level wise mapping of the existing resources.
2. Reviewed employee performance appraisal of FY 2075/76 (2018/19) and recommended to the Board for necessary approval for promotions and performance appraisal rating based salary increments.
3. Reviewed the staffs' Other Benefits and recommended to the Board for necessary approval and considerations.

SPECIAL COMMITTEE

A Board Level Special Committee was formed as per 14th Board Meeting held on 21st January 2020 to review the requirements of the additional office space for NCHL and to provide appropriate recommendations to the Board. A total of 1 meeting of the Special Committee was held during the review period.

Name of Member	Role
Mr. Ujjal Rajbhandary, Director	Chairperson
Mr. Surendra Bhushan Shrestha, Director	Member
Mr. Madhav Prasad Upadhyay, Director	Member

The Special Committee along with the Management reviewed the requirements in terms of NCHL's product and services expansions corresponding to which the expected manpower growth. And then recommended to lease additional space to cover its medium term requirements but to initiate a process for acquiring its own property as long term strategy.

MEETING EXPENSES

The members of Board, Audit Committee, HR Committee and Special Committee are provided NPR 7,500 as the meeting allowance per sitting. The meeting allowance of the Board of Directors was increased from NPR 5,000 to NPR 7,500 as per decision of the 8th AGM of the company. Pursuant to this, the meeting allowance of the board level committees were also subsequently increased from NPR 5,000 to NPR 7,500 as per decision of the 140th Board. During the review period, the company incurred the total meeting expenses of NPR 1,201,480. The details of the meeting expenses are as follows:

Amount in NPR			
S. No.	Committees	Meeting Allowance	Meeting Expenses
1	Board Meeting	927,500	121,321
2	Audit Committee Meeting	90,000	11,773
3	HR Committee Meeting	30,000	3,924
4	Special Committee Meeting	15,000	1,962
TOTAL		1,062,500	138,980

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). As per the Nepal Rastra Bank Payment System Unified Directive (Directive No. 06/077 Clause No. 1 (chha)), NCHL has been publishing its unaudited semi-annual financials on its website for its shareholders and public consumption. 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. NCHL Investment Policy

4. Discount/Waiver Policy

5. Risk Management Framework

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

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 objective of the internal audit engagement is to support the NCHL’s management in effective discharge of its responsibility. The Internal Audit was conducted by MB Shrestha & Co., Chartered Accountants for the FY 2076/77 (2019/20) 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

• Investment Procedure and Execution Review

• Procurement Review

• Compliances with Laws and Regulations, Policies, Acts, Standards, Contracts, etc.

• Review of Provisions, Current Liabilitiesv

• Review of Documentation Procedure
- Review of Payment and Receipt Process Control

• Implementation Guidance, as deemed appropriate, for complying with NFRS

• Debtors and Creditors Administration and Operation

• Review of Existing Operational System Software

• Operational System Review

• Information Technology Audit

• Human Resources Management

• Corporate Governance

• Follow up of Previous Year’s Audit Report

• Review of Financial Closure

• Emergency Review/Audit on contingent requirement

• Human Resources Management

• Corporate Governance

Quarterly internal audits were carried out during the review period under the supervision of the Audit Committee. MB Shrestha & Co., Chartered Accountants was paid NPR 151,250 excluding VAT with additional internal audit expenses on actual basis of NPR 53,415 during the FY 2076/77 (2019/20).

ISO CERTIFICATION

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 recertification every three years.

ISO 27001:2013 certification was obtained by NCHL on 16th 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 3rd - 4th April 2018 by the ISO auditors from URS India. The ISO 27001 re-certification was awarded to NCHL on 16th May, 2018 with validity till 15th May 2021, subject to annual surveillance audit. The annual ISO surveillance audit for the year 2019/20 was conducted on July 10-11, 2020.

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.

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 Head-Risk & Compliance and is reviewed by the Audit Committee with strategic changes forwarded to the Board for necessary considerations. The risk management practice adopted by NCHL is detailed in the Risk Management section.

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 is carried out by functional heads.

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, confidentiality, operational and financial conditions. The assessment is conducted on annual basis and the results are reported to the Audit Committee for necessary considerations.

The annual assessment practice and cross functional review have been conducted in FY 2076/77 (2019/20). This year’s review also included NRB Payment & Settlement Act, 2075 and unified directives issued by NRB Payment System Department and Labor Audit mandated by Rule 56 (2) of Labor Rules, 2075 for the assessment.

Vulnerability Assessment and Penetration Testing (VAPT)

In order to obtain acceptable level of assurance of the security controls implemented on the systems of NCHL, various Vulnerability Assessment and Penetration Testing (VAPT) were conducted during the FY 2076/77. Such VAPT were executed as multiple service assignments covering network, network policies, web applications, mobile applications and consolidated APIs. Such VAPT assignments were performed by M/S Eminence Ways Pvt. Ltd.

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.

External Audit

The independent audit function is discharged by the External Auditor. Joshi & Bhandary, Chartered Accountants has been appointed as the external statutory auditor for the review period by the 8th AGM of the company. The external auditor is responsible for obtaining reasonable 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 121,000.00 excluding VAT was paid to the external auditor for the fiscal year.

Joshi & Bhandary, Chartered Accountants is assigned with the additional responsibility for the audit of the ongoing grant project for the period covering from 17th July 2019 to 15th July 2020, under the partnership agreement with DFID funded UK Aid Sakchyam Access to Finance. The total fee for the assignment was NPR 55,000 excluding VAT.

The details of the audited financials for the fiscal year 2076/77 (2019/20) and Independent Auditor’s Report are incorporated in the Financial Information Section of this report.

RISK MANAGEMENT

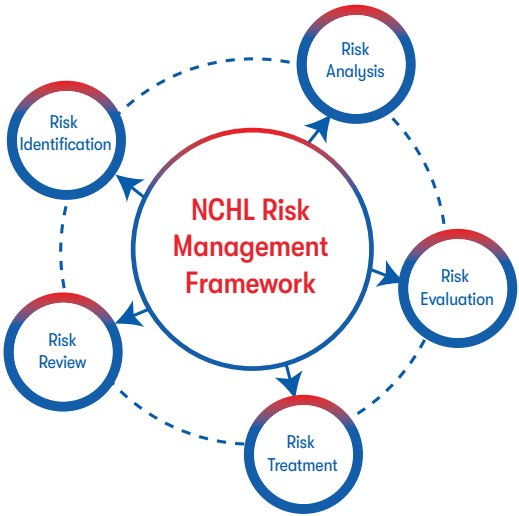
Effective risk management is fundamental to any of the business activities since risk is embedded in the business in different forms. While NCHL remains committed to increasing value to the stakeholders, NCHL understands the importance of operating Systemically Important Payment Systems (SIPS) that has 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.

Risk Matrix/ Profile

Risk Matrix		Impact				
		Very Low	Low	Medium	High	Very High
Likelihood	Frequent	5	10	15	20	25
	Likely	4	8	12	16	20
	Possible	3	6	9	12	15
	Unlikely	2	4	6	8	10
	Very unlikely	1	2	3	4	5

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.

Risk Profile	Major Risks	Mitigation Strategy
Low	Governance Related Risks <ul style="list-style-type: none">Unclear governance and oversight, poor management review and inadequate risk management system	<ul style="list-style-type: none">Implemented clearly defined governance structure as per the statutory, regulatory requirements and prudent practices.Implemented well defined responsibilities in the HR plan with mechanism in place to align organization’s business objectives with annual work plan and individual employee objectives.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.Continuous risk assessment by the designated risk owners with semi-annual reviews of risk register and treatment plan, incident reporting and preventive maintenance/controls.
Low	Process Based Risks <ul style="list-style-type: none">Non-compliance of operations of NCHL and the systems.	<ul style="list-style-type: none">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.Implemented well defined NCHL Standard Operational Procedure to ensure all functions follow standardized process.Work closely with designated departments of NRB for general operations and settlement.Periodic review through self-assessment and cross functional audits to ensure compliance.
High	Human Associated Risks <ul style="list-style-type: none">Unavailability of skilled resources, their retention	<ul style="list-style-type: none">Implemented well defined recruitment process with proper screening and induction process in place. Legal non-disclosure agreement with all employee. Induction for all new recruits.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.Appropriate fidelity insurance coverage.Review of the HR strategy to reduce the employee turnover and to provide opportunities & benefits.Addition of office space and resources under consideration.
High	Human Associated Risks-Health and Safety of Employees, unavailability of key resources	<ul style="list-style-type: none">Business Continuity Plan executed following outbreak of COVID-19 pandemic.Prescribed precautionary health and safety measures adopted with Work From Home practiced with alternate day/ week work shift from office.COVID-19 insurance coverage for all the staff through Welfare Fund.

Operational Risks – Information Security: As 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.

Risk Profile	Major Risks	Mitigation Strategy
Low	Information System/ Assets Related Risks <ul style="list-style-type: none">Breach of information system/ security and their operational failures	<ul style="list-style-type: none">Implemented ISO 27001 (with active certification) as a commitment to protect confidentiality, integrity and availability of information assets.Well defined ISMS Policy and IT Security Policy including detailed Standard Operational Procedure.Conducted specific IS assessments on regular basis apart from the Internal Audit and External Audit.

Risk Profile	Major Risks	Mitigation Strategy
Low	Information System/ Assets Related Risks <ul style="list-style-type: none"> Breach of information system/ security and their operational failures 	<ul style="list-style-type: none"> Implemented Disaster Recovery and Business Continuity Plan with regular mock drills conducted. Also covers continuity of business site (COB) for the participants in case they have issue in accessing the payment systems. Incident management process in place to record risk events/incidents for their detailed casualty analysis.
Medium	Infrastructure Capacity Related Risks	<ul style="list-style-type: none"> Implemented processes for regular review of infrastructure capacity enhancement plans. Detailed Capacity Enhancement Plan produced on FY 2076/77 (2019/20) with revisions being considered for FY 2077/78 (2020/21) and thereafter. It remains as the basis for the major capital expenditures. Support arrangements with the vendors of critical systems and infrastructures with defined SLA.

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.

Risk Profile	Major Risks	Mitigation Strategy
Medium	Financial Risks <ul style="list-style-type: none"> Potential impairment of NCHL's financial position (as a business concern) due to increase in expenses, volatilities in foreign exchange and interest rates. Stagnant business growth due to declining revenues, merger of BFIs, etc. 	<ul style="list-style-type: none"> Practice of in-depth feasibility study and analysis with conservative estimates for all new projects. Implement stringent budgetary control for both revenue and expenses. Major operating expenses being in AMC of software paying in US\$, foreign exchange risk is normally covered through forward contracts with local banks, whenever required. Implemented NCHL Investment Policy with review every month or on every new investment event to mitigate investment risks and fund management. Promote high revenue generating services within the existing system and extend services to non-BFIs.

Risk Profile	Major Risks	Mitigation Strategy
Medium	Strategic Risk <ul style="list-style-type: none"> Impact due to change in government/ regulatory policies, competition from alternate payment products. 	<ul style="list-style-type: none"> Work closely with various department of GoN and NRB to support their policies and initiatives. Collaboration with govt. /semi-govt. institutions, PSPs/ PSOs, large corporates to digitize their payments. Adopted principle of re-investment into additional national payments infrastructure and cross-subsidizing the new systems. Addition of payment infrastructures with current operations of 5 major systems (NCHL-ECC, NCHL-IPS, <i>connectIPS</i>, <i>connectRTGS</i> and NPI). Continuous R&D for more efficient and innovative payment products

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.

Risk Profile	Major Risks	Mitigation Strategy
Medium	Participants unaware of their funding requirements	<ul style="list-style-type: none"> Transactions and settlement arrangements are guided by the NCL-ECC Rule Book, ECC Operating Rules and NCHL-IPS Operating rules issued by NRB. Operating Procedure for Settlement Guarantee Fund approved by NRB in place with option for additional contribution in SGF. Online reporting facility provided to members to monitor their settlement positions and debit cap.
Medium	Inability of member BFIs to fulfill their financial obligations w.r.t the payment system transactions.	<ul style="list-style-type: none"> Arrangements in place for NCP settlement in RTGS. Deferred net settlement mechanism implemented for all systems, which is an inherent liquidity risk mitigant. Process defined within the Operating Rules and Operating Procedures for handling of balance shortfall, with last resort being unwinding of transactions.
Low	Not having sufficient liquidity to meet NCHL's financial obligations	<ul style="list-style-type: none"> 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. NCHL's liquid assets are managed as per NCHL's Investment Policy. Liquid assets of NCHL are held at the Banks and Financial Institutions licensed by NRB in the form of Call and Fixed deposits.

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.

Risk Profile	Major Key Risks	Mitigation Strategy
Medium	Possibility of unsettled transactions and failure of settlement.	<ul style="list-style-type: none"> Implement process/mechanism for the participants to provide with timely information to identify their requisite fund for the day's settlement. Arrangements in place for NCP settlement of all systems of the member BFIs through RTGS at NRB. Process defined within the Operating Rules and Operating Procedures for handling of balance shortfall, with last resort being unwinding of transactions. Alternative funding arrangement through Settlement Guarantee Fund (SGF) in place for the settlement of <i>connectIPS</i> e-Payment System.
Low	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"> 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. Implemented direct debit of the major receivables on monthly basis from the participants' accounts maintained at NRB to improve the credit cycle of NCHL.

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.

Risk Profile	Major Risks	Mitigation Strategy
Low	Impact due to weak legal basis and related non-compliance issues.	<ul style="list-style-type: none"> Legal adherence with the statutory compliances including Companies Act 2063 (First Amendment 2074), Electronic Transactions Act 2063, and Income Tax Act 2058. Adherence with the regulatory compliances including Payment & Settlement Act 2075 & Bylaw 2077, Licensing Policy for Institution/Mechanism Operating Payment Related Activities 2073 and Unified PSD Directives from Nepal Rastra Bank. Well defined legal structure of the company as per its MOA and AOA. Issued Nepal ECC Rule Book, Nepal ECC Operating Rule and ECC Cheque Standard & Specifications, NCHL-IPS Operating Rule Book, SGF Operating Procedure as NRB guidelines for NCHL and the participating members. Implemented Self-Compliance Assessments, Internal Audits, External Audit and ISMS Audits to obtain reasonable assurance on compliance.
Medium	Claims from participants/customers due to system issues	<ul style="list-style-type: none"> Responsibilities clearly defined in Rule Book and Operating Procedures for NRB, NCHL, and participants. Membership agreements between NCHL and the participants in place.

Systemic Risks: Systemic risk is the risk arising due to interdependencies and possibility 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. Following are some of the major identified systemic risks and corresponding controls that are implemented.

Risk Profile	Major Risks	Mitigation Strategy
Medium	Large scale technical failure of major participant having large transaction volume	<ul style="list-style-type: none"> Mandatory for larger banks to have redundant network links with NCHL. 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.
Medium	Cascading effect due to balance insufficiency of a participant	<ul style="list-style-type: none"> Settlement on deferred net basis at RTGS to reduce liquidity risk for participants. Finality of payments is post Nostro settlement in NCHL-ECC and NCHL-IPS, whereas it is immediate for <i>connectIPS</i>, which is backed by SGF.
Medium	Impact due to unavailability of resources or GL system or network links at NRB	<ul style="list-style-type: none"> Redundant network link between NRB and NCHL with separate connectivity. Fully automated settlement process implemented with RTGS of NRB.

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. Few of the other risks which have increased in the review period are as follows:

Risk Profile	Major Risks	Mitigation Strategy
Medium	Dissemination of incorrect information of NCHL by external parties	<ul style="list-style-type: none"> Channel wise responsibility assigned for communication. All communications related to NCHL's service are guided by the Rule Book, Operating Rules issued by NRB and the membership agreement between NCHL and participating members. NCHL uses standard communication procedures like telephone, fax, email, online support software, chat tool with its participating members. Planned communications are reviewed by management including those published through social media.

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	Post Implementation Risk Score			
		FY 2019/20		FY 2018/19	
		Dec-19	Jun-20	Dec-18	Jun-19
1	Operational Risk - Information Security	5.97	5.79	5.92	5.8
2	Operational Risk - General	6.85	7.19	5.39	6.67
3	General Business Risk	7	6.6	7	7
4	Liquidity Risk	6	6.5	6	6
5	Credit Risk	6.71	6.29	4.57	4.71
6	Legal/Compliance Risk	4.58	4.92	4.58	4.58
7	Systemic Risk	7.43	7.43	7.83	7.83
8	Other Risk	6.78	7.11	6.44	6.78

In comparison to the risk assessment of the previous year, the general operational risk, liquidity risk, credit risk, legal/compliance risk and other risk have increased during the review period. Continuous efforts are made to handle the emerging risks tactfully. The risks identified with long term impact on NCHL's operations and business have been strategically aligned in action plan for the necessary mitigations.

BUSINESS CONTINUITY PLAN ACTIVATION

NCHL has in place Business Continuity Plan & Disaster Recovery Plan (Disaster Recovery and Business Continuity Plan) approved by the Board. The policy has been prepared based upon IT Security Policy of NCHL to ensure that business continuity plan, backup and disaster recovery procedures are documented, implemented and tested periodically. The policy is reviewed annually during Compliance Self-Assessment and Cross-Functional Audit for any changes. Periodic disaster recovery drill is also conducted based upon it to ensure readiness of the primary and secondary DR site.

During the outbreak of COVID-19 pandemic and successive nationwide lockdown, the BCP was activated covering human resource management, business & operational processes and infrastructure management, such that all the payment systems were operated without any issue. A drill exercise was also conducted prior to the nation-wide lockdown to ensure the status of the BCP Plan. NCHL-ECC and NCHL-IPS system were operated with reduced sessions in consultation with NRB and the member BFIs. However, the operation of *connectIPS* e-payment system was not degraded. In order to keep NCHL's services intact, the work from home and alternate days' work from office and/or home were adopted in line to the prohibitory order imposed by the Government. Prescribed health and safety measures at the work were also followed.



“connect IPS मार्फत Insurance Payment सजिलो छ।”
connectIPS को app वा website मार्फत आफ्नो बैंक खाताहरु लिङ्क गरी insurance premium को भुक्तानी सजिलै गर्नुहोस् ।

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नेपाल राष्ट्र बैंक र बैंक तथा वित्तीय संस्थाहरुबाट प्रवर्द्धित (नेपाल राष्ट्र बैंकबाट “भुक्तानी प्रणाली सञ्चालक” को कार्य गर्न अनुमतिपत्रप्राप्त संस्था)

06 MARKET ANALYSIS

In the absence of the detailed data for cash and non-cash payment transactions for Nepal, one of the principle indicator that could be used is Cash-to-GDP ratio to infer the market analysis. It is the ratio of currency in circulation to gross domestic product of a country and represents the usage of cash within the economy. It remains 16.3% for Nepal against the global average of 9.8%, which remains very high and hence reflect huge potential for the payments industry for realizing electronic payments in Nepal.

Major indicators for financial access in Nepal are as follows:

1	No. of Banks & Financial Institutions (A, B & C)	66
2	No. of Branches	2,957
3	No. of Branchless Banking Centers	1,721
4	No. of ATMs	4,297
5	No. of Branchless Banking Customers	201,676
6	No. of Mobile Banking Customers	13,267,947
7	No. of Internet Banking Customers	1,131,547
8	No. of Wallets	23
9	No. of Cards (Debit/Credit/Prepaid Cards)	8,645,420

* Source: NNRB Monthly Statistics Falgun 2077 and Payment System Indicators Falgun 2077

NRB has been regulating the payment and settlement systems in Nepal through various directives and circulars, after the issuance of the Payments & Settlement Bylaw 2072 by NRB in line with the National Payment System Development Strategy. Thereafter, NRB has issued Licensing Policy and various other regulatory directives for the stakeholder of payment system. Payment & Settlement Act 2075 is also in place, which provides the legal basis for the payment systems operated in Nepal. The Retail Payment System Strategy published by NRB also provide a direction for retail payment systems in Nepal.

Followings are the currently licensed payment system operators (PSOs) and payment service providers (PSPs) other than the BFIs:

S.N.	Institution Name	Paid-up Capital (in '000)	License Date (mm/dd/yy)
Payment System Operators (PSO)			
1	Nepal Clearing House Ltd. (NCHL)	NPR 298,080	4/15/2074
2	Smart Choice Technology Ltd.	NPR 375,000	9/17/2074
3	Nepal Electronic Payment System Ltd. (NEPS)	NPR 176,000	1/29/2076
4	Union Pay International Co. Ltd.	Yuan 2,000,000	3/25/2076
5	Visa Worldwide Pvt. Ltd.	USD 8,968	4/28/2076
6	Nepal Payment Solution Pvt. Ltd.	NPR 250,000	7/14/2076
7	Master Card Asia/Pacific Pvt. Ltd.	USD 28,852	8/22/2076
8	Fone Pay Service Ltd.	NPR 100,000	10/26/2076
9	First Pay Technology Pvt. Ltd.	NPR 100,000	11/12/2076
10	Gateway Payment Service Pvt. Ltd.	NPR 100,000	11/3/2077
Payment Service Providers (PSP)			
1	IME Digital Solution Ltd.	NPR 100,000	3/5/2074
2	E-Sewa Fone Pay Pvt. Ltd.	NPR 50,000	3/5/2074
3	Cellcom Pvt. Ltd.	NPR 15,000	9/8/2075
4	CG Pay Nepal Pvt. Ltd.	NPR 10,000	9/13/2075
5	Sparrow Pay Pvt. Ltd.	NPR 30,000	1/2/2076
6	Pay Nep Pvt. Ltd.	NPR 60,000	4/15/2076
7	QPay Pvt. Ltd.	NPR 50,000	5/18/2076
8	Nepal Pay Time Pvt. Ltd.	NPR 10,000	5/18/2076
9	Smart Card Pvt. Ltd.	NPR 10,400	6/27/2076

S.N.	Institution Name	Paid-up Capital (in '000)	License Date (mm/dd/yy)
10	Mohar Digital Pvt. Ltd.	NPR 50,000	6/27/2076
11	Prabhu Technology Pvt. Ltd.	NPR 100,000	3/4/2074
12	E-net Payment Pvt. Ltd.	NPR 50,000	11/21/2076
13	Focus One Payment Solutions Pvt. Ltd.	NPR 50,000	11/29/2076
14	Kurakarni Pay Pvt. Ltd.	NPR 10,425	2/29/2077
15	Paywell Nepal Pvt. Ltd.	NPR 10,000	6/11/2077
16	GME Pay Pvt. Ltd.	NPR 10,000	6/22/2077
17	Goldmine Business Group Pvt. Ltd.	NPR 12,000	8/29/2077
18	We Pay Pvt. Ltd.	NPR 60,000	9/15/2077
19	Fintech International Pvt. Ltd.	NPR 50,000	10/20/2077
20	Lenden Sewa Pvt. Ltd.	NPR 10,000	10/20/2077
21	Digi Pay Pvt. Ltd.	NPR 10,000	11/18/2077
22	Nepal eBiz Management Pvt. Ltd.	NPR 10,000	11/18/2077
23	I Pay Pvt. Ltd.	NPR 10,000	11/21/2077
24	I Cash Pvt. Ltd.	NPR 10,000	12/3/2077
25	Nepal Digital Payments Co. Ltd.	NPR 400,000	12/3/2077
26	Sulav Pay Pvt. Ltd.	NPR 10,000	12/5/2077
27	Chito Paisa Pvt. Ltd.	NPR 10,000	12/5/2077
28	Sajilo Pay Payment Services Pvt. Ltd.	NPR 10,000	12/17/2077

Real Time Gross Settlement System (RTGS) has been implemented by NRB, which is meant for the processing of the high value and urgent interbank transactions. This is expected to provide needed support for the settlement of SIPS systems in Nepal, corresponding to which NCHL is integrated with RTGS for its net clearing position settlement. This will reduce the settlement risk for NCHL and also provide mechanism to increase number of settlements for it payment systems.

Following is the transaction volume and value of various retail systems (excluding RTGS) as published by NRB for the month of Falgun 2077. (Source : NRB Payment System Indicators Falgun 2077)

Particulars	Volume	% of Total	Value (in Millions)	% of Total
NCHL-ECC	1,104,909	3%	7,01,808	63%
NCHL-IPS	9,07,398	3%	1,79,697	16%
connectIPS	1,603,598	5%	1,10,572	10%
Total Cards	8,41,5827	26%	64,938	6%
Internet Banking	2,67,582	1%	8,880	1%
Mobile Banking	10,082,655	31%	40,359	4%
Wallet	10,614,268	32%	10,180	1%
TOTAL	32,996,237	100%	1,116,434	100%

Particulars	Volume	Value (in Millions)
Branchless Banking	51,093	1,123
QR Based Payments	6,35,738	2,055
Point of Sales (POS)	8,13,330	3,322
E-commerce	1,30,202	1,116,434

With more market players entering the payments industry, there are possibility of overlapping of the systems, instruments and services. This will also likely increase the compliance requirements. Hence, payments industry though has a promising outlook for Nepal, the level of competition, particularly in the low value retail segment will be very high with sizeable investment will be required for risk management. In this context, strategic focus of NCHL has remained to working closely with all relevant stakeholders including BFIs, PSPs, PSOs, service providers in a collaborative approach, such that multiple use cases including interoperability could be achieved, which is paramount for the ecosystem development of the payments industry.

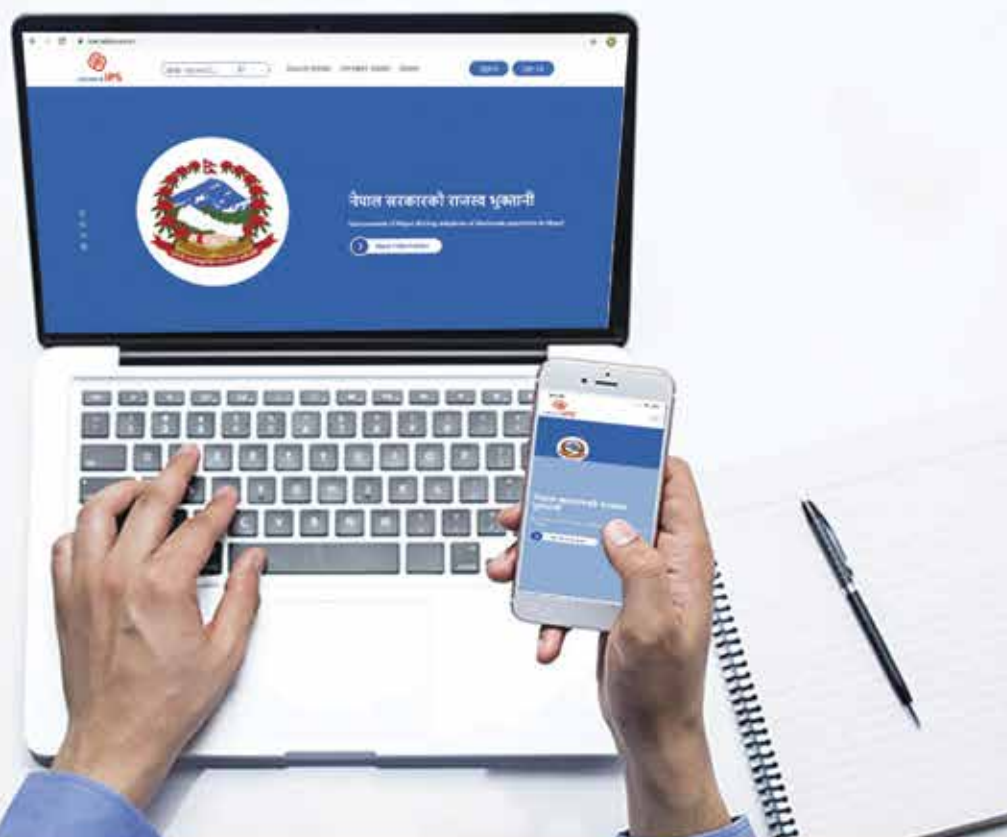
The advertisement promotes digital payments through the 'connectIPS' app. It features the Nepal Clearing House logo at the top left and the 'connectIPS' logo at the top right. The main text in Nepali reads 'घरैबाट Digital Payment सजिलो छ।' (Digital Payment is easy from home). Below this, it states 'नागरिक लगानी कोष कर्मचारी बचत वृद्धि अवकाश' (Opportunity for citizen savings and employee savings) and 'कोषको ८०% कर्जा भुक्तानी connectIPS मार्फत सोमै आफ्नो बैंक खाताबाट गर्नुहोस्' (80% of the loan disbursement through connectIPS from your own bank account). The bottom left shows the 'NEPAL CLEARING HOUSE' logo, and the bottom right indicates the app is available on Google Play and the App Store.

“connect IPS बाट १० लाख सम्मको सरकारी राजस्व भुक्तानी Online बाट गर्नुहोस्”

भुक्तानी गर्ने तरिका :
connectIPS को website वा app माफत भुक्तानी गर्ने निकाय छनौट गरी Voucher Number को आधारमा अथवा सम्बन्धित निकायको website मा आफ्नै बैंक खाताबाट online राजस्व भुक्तानी सजिलै गर्नुहोस् ।



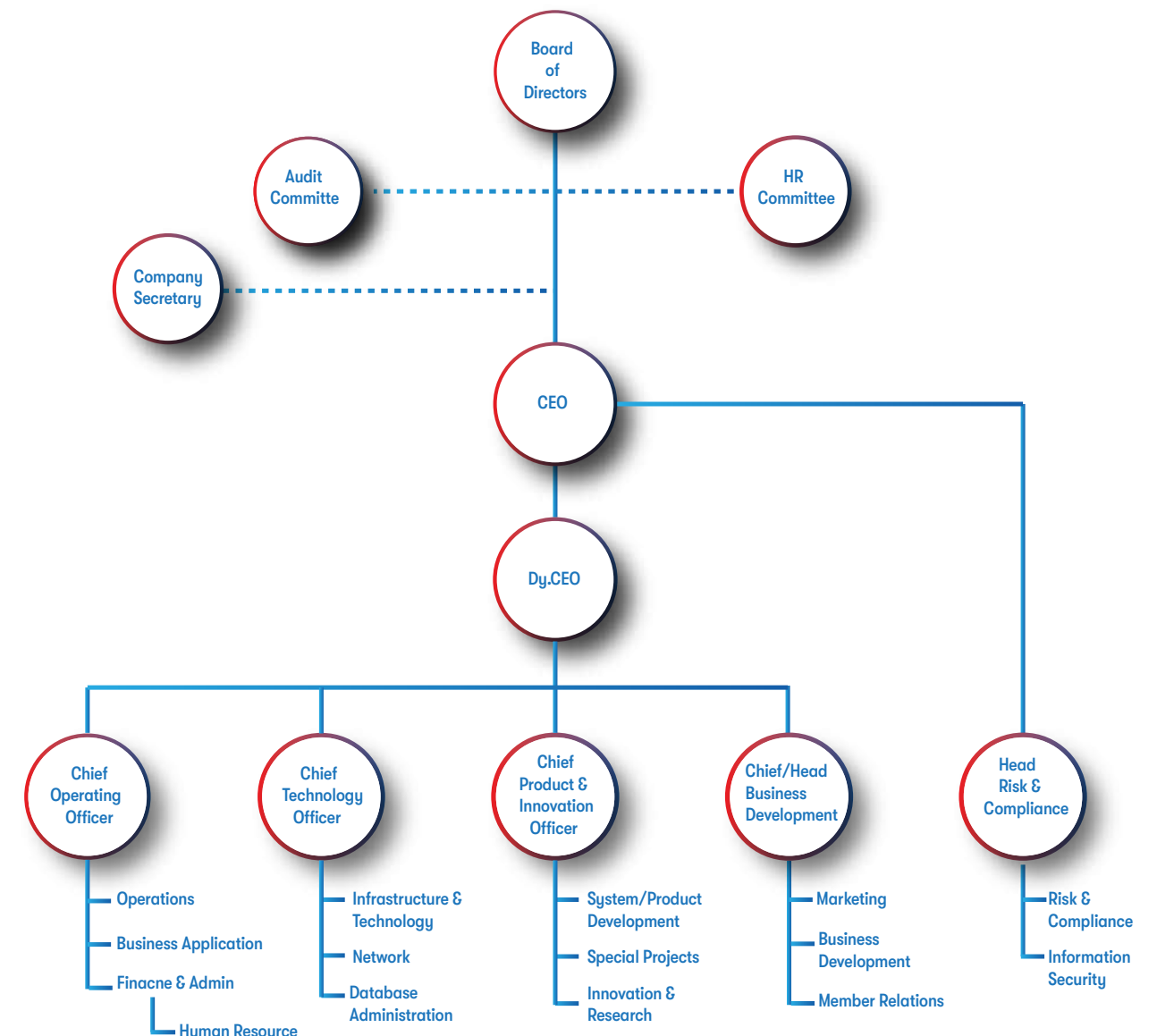
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07 HUMAN RESOURCES

NCHL recognizes the value and effort invested by the employees in attaining the overall organizational objectives. Achieving organizational goal, integration between employee's and employer's interest is vital for any organization. Hence, NCHL has tried its best to attract best resources and retain them. HR at NCHL is guided by the 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. And the responsibilities and job descriptions for each of the positions are defined in the HR Plan and are monitored through regular performance review.

ORGANIZATIONAL STRUCTURE



NCHL has maintained a lean organization with highly productive workforce with total of 33 employees at the end of the FY 2076/77 (2019/20), as compared to 28 in the previous year. It directly supports more than 15,000 business users of 65 member BFIs equivalent to supporting 455 average business users per employee. They also support 18 Indirect/technical members. Integration with the core systems and alternate channels of BFIs and the members for various systems of NCHL-IPS, connectIPS, connectRTGS, NPI and others are also developed, operated and monitored by these resource. NCHL support team has also been providing 2nd line support for the member BFIs in handling their connectIPS users and for enrollment of their creditor.

NCHL TEAM



First Row (Left to Right):
Shovit Sharma, Prajana Kayastha, Vivek Giri, Dilliman Singh Shakya, Neelesh Man Singh Pradhan

Second Row (Left to Right):
Biraj KC, Bivek Giri, Sabin Shrestha, Raju Maharjan, Rakesh Shrestha, Nishant Parajuli, Jenny Shrestha, Bhagawati Datheputhe

Third Row (Left to Right):
Prakash Singh Madai, Trideb Chapagai, Bikash KC

Munni Rajbhandari, Bikash Saran, Anesh Shrestha, Chhabi Sapkota, Rupak Gyawali

Swosti Ranabhat, Neeti Joshi, Preeti Jha, Bishal Panthi, Manish Patel, Raju Shrestha, Bishnu Dhital

Bishal Rijal, Anand Panjiyar, Subash Thapa, Kiran Maharjan

KEY HUMAN RESOURCE INDICATORS

Employee Mix by Gender

Gender	Count	Percent
Female	7	21%
Male	26	79%
TOTAL	33	100%

The non-core resources related to security guard, helper, reception and driver are outsourced from the local providers for services.

Employee Productivity Indicators

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	FY 2072/73 (2015/16)
Number of Staff	33	28	22	15	14
Staff Turnover	3	3	1	1	1
Human Resource Exp. (in NPR '000)	59,591	59,684	43,615	34,527	21,640
Average Expense per Staff (in NPR '000)	1,806	2,132	1,983	2,302	1,546
Staff Expense to Total Operating Exp.	53%	42%	39%	35%	31%
Operating Income per Staff (in NPR '000)	11,591	15,404	14,680	17,786	11,608
Net Profit After Tax per Staff (in NPR '000)	5,606	8,575	8,255	8,796	4,124
Total Staff Bonus (in NPR '000)	27,407	32,026	24,209	17,608	7,742

RECRUITMENT PROCESS

NCHL believes in recruiting the employees 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 Fin/Admin Officer under necessary overseeing by the Chief Executive Officer. The job specification for each position is clearly indicated in its Human Resource plan.

The recruitment is normally through public notice of vacancy announcement in national newspaper. Such vacancy is also published in online job portals and in NCHL’s official website. The applicants go through 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 CEO, COO 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 2076/77 (2019/20), 8 new employees (1 in L80, 2 in L40, 1 in L30 and 4 in L20) were appointed and 3 employees have resigned during the review period.

REMUNERATION AND BENEFITS

NCHL has defined job level for its staffs from L10 – 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 tied-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, where basis salary component is a minimum of 60 percent of the Salary and Allowance. 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 Appraisal 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. As a recognition for the long serving employees, an additional superannuation benefit is provisioned for the employees, who have served for 3 or more years in the company and is provided when the employee retires. The provision regarding these are specified in the company’s Employee’s Service Rules.

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 have 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.

All salaries, benefits, allowances and payments made to the employee by the Company are made after necessary tax deductions as per prevailing Income Tax laws.

Below is the financial extract of staff expense:

Amount in '000					
Human Resource Expense	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	FY 2072/73 (2015/16)
Salary & Allowance	19,821	16,730	13,629	12,816	10,161
Provident Fund	1,374	1,101	887	777	633
Dashain Allowance	1,139	976	737	624	519
Gratuity	5,024	2,015	1,581	388	449
Leave & Leave Fare Allowance	2,372	1,154	756	764	408
Other Benefits	1,573	1,524	1,167	1,008	1,509
Training Expenses	416	720	468	341	131
HR Activity	464	235	181	200	87
Staff Bonus	27,407	32,026	24,209	17,608	7,742
TOTAL	59,591	56,481	43,615	34,526	21,639

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.

Following is the details of the staff training expenses.

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	FY 2072/73 (2015/16)
Staff Training Expenses (*000)	416	720	468	341	131
Training Expense / Staff Expenses	1%	3%	2%	2%	1%

NCHL arranged total of 6 knowledge sharing sessions during the review year which were facilitated by the internal resources having domain expertize. Below are some of the internal knowledge sharing sessions:

S. No.	Internal Knowledge Sharing Sessions	Date	Conducted By
1	ISO 27001 Surveillance Audit	2-Aug-19	Dilliman Singh Shakya
2	Helpdesk Support	31-Aug-19	Shovit Sharma Chhabi Sapkota
3	Email and System Security	24-Oct-19	Dilliman Singh Shakya
4	Risk Management Framework and Risk Register	13-Dec-19	Prajana Kayastha
5	ISMS, IT Security Policies and ISO27001	31-Jan-20	Dilliman Singh Shakya
6	Safety and Fire Drill	13-Mar-20	Dilliman Singh Shakya

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

S. No.	Staffs Training & Capacity Building	Training Date/ Period	Location	Attended By
1	Making Markets Work for the Poor (M4P)	24-Jul-19	Nepal	Neeti Joshi Prajana Kayastha
2	Oracle Rock Into the Digital World	7-Aug-19	Nepal	Dilliman Singh Shakya
3	The First Annual Risk Management Conference	14-Aug-19	Nepal	Munni Rajbhandari
4	Workshop for Arista Network	21-Aug-19	Nepal	Dilliman Singh Shakya Navaraj Thapa
5	Threat Con 2019 (Browser Security Workshop and conference)	29 to 31-Aug-2019	Nepal	Bishnu Dhital
6	Strategic Procurement & Procurement Audits	10 to 12-Sep 2019	Nepal	Jenny Shrestha
7	National Inception Workshop on e-commerce Capacity Building for Women-Led MSMEs in South Asia	11 to 12-Sep-2019	Nepal	Munni Rajbhandari
8	Preventing Cyber Financial Fraud	19-Sep-19	Nepal	Chhabi Sapkota
9	Fortifying Financial Services: From the Cyber Threats	25-Oct-19	Nepal	Shovit Sharma
10	Preventing Frauds & Financial Crimes	28-Nov-19	Nepal	Prajana Kayastha
11	Certified Data Centre Professional	5 to 6-Dec-2019	Nepal	Dilliman Singh Shakya
12	Microsoft Envision Forum	4-Dec-19	Nepal	Dilliman Singh Shakya
13	Sophos - Cyber Security	5-Dec-19	Nepal	Sabin Shrestha
14	National Risk Assessment	9 to 11-Dec-2019	Nepal	Prajana Kayastha
15	Microsoft Azure Training	10-Dec-19	Nepal	Navaraj Thapa
16	Interaction Program on Open/API Banking	10-Dec-19	Nepal	Subash Thapa
17	Workshop on Super Sales and Influence	13-Dec-19	Nepal	Manish Patel
18	7 th Training Workshop on PMP PMBOK 6 Training and Certification	17 to 18-Jan-2020	Nepal	Chhabi Sapkota

S. No.	Staffs Training & Capacity Building	Training Date/ Period	Location	Attended By
19	The Himalayan Times BrandFest 2020	25 to 28-Jan-2020	Nepal	Neeti Joshi
20	Digital Security Innovation Meet 2020	17 to 18-Jan-2020	Nepal	Rupak Gyawali Navaraj Thapa
21	GlobalSoft 2020- International ICT Exhibition & Conference	24-Jan-20	India	Dilliman Singh Shakya
22	Cambridge FinTech and Regulatory Innovation	27-May-2020 21-Aug-2020	Nepal (Online)	Subash Thapa, Prajana Kayastha
23	Security Assessment Training	1-May-2020 to 1-July-2020	Nepal	Sabin Shrestha

STAFF WELFARE COMMITTEE

A committee was constituted in FY 2071/72 (2014/15) as 'Staff Welfare Committee' as per the Clause 47 of NCHL Employee Service Rule 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 also handles the responsibilities of maintaining the employee relation in line with Labor Act, 2074. The Staff Welfare Committee comprises of the following members, which convenes its meeting as deemed necessary:

S. No.	Committee Members	Role
1	Chief Operating Officer	Chairperson
2	Representation from Help Desk 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.

Staff Health and Insurance

The Company believes that the health of employees and support for expense coverage for any medical requirements are very critical and important for both the company and its employees. Company purchases a standard group medical insurance to cover employees and their family's medical expenses up to total of NPR 100,000 per annum and group accidental policy with benefit up to NPR 1,000,000. Concerning the situation of COVID-19 and the possible risks for the staff of NCHL, insurance coverage against Covid of benefit up to NPR 100,000 was purchased through Staff Welfare Fund for all staff during the review period.

Staff Leave

NCHL encourages its employees to take block leave as company believes that it promotes good physical and mental health in the workplace and improves work-life balance reducing stress and unscheduled days off. However, with limited resources, NCHL has implemented policy of planned block leave for employee such that the work is not hampered with other employee taking over the responsibility of staff on leave. Such block leave also helps the company to plan and evaluate the absence of critical resources to ensure adequate cover. The leave provisions at NCHL is as mandated by the Labor Act 2074 and Labor Bylaw 2075.

Glimpses of HR Activities



An annual outing program with NCHL staff at Nagarkot



Winner of Team Building Game. Hurray!!

08 CORPORATE SOCIAL RESPONSIBILITIES

Corporate Social Responsibility integrates the company with the social and environmental concerns in their business operations and interactions with the stakeholders. Electronic payments being the primary objective of NCHL, it has been advocating and facilitating various institutions (Government, Semi-Government and Others) in re-engineering their processes for automation along with electronic payments. And the automation increases operational efficiencies and reduces paper work.

With an objective to support digital payments during COVID-19 pandemic situation, NCHL provided uninterrupted services of NCHL-ECC, NCHL-IPS, *connectIPS*, NPI and *connectRTGS*, corresponding to which it has completely waived the transaction fees in all the systems during the lockdown period from 25th March 2020 to 15th July 2020, which is a direct contribution from NCHL of over NPR 44,037,669. And a crowdfunding platform has also been incorporated within *connectIPS* system as 'Donate For Cause', wherein the platform until the end of FY 2076/77 has already collected over NPR 4,141,280 for the Government of Nepal's Corona Virus Control & Treatment Fund. Additionally NCHL has donated NPR 1,700,000 at Government Corona Treatment Fund as a part of its corporate social responsibility, out of which NPR 1,000,000 is towards the GON's Corona Treatment Fund and NPR 100,000 towards the funds created by each of the seven Provinces.

NCHL has supported the digital payment industry and is always committed to facilitate further for the industry and economy.

घरैबाट Digital
Payment सजिलो छ ।

connectIPS बाट
insurance premium को
online भुक्तानी सोभै बैंक
खाताबाट गर्नुहोस् ।

Available on:
www.connectips.com

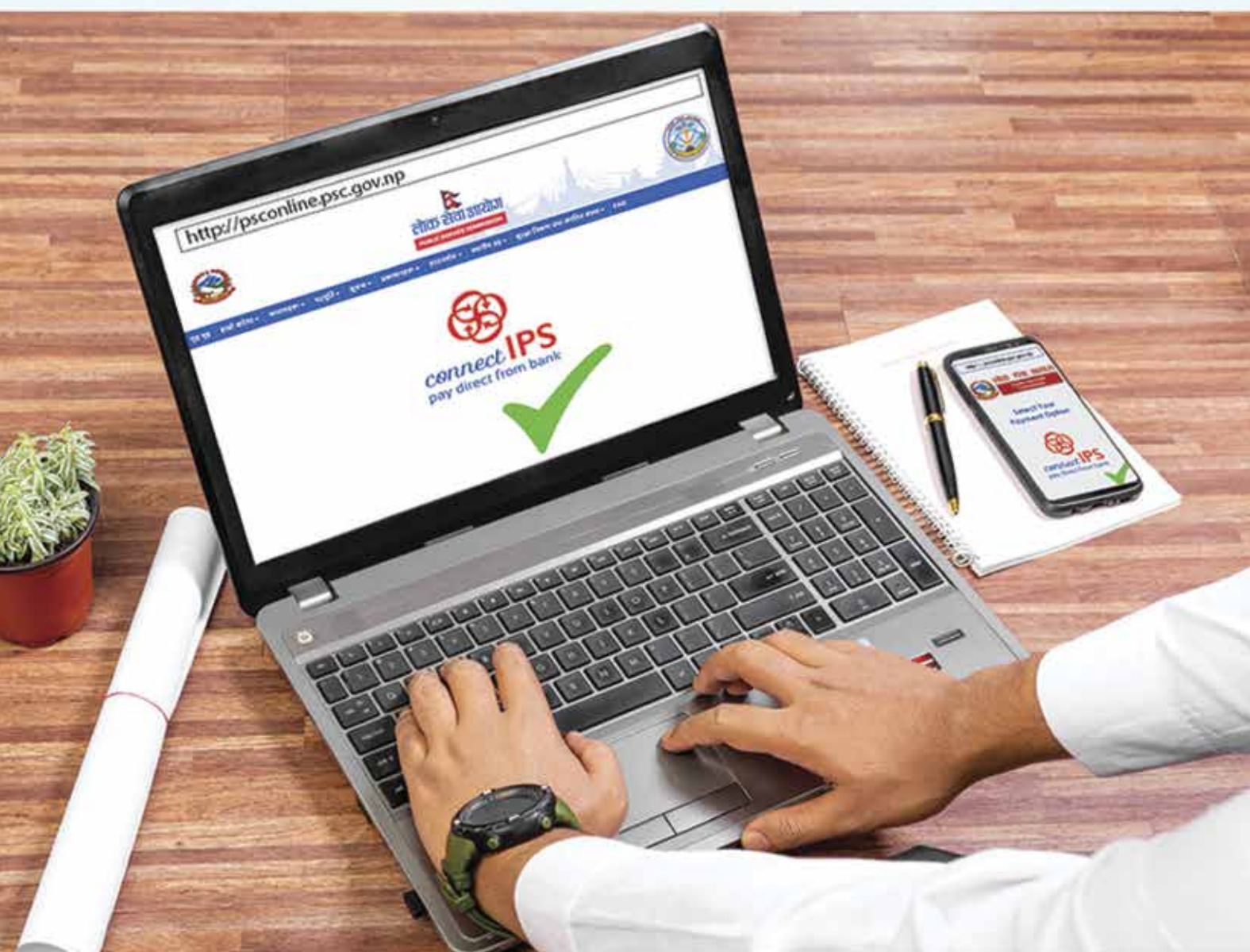
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खाताबाट सिधै **connect IPS** माफत गर्नुहोस् ।



| 09 FINANCIAL AND RELATED INFORMATION

DIRECTOR'S REPORT AND DISCLOSURE AS PER SECTION 109 OF COMPANIES ACT 2063

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 ninth 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 2076/77 (2019/20).

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 severely affected by the COVID-19 pandemic due to which the company's operational revenue has decreased by 11% compared to that of the previous year. The decrease in the operational revenue is mainly due to the repeated lockdown due to which there has been considerable reduction in transactions and waiver of all the transaction fees for the period between 11th Chaitra 2076 to 31st Ashadh 2077 (24th March 2020 to 15th July 2020). However, the businesses are slowly getting back to normal post lockdown and NCHL is expected to regain its momentum in the coming days, with re-establishment of all the clearing and settlement sessions and increased acceptance of digital payments.

The policies of the government have been encouraging towards the adoption of the electronic payments for the government's incoming and outgoing transactions. With the issuance of multiple licenses to payment service providers (PSPs) and payment system operators (PSOs) by Nepal Rastra Bank, the payments industry seem to have given utmost importance by the regulator. The formulation of the Payment & Settlement Act in 14th January 2020 and Payment & Settlement Bylaw in 15th June 2020 are seen as positive aspect for the industry in the last fiscal year. The COVID-19 pandemic has also helped push digital payments for the end customers. This is expected to positively impact *connectIPS* e-Payment systems and other payment systems, which allows transaction initiation from alternate channels.

Due to the merger of the BFIs the membership base of NCHL has considerably reduced, which is expected to continue in next fiscal year also. The reduction in the annual membership fees due to the merger is however expected to be covered by enrollment of the indirect/technical members through National Payment Interface (NPI) system.

Fluctuations in USD/NPR exchange rate impacts the operating expense of NCHL, as the software AMC (of NCHL-ECC, NCHL-IPS and Oracle) is payable in USD to the vendor. The upside exchange rate fluctuation has remained not in favor of NCHL in the last fiscal year. Difficulty in recruiting qualified and experienced human resources with increased employee turnover was one of the major challenges that we had to face in the last year.

Human Resource:

As disclosed under section Human Resource of this report.

Industrial and professional relationships:

NCHL has maintained co-ordinal 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/ PSOs), 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.

Change in Board of Director:

There has been no changes in the Board of Directors during the FY 2076/77.

Main factors affecting the business:

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

- The uncertainty caused due to the COVID-19 situation and repeated lockdowns of the country has decreased the number of transactions in the NCHL-ECC and NCHL-IPS system during the lockdown. However, the *connectIPS* has seen increasing transactions and is expected to grow as its adoption by the bank customers is picking up.
- Continuation in the trend of merger of various BFIs 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. And also the focus of NCHL has also been to increase Indirect and Technical members to compensate for the loss of direct members.
- 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 continue to 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.
- Limited availability of the skilled resources is one of the major factors that has been affecting NCHL operations and partly due to the delays in acquiring needed resources. This could further aggravate if the resource turnover increases due to high demand at new PSPs/PSOs and BFIs.
- Due to difference in the objectives of the licensed PSPs/ PSOs, the undue competition in the market is expected to impact the business and increase operational risks.
- Possibility of marked impact on financial and funding of future projects due to aggressive downward revision of fees.

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:

38 % of the paid-up capital amounting to NPR 113,270,400 has been proposed as bonus shares and 2 % of paid-up capital amounting NPR 5,961,600 has been proposed as cash dividend for tax purpose from the profit of the fiscal year 2076/77 (2019/20), subject to the approval of the AGM. 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 statement of financial position, statement of profit & loss, statement of cash flows, statement of changes in equity and independent 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.

Plan of the company for the coming fiscal year:

Some of the major activities of NCHL that are planned for the FY 2077/78 (2020/21) include:

- Support members in the operations of NCHL-ECC, NCHL-IPS and *connectIPS* e-Payment Systems. Upgrading and strengthening the existing infrastructure (hardware and network).
- Increase acceptability of NCHL-IPS and *connectIPS* e-Payment systems for the members and their customers to increase transactions.
- Focus on increasing Indirect/ Technical members in NCHL-IPS and *connectIPS* e-Payment, and primarily through the consolidated APIs (NPI).
- Enhance and extend the features to cover various business use cases of bank branch assisted, online and mobile channel based payment services through *connectIPS* e-Payment System.
- Facilitate for integration with the BFIs, various GON/ Semi-GON and other large institutions for their onboarding into the digital payments ecosystem.
- Ensure commercial rollout of CORPORATEPAY system, as an alternate platform for the business customers of the BFIs.
- Support NRB and the remaining BFIs (development banks and finance companies) for the implementation of *connectRTGS*.
- Initiate project implementation of National Payment Switch with objectives to bring interoperability in domestic card transactions, rollout Nepal payment card as domestic scheme and interoperability for non-card transactions including national QR.
- Improve risk management of the payments system and its operations through implementation of internal controls and assessments.
- Continue providing training and orientation programs to the members and other institutions.

Detail of management expenses incurred during the year

The details of the management expenses are as follows:

Particulars	FY 2076/77 (2019/20)	FY 2075/76 (2018/19)	FY 2074/75 (2017/18)	FY 2073/74 (2016/17)	FY 2072/73 (2015/16)
Staff Expenses	32,183,496	24,456,266	19,405,585	16,918,812	13,897,739
Other Admin Expenses*	50,513,664	29,928,353	13,574,296	11,574,597	7,847,173
TOTAL	82,697,160	54,384,619	32,979,881	28,493,409	21,744,912

*Note - Staff Expenses does not include Staff Bonus Payment as per Bonus Act 2030.

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

Members of the Audit Committee are:

1. Mr. Ujjal Rajbhandary - Chairperson
2. Mr. Surendra Bhusan Shrestha - Member
3. Mr. Samaj Prakaash Shrestha - Member
4. Mr. Anesh Shrestha - Member Secretary

There was no provision for remunerations to any of the members of the Audit Committee. As a meeting allowance, NPR 7,500 for each member was provided per sitting except for the Member Secretary. Total of NPR 90,000 was disbursed as meeting allowance to the Audit Committee members. Applicable tax was deducted prior to the payment in all such payments. Five 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 7,500 for each Director during this year. The Board had 23 meetings during the period under review and total of NPR 927,500 was disbursed as board meeting allowance to the Directors. Applicable tax was deducted prior to the payment in all such payments.

Board Member	Total Meeting Allowance	Remarks
Mr. Naresh Shakya	927,500	23/23 meeting
Mr. Ujjal Rajbhandary		15/23 meeting
Mrs. Umang Sharma		22/23 meeting
Mr. Surendra Bhushan Shrestha		21/23 meeting
Mr. Madhav Prasad Upadhaya		19/23 meeting
Mr. Samaj Prakash Shrestha		21/23 meeting
Ms. Kusum Lama		17/23 meeting

The Chief Executive Officer during the year under review was paid salary of NPR 5,760,000 as salary and allowances, NPR 921,600 as other benefits including provident fund contribution, leave fare allowance and other benefits. Staff statutory & welfare bonus was paid as per the law. 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 basis.

Details of Dividend, Bonus and Dividend Payable:

There exists no any outstanding dividend payable from FY 2075/76 (2018/19).

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

Ram Bahadur Manandhar
Chairman

AUDITED FINANCIAL STATEMENTS NRB APPROVAL OF THE AUDITED FINANCIALS


नेपाल राष्ट्र बैंक
भुक्तानी प्रणाली विभाग



केन्द्रीय कार्यालय
बालुवाटार, काठमाडौं
फोन: ००९७७ १ ४४२८२२६
फ्याक्स: ००९७७ १ ४४४३८७८
E-mail: psdept@nrb.org.np
Web: www.nrb.org.np
पोस्ट बक्स: ७३

पत्रसंख्या : भु.प्र.वि./२७/ /०७७/७८

चलानी नं.: २६०

मिति : २०७७/०९/०६

श्री नेपाल क्लियरिङ हाउस लिमिटेड,
कमलादी, काठमाडौं ।

विषय: वार्षिक वित्तीय विवरण प्रकाशन सम्बन्धमा ।

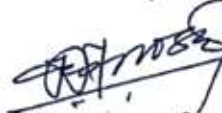
महाशय,

त्यस संस्थाले पेश गरेको आर्थिक वर्ष २०७६/७७ को वित्तीय विवरण र लेखापरीक्षकको प्रतिवेदन समेतका आधारमा गैर स्थलगत सुपरीवेक्षण गर्दा देखिएका कैफियतहरु सुधार गर्न दिईएका देहाय बमोजिमका निर्देशनहरु शेयरधनीहरुको जानकारीका लागि वार्षिक प्रतिवेदनको छुट्टै पानामा प्रकाशित गरी कार्यान्वयन गर्नुहुन । साथै, संस्थाले आ.व. २०७६/७७ को मुनाफाबाट शेयरधनीहरुलाई प्रस्ताव गरेको रु.११,३२,७०,४००/- (अक्षरेपी रु. एघार करोड बत्तीस लाख सत्तरी हजार चार सय मात्र) बराबरको बोनस शेयर तथा रु.५९,६१,६००/- (अक्षरेपी रु. उनन्साठी लाख एकसठ्ठी हजार छ सय मात्र) नगद लाभांश अन्य प्रचलित कानूनी व्यवस्थाको समेत पालना हुने गरी वार्षिक साधारण सभाबाट पारित गरी वितरण गर्न तथा वार्षिक साधारण सभा प्रयोजनको लागि आर्थिक वर्ष २०७६/७७ को वित्तीय विवरण प्रकाशन गर्न स्वीकृति प्रदान गरिएको व्यहोरा निर्णयानुसार अनुरोध गर्दछु ।

(क) भुक्तानी तथा फछ्यौट विनियमावली, २०७७ को विनियम ११(३) बमोजिम वढी सात जना सञ्चालक रहने गरी एक विज्ञ/स्वतन्त्र सञ्चालक नियुक्त गरी सोको जानकारी दिनुहुन ।

(ख) वाह्य लेखापरीक्षकको प्रतिवेदनमा औल्याईएका कैफियतहरु सुधार गरी सोको जानकारी दिनुहुन ।

भवदीय,


(टेकराज भण्डारी)
उप निर्देशक



G.P.O. Box: 3423
Koshi Compound, Dillibazar
Kathmandu, Nepal
Tel: 977-1-4419364
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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 ["NCHL" or "Company"] comprising of the Statement of Financial Position (SoFP) as at July 15, 2020 (corresponding to Asad 31, 2077), the Statement of Profit or Loss (SoPL), Statement of Other Comprehensive Income, Statement of Changes in Equity 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 31st Ashad 2077 [i.e. July 15, 2020] and its financial performance for the year then ended in accordance with Nepal Financial Reporting Standards (NFRSs).

Basis of Opinion

We conducted our audit in accordance with Nepal Standard on Auditing. 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 Company in accordance with ICAN's Handbook of Code of Ethics for Professional Accountants together with the ethical requirements that are relevant to our audit of the financial statements in Nepal, and we have fulfilled our other ethical requirements and the ICAN's Handbook of The Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

We draw attention to Note 9.4 of the accompanying financial statements which describe the uncertainties and impact on revenue brought about by the outbreak of SARS-CoV-2 virus (COVID-19) on the operations of the company. In view of these uncertainties, the impact on the company's results is dependent on future developments brought about by the outbreak. Our opinion is not modified in respect of this matter.

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

NCHL's management is responsible for the preparation and fair presentation of these financial statements in accordance with NFRSs that is also described under Notes to account and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing its ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to cease operation, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the NCHL's financial reporting process.

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.

As part of the audit, we exercised professional judgment and maintained professional skepticism throughout the audit. We also:

- Identified and assessed the risk of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that were sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the organization's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cause significant doubt on the organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosure in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluated the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 15, 2020 (corresponding to Asad 31, 2077), Statement of Profit or Loss, Statement of Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended together with the notes to accounts 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.

The engagement partner on the audit resulting in this independent auditor's report is CA Prabin Kumar Jha.


Prabin K Jha, FCA
Partner



Dillibazar, Kathmandu
Date: November 24, 2020

UDIN No: 201124CA00213Mjo3m

STATEMENT OF FINANCIAL POSITION

As at Ashad 31, 2077 (15 July 2020)

Particulars	Notes	Ashad 31, 2077 (15 July 2020)	Ashad 31, 2076 (16 July 2019)
Assets			
Cash & Bank Balances	8.1	22,929,437	21,607,712
Cash Equivalents	8.2	67,000,000	85,000,000
Inventories	8.3	63,350	120,998
Other Assets	8.4	26,175,810	60,102,188
Investments and Placements	8.5	637,249,000	444,474,000
Current Tax Assets	8.6	3,875,441	628,247
Settlement Guarantee Fund Deposits	8.7	140,523,852	50,050,029
Property, Plant & Equipment	8.8	66,557,540	57,053,531
Project WIP	8.8	3,928,007	-
Intangible Assets	8.8	42,700,449	58,163,401
Deferred Tax Assets	8.9	-	-
TOTAL ASSETS		1,011,002,885	777,200,106
Liabilities			
Current Tax Liabilities		-	-
Provisions	8.10	32,906,898	36,916,946
Other Liabilities	8.11	62,641,783	65,775,903
Settlement Guarantee Fund Liabilities	8.7.1	60,000,000	-
Deferred Tax Liabilities	8.9	665,060	983,192
TOTAL LIABILITIES		156,213,742	103,676,041
Equity			
Share Capital	8.12	298,080,000	216,000,000
Reserves & Surplus	8.13	556,709,144	457,524,065
TOTAL EQUITY		854,789,144	673,524,065
TOTAL LIABILITIES AND EQUITY		1,011,002,885	777,200,106

Neelesh Man Singh Pradhan
Chief Executive Officer

Naresh Shakya
Chairman

**CA. Prabin K. Jha
Joshi & Bhandary**
Chartered Accountants

Ujjal Rajbhandary
Director

Umang Sharma
Director

Surendra Bhushan Shrestha
Director

Madhav Prasad Upadhyay
Director

Samaj Prakash Shrestha
Director

Kusum Lama
Director

Date: 22nd October 2020
Place: Kamaladi, Kathmandu, Nepal

*(As on AGM date, Mr. Naresh Shakya and Ms. Kusum Lama have departed from NCHL Board)

STATEMENT OF PROFIT OR LOSS

For the Period Ending Ashad 31, 2077
(Corresponding to 17 July 2019 to 15 July 2020)

Particulars	Notes	Ashad 31, 2077 (15 July 2020)	Ashad 31, 2076 (16 July 2019)
Operating Income :			
Revenue	8.14	382,509,416	429,726,636
Software License - Members		565,000	1,590,000
Operating Expenses :			
Operating Expenses	8.15	61,248,854	56,296,412
Cost of Software License - Members		-	-
GROSS PROFIT		321,825,562	375,020,225
Add: Interest Income		67,158,686	52,076,777
Add: Other Income		1,574,226	1,352,967
Less: Administrative Expenses	8.16;8.18.1	50,513,664	29,928,353
Less: Human Resource Expenses	8.17;8.18.2	59,590,813	59,684,403
Operating Profit		280,453,997	338,837,212
Depreciation Expenses		17,904,930	11,348,055
Amortization Expenses		15,883,210	10,435,923
Profit Before Tax		246,665,857	317,053,234
Provision for Income Tax		62,177,761	78,156,954
Deferred Tax Expenses (Income)		(512,844)	1,160,494
PROFIT AFTER TAX		185,000,941	237,735,786

Neelesh Man Singh Pradhan
Chief Executive Officer

Naresh Shakya
Chairman

**CA. Prabin K. Jha
Joshi & Bhandary**
Chartered Accountants

Ujjal Rajbhandary
Director

Umang Sharma
Director

Surendra Bhushan Shrestha
Director

Madhav Prasad Upadhyay
Director

Samaj Prakash Shrestha
Director

Kusum Lama
Director

Date: 22nd October 2020
Place: Kamaladi, Kathmandu, Nepal

*(As on AGM date, Mr. Naresh Shakya and Ms. Kusum Lama have departed from NCHL Board)

STATEMENT OF COMPREHENSIVE INCOME

For the Period Ending Ashad 31, 2077
(Corresponding to 17 July 2019 to 15 July 2020)

Particulars	Notes	Ashad 31, 2077 (15 July 2020)	Ashad 31, 2076 (16 July 2019)
Profit After Tax		185,000,941	237,735,786
Other Comprehensive Income (net of income tax)			
a) Items not Reclassified to Profit or Loss			
Actuarial Gain/(Loss) on Defined Benefit Plan		778,850	-
Deferred Tax Income/(Expenses)	8.9.1	(194,713)	-
Net Other Comprehensive Income (not Reclassified to Profit or Loss)		584,138	
b) Items Reclassified to Profit or Loss			
c) Share of Other Comprehensive Income of Associate Accounted as per Equity Method			
Other Comprehensive Income for the Year (Net of Income Tax)			
NET PROFIT		185,585,078	237,735,786

Neelesh Man Singh Pradhan
Chief Executive Officer

Naresh Shakya
Chairman

**CA. Prabin K. Jha
Joshi & Bhandary**
Chartered Accountants

Ujjal Rajbhandary
Director

Umang Sharma
Director

Surendra Bhushan Shrestha
Director

Madhav Prasad Upadhyay
Director

Samaj Prakash Shrestha
Director

Kusum Lama
Director

Date: 22nd October 2020
Place: Kamaladi, Kathmandu, Nepal

*(As on AGM date, Mr. Naresh Shakya and Ms. Kusum Lama have departed from NCHL Board)

STATEMENT OF CHANGES IN EQUITY

As at Ashad 31, 2077 (15 July 2020)

Particulars	Share Capital	Share Premium	Revaluation Reserve	Technology Enhancement Reserve	Land and Building Reserve	Actuary Gain Reserve	Accumulated Profit/(Loss)	Total
BALANCE AT 16 JULY 2018	180,000,000	-	-	77,563,130	18,160,871	-	196,064,279	471,788,280
Adjustment/Restatement	-	-	-	-	-	-	-	-
Restated Balance	180,000,000	-	-	77,563,130	18,160,871	-	196,064,279	471,788,280
Surplus on Revaluation of Properties	-	-	-	-	-	-	-	-
Deficit on Revaluation of Investment	-	-	-	-	-	-	-	-
Current Translation Difference	-	-	-	-	-	-	-	-
Net Profit for Period	-	-	-	-	-	-	237,735,786	237,735,786
Bonus Share Capital FY 2074/75	36,000,000	-	-	-	-	-	(36,000,000)	-
Cash Dividend FY 2074/75	-	-	-	-	-	-	(36,000,000)	(36,000,000)
Trf. to Technology Enhancement Reserve	-	-	-	47,547,157	-	-	(47,547,157)	-
Trf. to Land & Building Reserve	-	-	-	-	23,773,579	-	(23,773,579)	-
Actuary Gain Reserve	-	-	-	-	-	-	-	-
Issue of Share Capital	-	-	-	-	-	-	-	-
BALANCE AT 17 JULY 2019	216,000,000	-	-	125,110,287	41,934,450	-	290,479,329	673,524,066
Adjustment/Restatement	-	-	-	-	-	-	-	-
Restated Balance	298,080,000	-	-	125,110,287	41,934,449	-	204,079,329	669,204,065
Surplus on Revaluation of Properties	-	-	-	-	-	-	-	-
Deficit on Revaluation of Investment	-	-	-	-	-	-	-	-
Current Translation Difference	-	-	-	-	-	-	-	-
Net Profit for Period	-	-	-	-	-	-	185,585,078	185,585,078
Bonus Share Capital FY 2075/76	82,080,000	-	-	-	-	-	(82,080,000)	-
Cash Dividend FY 2075/76	-	-	-	-	-	-	(4,320,000)	(4,320,000)
Trf. to Technology Enhancement Reserve	-	-	-	37,000,188	-	-	(37,000,188)	-
Trf.. to Land & Building Reserve	-	-	-	-	18,500,094	-	(18,500,094)	-
Actuary Gain Reserve	-	-	-	-	-	584,138	(584,138)	-
Issue of Share Capital	-	-	-	-	-	-	-	-
BALANCE AS AT 15 JULY 2020	298,080,000	-	-	162,227,302	60,492,957	584,138	333,404,746	854,789,144

STATEMENT OF CASH FLOWS

For the Period Ending Ashadh 31, 2077

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Net Profit/(Loss) Before Tax	246,665,857	317,053,234
Preliminary & Pre-operating (Expenses)/Surplus		
Add/(Less) : Adjustment		
Depreciation Expenses	17,904,930	11,348,055
Amortization Expenses	15,883,210	10,435,923
Superannuation/Grautity Provision (incl. Actuarial Gain/Loss)	5,222,402	1,289,549
Leave Provision	1,982,074	852,467
Staff Bonus Provision	27,407,317	35,228,137
Provision Write Back	(674,900)	(21,600)
Profit on Sale of Assets	-	(178,000)
Loss on Disposal of Assets	1,321	-
Bonus Paid	(35,228,137)	(24,209,511)
CASH FLOW FROM OPERATION BEFORE WORKING CAPITAL	279,164,074	351,798,254
Increase(Decrease) in Other Liabilities	(2,459,219)	21,324,309
Decrease (Increase) in Inventories, Current Tax, Other Assets	28,121,977	(15,645,800)
Decrease (Increase) in Settlement Guarantee Fund	(90,473,823)	(30,050,029)
Less: Tax Provision	(62,177,761)	(78,156,954)
CASH FLOW FROM OPERATING ACTIVITIES	152,175,249	249,269,781
Purchase of Fixed Assets	(27,838,518)	(58,859,748)
Sale or disposal of Fixed Assets	8,000	178,000
Project WIP	(3,928,007)	(4,570,162)
Investment in FD	(174,775,000)	(146,974,000)
CASH FLOW FROM INVESTING ACTIVITIES	(206,533,525)	(210,225,910)
Interest on Loan	-	-
Increase(Decrease) in Loans	-	-
Increase(Decrease) in Settlement Guarantee Fund Grant SCF	60,000,000	-
Share Capital & Reserves	-	-
Dividend Paid	(4,320,000)	(36,000,000)
CASH FLOW FROM FINANCING ACTIVITIES	55,680,000	(36,000,000)
Net Increase(Decrease) in Cash & Bank Balances	1,321,724	3,043,871
Cash & Bank Balances at the Beginning of the Year	21,607,712	18,563,842
CASH & BANK BALANCE AT THE END OF THE YEAR	22,929,437	21,607,712

NOTES ATTACHED TO AND FORMING PART OF FINANCIAL STATEMENTS

For the Period Ended 31st Ashad 2077

SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

1. BACKGROUND INFORMATION

Nepal Clearing House Ltd. (hereinafter referred to as “NCHL” or “company”) is a public Ltd. company registered with Company Registrar Office on 8th Poush 2065 (corresponding to 23rd 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 31st Jestha 2068. NCHL obtained approval from Nepal Rastra Bank (NRB) for operation of Electronic Cheque Clearing (NCHL-ECC) system for foreign currency cheques clearance effective from 7th Poush 2068 and obtained approval for conducting the cheque clearance in Nepalese currency effective from 16th Chaitra 2068. NCHL obtained approval from NRB for operation of Interbank Payment System (NCHL-IPS) from 4th Mangsir 2071 and effectively commenced NCHL-IPS transaction since 1st Bhadra 2073. NCHL obtained approval from NRB on 19th Chaitra 2074 for operation of *connectIPS* e-Payment System for processing of payments through alternate channels and was commenced from 12th Baisakh 2075. NRB has provided a principle approval on 1st Ashadh 2077 to establish and operate National Payment Switch (interoperable card and non-card instruments) corresponding to which project details and modalities are under discussion.

During the year, NCHL has launched National Payments Interface (NPI) and *connectRTGS* into operations. NPI is a consolidated Application Programming Interfaces (APIs) of multiple payment systems hosted by NCHL or any other institutions built in an Open API platform concept. Whereas, *connectRTGS* system supports the participating Bank and Financial Institutions (BFIs) to initiate high value and urgent transactions in Real-Time Gross Settlement System (RTGS) implemented and hosted by NRB.

NCHL entered into agreement for NCHL-ECC with 157 members, out of which, 65 members (Nepal Rastra Bank, Nepal Infrastructure Bank Ltd., 27 commercial banks, 18 development banks and 18 finance companies) are now in operation till Ashadh end 2077. 12 members (1 commercial bank, 10 development banks and 1 finance company) were reduced due to merger during the fiscal year 2076/77.

Similarly, for NCHL-IPS System, NCHL entered into agreement with 99 members, out of which, only 81 members (Nepal Rastra Bank, Nepal Infrastructure Bank Ltd., 27 commercial banks, 17 development banks, 17 finance companies and 18 Indirect/Technical members) are in operation till Ashadh end 2077. 11 members of NCHL-IPS including 1 commercial bank and 10 development banks merged during the fiscal year 2076/77 while 18 indirect/technical members who have subscribed for the service are yet to come into operation.

For *connectIPS* e-Payment System, 68 members are live (25 commercial banks, 14 development banks, 13 finance companies and 16 Indirect/Technical members) till Ashadh end 2077. 1 commercial bank and 7 development banks merged during the fiscal year 2076/77. 3 BFIs and 19 Indirect/Technical members who have subscribed for the service are yet to come into operation. NCHL has also facilitated its 52 member BFIs for needed integrations of their core banking system (CBS) with various payment systems as *connectIPS* Integration.

NCHL has entered into agreement for NPI with 68 members, out of which, 22 commercial banks, 9 development banks, 4 finance companies and 15 indirect/technical members are live till Ashadh end 2077. 18 Indirect/Technical members have subscribed but are yet to go live. 24 commercial banks have entered into integration partnership agreement with NCHL for *connectRTGS*, out of which, 23 commercial banks have gone live. Similarly, 8 development banks have also entered into agreement for *connectRTGS* but are yet to go live.

2. 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 22nd October 2020 with necessary recommendation for approval by the shareholders in the upcoming Annual General Meeting.

3. BASIS OF FINANCIAL STATEMENTS PREPARATION

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

- 3.1. Financial statements are prepared on a going concern basis.
- 3.2. Financial statements are presented in Nepalese Rupees (NRs.) which is the functional and presentation currency.
- 3.3. Financial statements are prepared by applying accrual basis of accounting (except as otherwise stated therein).
- 3.4. Assets and liabilities are presented in the order of liquidity in the Statement of Financial Position. Income and expenses are classified ‘by nature’ in the Statement of Profit or Loss. Cash Flow from Operating Activities are derived using indirect method in the Statement of Cash Flows.
- 3.5. Fair values 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.

4. REPORTING PRONOUNCEMENTS

The financial statements have been prepared as per Nepal Financial Reporting Standards 2013 (NFRS) issued by Accounting Standards Board (ASB) of Nepal. Carve-outs in NFRS with Alternative Treatments as issued by ASB have been disclosed where applied.

Since FY 2074/75, NCHL had adopted Nepal Financial Reporting Standards for Small and Medium Enterprises (NFRS for SMEs) as pronounced by ASB of Nepal and now for this fiscal year it has adopted Full NFRS.

5. USE OF ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with NFRS, requires the management to make accounting estimates and assumptions that affect the reported amount in the financial statements. The management believes that the use of accounting estimates in preparation of the financial statement are prudent and reasonable. Apart from use of accounting estimates, the management has made various judgments in the process of applying NCHL’s accounting policies which has been described through significant accounting policies and explanatory notes as stated herein.

6. STATEMENT OF COMPLIANCE

The financial statements are prepared in accordance with Nepal Financial Reporting Standards (NFRS) and the Companies Act, 2063.

7. SIGNIFICANT ACCOUNTING POLICIES

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. The effect and nature of the changes in accounting policy, if any, are also disclosed.

Index of significant accounting policies is produced below for easy reference.

Principal Note	Particulars	Explanatory Notes
7.1	Cash & Bank Balances	8.1
7.2	Cash Equivalents	8.2
7.3	Inventories	8.3
7.4	Other Assets	8.4
7.5	Investments	8.5
7.6	Settlement Guarantee Fund	8.7
7.7	Property Plant & Equipment, Intangible Assets & Project WIP	8.8
7.8	Impairment of Financial Assets	
7.9	Income Tax	8.6, 8.9
7.10	Provisions	8.10
7.11	Other Liabilities	8.11
7.12	Share Capital	8.12
7.13	Reserves & Surplus	8.13

Principal Note	Particulars	Explanatory Notes
7.14	Operating Income	8.14
7.15	Contingent Assets & Contingent Liabilities	
7.16	Operating Expenses	8.15
7.17	Administrative Expenses	8.16
7.18	Human Resource Expenses	8.17
7.19	Grant Project	8.18
7.20	Subsequent Events	

7.1 Cash & Bank Balances

Cash & Bank Balances are short term and liquid placements in banks and financial institutions that are readily available and which are subject to no risk of changes in value.

7.2 Cash Equivalents

Placements or investments having short term maturity that will realize within 3 months or less from the reporting date are categorized as Cash Equivalents and recognized at cost as per Paragraph 7 (Cash and Cash Equivalents) of NAS 7 – Statement of Cash Flows.

7.3 Inventories

Inventories are valued at cost, being weighted average cost, or net realizable value whichever is lower. Inventory in the form of fuel stock for operating generator is only maintained. Other recurring inventory having minor purchase value are expensed off as and when purchased.

7.4 Other Assets

Receivables from the Members, Interest Receivables, Prepaid Expenses, Deposits, Staff Advances, Deferred Other Benefits, SCF Grant Receivables and Other Advances that are of asset nature to the company and are classified as Other Assets.

- 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 Members (Direct and Indirect/Technical) relate to the due amount from regular operations and the Interest Receivables are interest already earned from investments but not credited in the bank. Prepaid Expenses, Loans/ Staff 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 NCHL 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 expense under Staff- Other Benefits whereas remaining expense is deferred to remaining advance period and are recognized as expense in subsequent periods proportionately.
- Amount that is expensed under SCF Grant Project and is yet to be reimbursed as per the terms of the project has been categorized under 'Other Assets' as SCF Grant Receivables. The carrying amount is considered as approximate fair value due to their short term maturity.
- Advance payment disbursed to the vendors as per the contractual obligations has been categorized under 'Other Assets' as Other Advances. The carrying amount is considered as approximate fair value due to their short term maturity

7.5 Investments

Investments are managed as per NCHL-Investment Policy (December 2015) and an amendment dated 17th December 2019. Extract of the prevailing Investment Policy is as follows:

1. 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%

2. 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 Banks: 10-20%
Finance Companies: 10-20%
- Single counterparty (other than Government/NRB) exposure shall not exceed 15% 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.
 - The investments are segregated and presented as:
 - Investment Placement measured at fair value
 - Investment Placement measured at amortized cost
 - Investments in Fixed Deposits are valued at fair value. The effective interest rate of fixed interest-bearing time deposits is the same interest rate of each deposit. The Fixed Deposits bears no transaction fee in between and the rates provided are also the market rates hence, the fair value of these deposits is considered to be their carrying amount.
 - Investments in Debentures are valued through the fair value hierarchy level 1 (L1) inputs "i.e. inputs that are quoted market prices (unadjusted) in an active market for identical instruments" as defined in the NFRS 13 Fair Value Measurement.

7.6 Settlement Guarantee Fund

- 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, other sources and contribution from the participating members. The contribution from the transaction fees is 5% for the first 2 years and 2.5% for next 3 years (net of corporate tax). NRB has approved the Operating Procedure for Settlement Guarantee Fund on 21st Falgun 2076. In reference to the Operating Procedure for SGF, the member BFLs are allowed to make additional contribution in SGF as per the member bank's business requirement.
- The income and expense of the SGF are accounted on accrual basis.
- Settlement Guarantee Fund Liabilities represents the SGF contribution funded by Sakchyam Challenge Fund through Grant project. As per the terms of the project agreement, the contribution from the project is subject to refund if the SGF is defunct. Hence, it has been presented as a Liability in the Statement of Financial Position. (Details of the project presented in the explanatory notes 8.18 and 9.2.)

7.7 Property, Plant & Equipment, Intangible Assets and Project WIP

- 1. Tangible Assets are recognized in historical cost convention basis at the cost of construction/ acquisition/development inclusive of incidental expenses related to construction/acquisition. Subsequent costs are included in the asset’s carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred. Asset value of NRs. 5,000 or less are expensed off in the same year of purchase during the fiscal year.
- 2. 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.
- 3. 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.
- 4. In case of disposal of assets during the year, depreciation is charged up to the previous month of disposal and disposed amount accounted as per the written down value.
- 5. Depreciation is calculated as per the rate and procedures defined in Income Tax Act, 2058 (Amended) for income tax purpose.
- 6. At each reporting date, assets are also assessed for indicators of impairment. In the event that an

Class of Assets	Depreciation Rate
<i>Tangible Assets:</i>	
Building	5%
Office Equipment (Furniture, Fixtures, Computer accessories)	20%
Vehicle	15%
Other Fixed Assets	15%
<i>Intangible Assets:</i>	
Software	20%

asset’s carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately to the recoverable amount.

- 8. The expenses 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.
- 9. The *connect*IPS, *connect*RTGS, National Payments Interface (NPI) and corporatePAY systems are developed internally at NCHL by the system and product development team and hence are classified as intangible assets with capitalization of the employee cost incurred for the staff directly involved in development activities and directly attributable costs for its development (e.g. outsourced development and third-party testing, etc.). Such capitalized expense is kept under Project WIP.

7.8 Impairment of Financial Assets

- 1. 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.
- 2. During the period, no impairment loss is recognized for any of the financial assets.

7.9 Income Tax

Tax expense is the aggregate amount included in the determination of profit or loss for the period in respect of current and deferred taxes.

7.9.1 Current Tax

- 1. Current Tax comprises the amount of income taxes payable (or recoverable) in respect of the taxable profit (or tax loss) for the reporting period, and any amount adjusted to the tax payable (for receivable) in respect of previous years. It is measured using tax rates enacted, or substantively enacted, at the reporting date.
- 2. The company has provided for income tax provision considering inadmissible expenses as per Income Tax Act, 2058 which is presented under ‘Provisions’ after adjusting Advance Income Tax of the current year and an additional income tax related to previous year in the Statement of Financial Position. The Net Current Tax Assets is taken as Advance Income Tax for the upcoming fiscal year.

7.9.2 Deferred Tax

- 1. Deferred Tax is recognized at the reporting date in respect of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes and the corresponding amounts used for taxation purposes (i.e. tax base).
- 2. Deferred tax assets are recognized for all deductible temporary differences, carried forward unused tax credits and carried forward unused tax losses (if any), to the extent that it is probable that future taxable profits will be available against which they can be claimed. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.
- 3. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they will be reversed, using tax rates enacted, or substantively enacted, at the reporting date.
- 4. Deferred tax income or expense relating to items recognized directly in equity or items not classified in the Statement of Profit or Loss is recognized in the Statement of Comprehensive Income.

7.10 Provisions

- 1. 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.
- 2. Provision for Superannuation benefit, Gratuity and Leave are the employee benefit schemes as per the NCHL Employee’s Service Rules and as per the prevailing Labor Act 2074. These are post-employment benefits and have been accounted as per the NAS 19 Employee Benefits.
- 3. The provision for gratuity at 8.33% of basic salary is provided to all the staff in accordance to Labor Act 2074 since FY 2075/76. They are accounted as the Defined Contribution Plans i.e. they are the post-employment benefit plans under which an entity pays fixed contributions into a separate entity (or a fund) and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
- 4. The provision for superannuation benefit is provided as per NCHL Employee’s Service Rules. Eligibility requires at least three years of continuous service in NCHL from the date of confirmation of employment. The provision for leave accumulation is provided for the accumulated paid leaves as per the Labor Act 2074. Both the superannuation benefit and leave accumulation are accounted as the Defined Benefit Plans i.e. all other post-employment benefit plans other than defined contribution plans. The liability of the future costs to the benefit schemes have been measured through the third-party actuary valuation as recommended by the NAS 19.
- 5. The eligible fund is deposited in Approved Retirement Fund (ARF). Staff Bonus is computed as per Bonus Act, 2030, at 10% of the profit before staff bonus.

7.11 Other Liabilities

Other Liabilities include Payables and Advance Incomes which 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.

7.12 Share Capital

Share capital in the company is recognized at the par value of NRs. 100 per share. The holders of shares are entitled to one vote per share at the general meeting and are entitled to receive the annual dividend

payments, if any. The company does not have any other forms of share capital other than ordinary shares.

7.13 Reserve & Surplus

There are different reserves as explained below.

7.13.1 Technology Enhancement Reserve

The company sets aside 20 % of the Profit After Tax of the period for each fiscal year before dividend and other reserves 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.

7.13.2 Land & Building Reserve

The company sets aside 10 % of the Profit After Tax of the period for each fiscal year before dividend and General Reserve & Surplus 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.

7.13.3 Reserve for Actuarial Gain/(Loss)

The Reserve for Actuarial Gain/ (Loss) has been created due to the application of accounting policy for employee benefits as per NAS 19 for the presentation of actuarial gain or loss resulting from the change in actuarial assumptions used to value defined benefit obligations. Any change in this reserve is recognized through Statement of Comprehensive Income and is not a distributable profit. This Reserve has been allocated from current fiscal year after the migration to full NFRS (from NFRS for SME in the previous fiscal years) and valuation of the defined benefit plan.

7.13.4 General Reserve & Surplus

Surplus profit after the appropriation of the specific reserves is transferred to General Reserve & Surplus. The proposed dividend and bonus, if any, will be adjusted from General Reserve & Surplus in the next fiscal year and as per the approval from the next Annual General Meeting.

7.14 Operating Income

1. The revenues, including NCHL-ECC Transaction Fees and Charges; NCHL-IPS Transaction Fees and Charges; *connectIPS* Transaction Fees; Other Annual Charges; Network Connectivity and Management Fees are accounted under accrual basis.
2. 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. The revenue of *connectIPS* e-Payment after revenue sharing with the members includes 5 % contribution towards SGF which is deposited in SGF account maintained at NRB.
3. The transaction fees and annual membership/subscription fees in NCHL-ECC and NCHL-IPS are waived for Nepal Rastra Bank (NRB) as per the renewal of the membership agreement, since 14th 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.
4. National Payments Interface (NPI), *connectRTGS* and other integration systems/ services have been provided to the member BFIs as facilitation to such members for digital payment ecosystem development. Hence, subscription to such systems/services (majority being introduced during FY 2076/77) are provided for free to the members with all cost of their development and operations have been absorbed by NCHL. Similarly, membership on all the systems for specific Government and Semi-Government institutions (including Government of Nepal, Employee Provident Fund, Social Security Fund, Citizen Investment Trust, Nepal Stock Exchange Ltd. and similar institutions) have also been provided without any initial and annual fees & charges. For the case of GON, the transaction fees in NCHL-IPS and *connectIPS* have also been subsidized for specific cases with On-Us payout transactions through NPI being fully waived and tax revenue collection for Inland Revenue Department set at NRs. 2 to 5 (plus additional commitment of full waiver for presumptive tax up to NRs. 10,000).
5. Amidst COVID-19 and enforcement of the lockdown by the Nepal Government from Chaitra 11, 2076, the transaction fees & charges were waived from Chaitra 11, 2076 to Ashadh 31, 2077 as per the approval of 147th Board Meeting. Therefore, all the charges applicable for the transactions in all

systems during the period was waived.

7.15 Contingent Assets & Contingent Liabilities

1. 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.
2. There is no contingent liability as at the end of the fiscal year.

7.16 Operating Expenses

Expenses that are directly related to service delivery are classified as Operating Expenses. The expenses are recognized on accrual basis.

7.17 Administrative Expenses

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

7.17.1 Operating Lease

The operating lease expenses are recognized on accrual basis, based on rent/lease agreement terms. The rent expenses are 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 and as allowed by the carve-out in NFRS with alternative treatments issued by the ASB on 20th November, 2019.

7.18 Human Resources Expenses

Human Resources Expenses are the remuneration and benefits availed to staff as per NCHL Employee's Service Rules, NCHL Human Resource Plan and prevailing Labor Act/Bylaw.

7.18.1 Remuneration and Benefits

Remuneration and Benefits for the employee are guided by NCHL Employee's Service Rules and NCHL Human Resource Plan.

7.18.2 Provident Fund

Provident Fund contributory scheme are accounted on monthly basis to the retirement fund equal to 10% of the basic salary of eligible employee. Such expenses are charged directly to the Statement of Profit or Loss. This includes provisions as per the Labor Act 2074 and Labor Bylaw 2075. The provident fund is deposited at Citizen Investment Trust (CIT) on monthly basis. Provident Fund schemes are the direct contribution schemes. Hence, the company does not hold any future obligations once the contributions have been made.

7.18.3 Gratuity/ Superannuation Benefit and Leave

Gratuity Expenses are accounted for 8.33% of basic salary of all the employee. The scheme is a defined contribution scheme. Therefore, the company does not hold any future obligations once the contributions have been paid. Whereas, expenses recognized for Superannuation Benefit and accumulated leave are due to the defined benefit schemes, where the future obligations of the company are not certain. The superannuation and leave expenses are accounted as per the actuarial valuation of the benefits.

7.18.4 Other Benefits

Other Benefits and facilities, including mobile expense reimbursement, fuel expense reimbursement, late shift allowance, vehicle facility option (VFO) and festival (Dashain) allowance, are recognized in the books of accounts as per NCHL Employee's Service Rules (September 2018), NCHL Human Resource Plan (September 2018) and employment contract. Other Benefits also includes the current period cost of fair value loss computed for Staff Advances (loan to employee) 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 employee.

7.19 Grant Project

NCHL has entered into an agreement with UK Aid DFID, Sakchyam Access to Finance under Sakchyam Challenge Fund (SCF) with effect from 3rd May 2019 for the implementation of the project titled “Promoting e-payments, establishing National Payments Interface (NPI) and extending Settlement Guarantee Fund (SGF)”. The accounting of the SCF project is done as per NAS 20 – Government Grants following the income approach, where the expenses are reflected in the Statement of Profit or Loss in their deducted values.

7.20 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.

8. SCHEDULES OF EXPLANATORY INFORMATION TO FINANCIAL STATEMENTS

Following explanatory information relating to figures presented in the Statement of Financial Position and Statement of Profit or Loss are presented in this section.

8.1 Cash & Bank Balances

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Civil Bank Ltd.	8,024	5,924
Global IME Bank Ltd.	798,792	831,400
Goodwill Finance Ltd.	132,089	124,178
Guheshwori Merchant Banking & Finance Ltd.	1,356,343	747,133
Himalayan Bank Ltd.	6,584	6,584
ICFC Finance Ltd.	1,077,401	534,365
Jyoti Bikas Bank Ltd.	604,591	814,211
Kumari Bank Ltd.	4,458,442	9,487,826
Laxmi Bank Ltd.	10,227	177,054
Machhapuchhre Bank Ltd.	302,903	382,376
Mega Bank Nepal Ltd.	949,856	16,295
Muktinath Bikas Bank Ltd.	275,833	86,981
NCC Bank Ltd.	15,565	15,236
Nepal Rastra Bank	5,000	5,000
NIC Asia Bank Ltd.	4,361,411	4,861,602
NMB Bank Ltd.	827,208	336,839
Prabhu Bank Ltd.	44,376	5,884
Prime Commercial Bank Ltd.	365,353	457,240
Sanima Bank Ltd.	4,174,403	147,690
Shangri-la Development Bank Ltd.	334,833	372,824
Siddhartha Bank Ltd.	2,754,103	1,675,301
United Finance Ltd.	66,101	515,770
TOTAL	22,929,437	21,607,712

8.2 Cash Equivalents

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
FD - Goodwill Finance Ltd.	11,000,000	6,000,000
FD - ICFC Finance Ltd.	5,000,000	-
FD - Jyoti Bikash Bank Ltd.	5,000,000	12,500,000
FD - Kumari Bank Ltd.	10,000,000	7,500,000

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
FD - Mega Bank Nepal Ltd.	15,000,000	20,000,000
FD - NMB Bank Ltd.	5,000,000	5,000,000
FD - Prime Commercial Bank Ltd.	-	5,000,000
FD - Sanima Bank Ltd.	10,000,000	15,000,000
FD - Shangri-la Development Bank Ltd.	6,000,000	9,000,000
FD - United Finance Co. Ltd.	-	5,000,000
TOTAL	67,000,000	85,000,000

8.3 Inventories

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Fuel Storage	63,350	120,998
TOTAL	63,350	120,998

8.4 Other Assets

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Member (Direct and Indirect)	1,740,159	49,073,637
Less: Provision for Doubtful Debt	-	(674,900)
Net Receivables	1,740,159	48,398,737
Interest Receivable	2,599,065	1,866,751
Prepaid Expenses	13,614,686	7,724,474
Deposits	745,101	683,863
Staff Advances	891,539	729,926
Deferred Other Benefits	105,161	63,639
SCF Grant Receivables	4,445,532	-
Other Advances	2,034,566	634,797
TOTAL	26,175,810	60,102,188

Note: Provision for doubtful debt for receivables from Samriddhi Finance Ltd. (Previously, World Merchant Banking & Finance Ltd.) has been recovered during this fiscal year.

8.5 Investments

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Investments measured at fair value		
Opening Balance	8,974,000	-
Addition/disposal during the year	16,275,000	8,974,000
Net changes in fair value during the year	-	-
Adjustment/transfer	-	-
Net Amount	25,249,000	8,974,000
Investments measured at cost		
Opening Balance	435,500,000	346,500,000
Addition/disposal during the year	176,500,000	89,000,000
Net amortization changes during the year	-	-
Adjustment/transfer	-	-
Net Amount	612,000,000	435,500,000
TOTAL	637,249,000	444,474,000

8.5.1 Investment Concentration as per Investment Policy

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

Particulars	Cash & Bank Balances – Note 8.1	Cash Equivalents (< =3 Mths) – Note 8.2	Short Term Investment (3-12 Mths) – Note 8.5.2	Long Term Investment (> 12 Mths) – Note 8.5.2	Total	%
Nepal Rastra Bank	5,000	-	-	-	5,000	0%
Commercial Banks	19,077,247	40,000,000	325,500,000	88,749,000	473,326,247	65%
Development Banks	1,215,257	11,000,000	121,500,000	-	133,715,257	18%
Finance Companies	2,631,933	16,000,000	101,500,000	-	120,131,933	17%
TOTAL	22,929,437	67,000,000	548,500,000	88,749,000	727,178,437	100%

Note: Fixed Deposits made at Janata Bank Nepal Ltd. and Kailash Bikas Bank Ltd. are shown as FD - Global IME Bank Ltd. and FD - Prime Commercial Bank Ltd. respectively after their mergers.

8.5.2 Details of Investments

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Details of Investments measured at fair value	25,249,000	8,974,000
Debenture-Agricultural Development Bank Ltd.	6,275,000	-
Debenture-Global IME Bank Ltd.	8,974,000	8,974,000
Debenture-NIC Asia Bank Ltd.	10,000,000	-
Details of Investments measured at cost	612,000,000	435,500,000
FD - Global IME Bank Ltd.	65,000,000	40,000,000
FD - Goodwill Finance Ltd.	10,000,000	21,000,000
FD - Guheshwori Merchant Banking Finance Ltd.	110,000,000	33,000,000
FD - ICFC Finance Ltd.	25,000,000	22,000,000
FD - Jyoti Bikash Bank Ltd.	75,000,000	36,000,000
FD - Kumari Bank Ltd.	21,000,000	25,000,000
FD - Laxmi Bank Ltd.	26,500,000	40,000,000
FD - Machhapuchchhre Bank Ltd.	28,500,000	29,500,000
FD - Mega Bank Nepal Ltd.	22,000,000	6,000,000
FD - Muktinath Bikas Bank Ltd.	35,000,000	10,000,000
FD - NIC Asia Bank Ltd.	15,000,000	33,500,000
FD - NMB Bank Ltd.	37,000,000	18,500,000
FD - Prime Commercial Bank Ltd.	32,500,000	13,500,000
FD - Sanima Bank Ltd.	34,500,000	25,000,000
FD - Shangri-la Development Bank Ltd.	40,000,000	15,000,000
FD - Siddhartha Bank Ltd.	35,000,000	55,000,000
FD - United Finance Co. Ltd.	-	12,500,000
TOTAL	637,249,000	444,474,000

8.6 Current Tax Assets

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Advance Income Tax	66,014,873	78,613,342
Provision for Income Tax	(62,139,433)	(77,985,095)
CURRENT TAX ASSETS/(LIABILITIES)	3,875,441	628,247

Note: The company has adjusted an additional income tax of NRs. 38,328 related to FY 2075/76 in the current fiscal year due to difference in tax provision in financials vis-a-vis actual computation reported in tax annexure.

8.7 Settlement Guarantee Fund Deposits

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Settlement Guarantee Fund Deposits (NCHL)	140,523,852	50,050,029
Settlement Guarantee Fund Account		
Opening Balance	50,050,029	20,000,000
Add: Contribution during the period (NCHL)	90,473,823	30,050,029
Add: Contribution during the period (Members)	420,000,000	-
Less: Deduction during the period (NCHL)	-	-
Less: Deduction during the period (Members)	(110,000,000)	-
Closing Balance	450,523,852	50,050,029
Less: Settlement Guarantee Fund Liability (NCHL)	(140,523,852)	(50,050,029)
Less: Settlement Guarantee Fund Liability (Members)	(310,000,000)	-
TOTAL	140,523,852	50,050,029

8.7.1. Settlement Guarantee Fund Liabilities

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Settlement Guarantee Fund - Grant SCF	60,000,000	-
TOTAL	60,000,000	-

8.8 Property, Plant & Equipment, Intangible Assets and Project WIP

Particulars	Office Equipment	Vehicle	Other Fixed Asset	Total Tangible Assets	Intangible Assets	Total Assets	Project WIP
Cost Price							
Opening Balance	118,398,245	5,192,424	50,912	123,641,581	116,046,269	239,687,850	-
Addition during the Period	24,543,257	2,875,002	-	27,418,260	420,258	27,838,518	3,928,007
Deletion during the Period/ Early Period	(98,779)	-	-	(98,779)	-	(98,779)	-
Total	142,842,723	8,067,426	50,912	150,961,061	116,466,528	267,427,589	3,928,007
Accumulated Depreciation							
Opening Balance	64,197,651	2,351,590	38,809	66,588,050	57,882,868	124,470,918	-
For the Period	16,995,127	906,464	3,338	17,904,930	15,883,210	33,788,140	-
Deletion during the Period	(89,458)	-	-	(89,458)	-	(89,458)	-

Particulars	Office Equipment	Vehicle	Other Fixed Asset	Total Tangible Assets	Intangible Assets	Total Assets	Project WIP
Total Accumulated Depreciation	81,103,320	3,258,053	42,147	84,403,521	73,766,079	158,169,599	-
WDV AS ON 31 ASHADH 2077	61,739,402	4,809,373	8,765	66,557,540	42,700,449	109,257,989	3,928,007
WDV AS ON 31 ASHADH 2076	54,200,593	2,840,835	12,103	57,053,531	58,163,401	115,216,932	-

8.9 Deferred Tax

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Deferred Tax Assets	-	-
Deferred Tax Liabilities	(665,060)	(983,192)
DEFERRED TAX ASSETS/(LIABILITIES)	(665,060)	(983,192)

8.9.1 Details of Deferred Tax of FY 2076/77

Particulars	Accounting Base	Tax Base	Temporary Difference	Deferred Tax Assets/ (Liabilities)
Fixed Assets	109,257,989	101,875,698	7,382,292	(1,845,573)
Loss on disposal of assets	1,321	-	1,321	330
Provision for Superannuation benefits	2,087,600	-	2,087,600	521,900
Provision for Leave	3,411,981	-	3,411,981	852,995
Deferred Tax Assets/(Liabilities) through Statement of Profit or Loss			12,883,193	(470,347)
Tax Assets/(Liabilities) up to Previous Year				(983,192)
DEFERRED TAX EXPENSES/(INCOME) FOR THIS YEAR				(512,844)
Actuarial Gain/(Losses)	778,850	-	778,850	(194,713)
Deferred Tax Assets/(Liabilities) through SOCI			19,161,624	(194,713)
Tax Assets/(Liabilities) up to Previous Year				
DEFERRED TAX EXPENSES/(INCOME) FOR THIS YEAR				194,713
TOTAL DEFERRED TAX ASSETS/(LIABILITIES) FOR THIS YEAR				(665,060)

8.10 Provisions

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Provision for Superannuation Benefits	5,985,804	3,046,876
Less: Superannuation Investment Fund	(3,898,204)	(2,787,973)
	2,087,600	258,902
Provision for Gratuity	2,580,244	1,075,620
Less: Gratuity Investment Fund	(2,580,244)	(1,075,620)
	-	-
Provision for Leave Accumulation	3,411,981	1,429,907
Provision for Staff Bonus	27,407,317	35,228,137
TOTAL	32,906,898	36,916,946

8.11 Other Liabilities

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Accounts Payable	9,294,366	4,896,672
TDS Payable	1,409,515	1,565,056
Sundry Creditors	7,597,973	19,333,709
SCF Grant Payable	-	4,616
Advance Incomes	44,339,929	39,975,850
TOTAL	62,641,783	65,775,903

8.11.1 Details of the Advance Incomes

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
NCHL-Login ID Fee	19,920,906	15,663,226
NCHL-Network and Connectivity Management Fee	3,587,560	3,549,200
NCHL-Membership Renewal Fee	4,612,215	4,845,705
NCHL-Software AMC Fee	6,125,150	6,260,903
NCHL-IPS Subscription Fee	9,717,379	9,560,206
NCHL-IPS/ connectIPS Creditor Listing	376,720	96,610
TOTAL	44,339,929	39,975,850

8.12 Share Capital

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Authorized Capital		
5,000,000 Ordinary Shares of NRs. 100/- each	500,000,000	250,000,000
Issued Capital		
2,980,800 Ordinary Shares of NRs. 100/- each	298,080,000	216,000,000
Subscribed Capital		
2,980,800 Ordinary Shares of NRs. 100/- each	298,080,000	216,000,000
Paid up Capital		
2,980,800 Ordinary Shares of NRs. 100/- each	298,080,000	216,000,000
Less: Calls in Arrears	-	-
Deposit for Share	-	-
Bonus Share	-	-
TOTAL	298,080,000	216,000,000

Note: The changes in the Share Capital are due to the bonus shares distributed during the last fiscal year 2076/77.

8.13 Reserve & Surplus

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Technology Enhancement Reserve	162,110,475	125,110,287
Opening Balance	125,110,287	77,563,130
Transfer during the Period	37,000,188	47,547,157
Land & Building Reserve	60,434,544	41,934,449
Opening Balance	41,934,449	18,160,871
Transfer during the Period	18,500,094	23,773,579
Reserve for Actuary Gain/(Loss)	584,138	-
Opening Balance	-	-
Transfer during the Period	584,138	-
General Reserve & Surplus	333,579,988	290,479,329
Opening Balance	290,479,329	196,064,279
Less: Bonus Share for Last Year	(82,080,000)	(36,000,000)
Less: Cash Dividend paid for Last Year	(4,320,000)	(36,000,000)
Transfer during the Period	129,500,659	166,415,050
TOTAL	556,709,144	457,524,065

8.14 Operating Income

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
ECC Transaction Fees – NPR	106,676,475	150,827,315
ECC Transaction Fees - USD	584,625	1,121,150
ECC Transaction Fees - EUR	20,075	28,665
ECC Transaction Fees - GBP	17,725	24,695
ECC Transaction Fees - Express	142,155,000	157,251,400
ECC Transaction Fees - Archive	1,047,529	873,000
ECC Transaction Fees - High Value	22,400	31,000
ECC Other Fees & Charges	19,304,278	19,301,055
IPS Transaction Fees – NPR	32,059,159	34,745,853
IPS Transaction Fees - USD	41,100	39,870
IPS Transaction Fees - EUR	285	270
IPS Transaction Fees - GBP	390	810
IPS Other Fees & Charges	15,323	87,711
connectIPS Income	12,508,095	1,334,099
Less: connectIPS Revenue Sharing.	(6,317,641)	(667,050)
Net connectIPS Income	6,190,454	667,050
Membership Fee	50,000	343,750
Membership Renewal Fee	9,125,186	9,389,712
Software AMC Fee	10,949,332	10,880,347
NCHL IPS Subscription Fee	19,024,038	17,317,122
NCHL-IPS/connectIPS Creditor Listing	342,904	121,087
Login ID Fee	27,734,570	20,063,354
Network Connectivity & Management Fee	7,148,568	6,611,421
TOTAL	382,509,416	429,726,636

8.14.1 Details of Waived Transaction fees

Particulars	Chaitra	Baisakh	Jestha	Ashadh	Total Waiver
NCHL-ECC	1,534,510	3,911,730	7,226,525	15,015,135	27,687,900
NCHL-IPS	865,514	1,368,088	2,181,314	3,663,623	8,078,539
connectIPS	1,254,748	3,248,770	5,058,773	6,980,168	16,542,459
Less: connectIPS Revenue Sharing	(627,374)	(1,624,385)	(2,529,387)	(3,490,084)	(8,271,230)
TOTAL	3,027,398	6,904,203	11,937,226	22,168,842	44,037,669

Note: The waiver of transaction fees relates to the transaction fees and charges that was waived from 17th Chaitra 2076 till end of Ashadh 2077 amidst COVID-19. Computation on the waiver of NCHL-ECC System is based on transactions in Regular Session only and does not consider possible transactions in Express Sessions (which comprised of 14.7% of total cheques up to Falgun end 2076).

8.15 Operating Expenses

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
AMC for ECC Software - NCHL	8,137,542	7,865,747
AMC for ECC Software - BFls	32,550,170	31,462,990
AMC for IPS Software	4,408,704	4,237,188
AMC for Oracle	4,769,070	1,834,686
AMC & Renewal - Network/Firewall	2,270,170	2,191,522
Network Connectivity Charges	3,889,008	3,831,716
AMC Expenses - Dark Core	171,700	171,700
AMC Expenses - Hardware	2,220,315	1,865,321
AMC Expenses - Internal S/w & H/w	1,435,940	601,055
connectIPS Expenses (SMS)	124,250	617,653
Data Hosting - Remote DR	1,164,090	735,457
Member Training/Orientation Expenses	107,895	881,375
TOTAL	61,248,854	56,296,412

Note: AMC for ECC Software, IPS Software and Oracle Software are payable in US Dollar to the software vendor corresponding to which reverse charging of VAT and TDS are grossed up.

8.16 Administrative Expenses

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Advertisement & Public Notice	370,406	370,998
AGM Expenses	683,478	707,245
Audit Expenses - ISO Certification	113,000	113,000
Audit Fee & Expenses - Internal	204,665	214,310
Audit Fee & Expenses - Statutory	198,880	180,800
Bank Commission	38,781	39,988
Books and Subscription Expenses	36,713	29,890
Business Promotion Expenses	24,069	9,411,065
Common Area & Parking Expenses	598,583	613,721
Consultancy Fee	147,890	49,999
Courier Expenses	52,989	52,657
Donation	1,700,000	-
Electricity Expenses	1,752,416	1,562,409

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Fuel Expenses	264,445	302,971
Insurance Expenses	555,813	455,592
Legal Fee	50,850	107,350
Local Conveyance	34,949	41,145
Loss on Disposal of Fixed Assets	1,321	-
Meeting Allowance & Expenses	1,201,480	807,582
Office Expenses	754,525	655,230
Other Expenses	121,604	245,730
Printing & Stationery	212,237	179,470
Registration & Renewal	83,907	80,385
Rent - Building	3,150,392	2,947,456
Rent - DR Site	650,000	549,688
Repair & Maintenance	394,123	410,253
Support/Security/Driver Expenses	1,938,762	1,904,495
Telephone Expenses	201,323	314,413
Travelling Expenses	238,530	404,271
Website Development / Hosting Expenses	1,693	53,356
Research & Development Expenses	-	830,908
TOTAL	15,777,824	23,636,377

8.16.1 Lease Expenses

Lease Category	Lease Rental Expenses for FY 2076/77	Lease Period (in B.S.)	Inflationary Incremental Rate
Rent - Head Office	1,150,142	2067/09/01 to 2077/08/30	5% p.a
Rent - Operations Office	2,000,250	2074/06/17 to 2084/06/16	8% p.a
DR Rental Charges	650,000	2073/01/01 to 2077/12/30	NA
TOTAL	3,800,392		

Note: All lease agreements are cancellable with 90 days' notice period.

8.17 Human Resources Expenses

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
Staff - Salary & Allowance Expenses	16,426,366	16,126,014
Staff - Provident Fund Contribution	1,133,443	1,059,981
Staff - Dashain Allowance	940,755	976,459
Staff - Gratuity/Superannuation Benefit	4,682,615	1,981,086
Staff - Leave	2,084,019	895,058
Staff - Leave Fare Allowance	259,200	259,200
Staff - Other Benefits	1,092,296	1,456,278
Staff - Training Expenses	416,263	719,675
Staff - HR Activity	464,108	235,142
Staff - Bonus (Provision)	27,407,317	35,228,137
TOTAL	54,906,382	58,937,031

8.18 Grant Project

Particulars	Ashadh 31, 2077 (15 July 2020)	Ashadh 31, 2076 (16 July 2019)
OPENING SCF PROJECT GRANT BALANCE	24,544,248	-
FUND RECEIVED IN THE PERIOD	80,547,575	31,583,596
SCF PROJECT		
I. ADMINISTRATIVE EXPENSES	39,420,272	7,039,348
Other Project Expenses	-	-
Less: Grant Contribution	-	-
Programme Specific Expenses	70,328,168	12,583,952
Less: Grant Contribution	(35,592,328)	(6,291,976)
II. HUMAN RESOURCE EXPENSES	4,684,431	747,372
Human Resource Expenses	11,864,713	1,494,744
Less: Grant Contribution	(7,180,282)	(747,372)
III. ASSETS	6,764,745	-
Investment in Assets	13,529,490	-
Less: Grant Contribution	(6,764,745)	-
IV. SETTLEMENT GUARANTEE FUND	60,473,823	30,027,313
Settlement Guarantee Fund	120,473,823	30,027,313
Less: Grant Contribution	(60,000,000)	-
TOTAL GRANT CONTRIBUTION (B)	109,537,354	7,039,348
SCF Grant - Advance	(4,445,532)	24,544,248
NIC Asia Bank Ltd. - SCF Fund	-	(24,539,632)
PAYABLE/(RECEIVABLE)	(4,445,532)	4,616

Note: A separate bank account at NIC Asia Bank Ltd. has been opened for maintaining grant related transactions.

9. DISCLOSURE AND ADDITIONAL INFORMATION

9.1. Related Party Disclosure

Following are the related party transactions.

9.1.1. 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 the fund. NCHL SGF account and current account balance at Nepal Rastra Bank as of the end of Ashadh 2077 are NRs. 450,523,852 and NRs. 5,000 respectively.

9.1.2. 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.

9.1.3. Transaction with Board Members and Key Employee

- The members of Board, Audit Committee, HR Committee and Special Committee are provided NRs. 5,000 as the meeting allowance per sitting. The meeting allowance of the Board of Directors was increased from NRs. 5,000 to NRs. 7,500 as per the 8th AGM of the company. Pursuant to this, the meeting allowance of Audit Committee and HR Committee were subsequently increased from NRs. 5,000 to NRs. 7,500 as per the 140th Board Meeting of the company. In the fiscal year, the company incurred meeting allowances of NRs. 1,062,500 in total. The details of the Meeting allowances is given below:
- The Chief Executive Officer during the fiscal year has been paid NRs. 5,760,000 as salary and allowances, NRs. 921,600 as other benefits including provident fund contribution, leave fare allowance

and dashain allowance. Staff bonus has been paid as per the law. He was also provided with office vehicle with a driver, total reimbursement of fuel expenses of NRs. 125,600 and mobile expenses of NRs. 23,169 during the fiscal year.

- There were no transactions with the employees except as allowed by the NCHL Employee's Service Rules and NCHL Human Resource Plan.

S. No.	Meeting	Meeting Allowance
1	Board Meeting	927,500
2	Audit Committee Meeting	90,000
3	HR Committee Meeting	30,000
4	Special Committee Meeting	15,000
TOTAL		1,062,500

9.2. Grant Project

This relates to SCF Grant Project that aims to extend market infrastructure for an integrated mobile and web-based payment services to 200,000 bank customers and 100 SME/Corporates with addition of 20 Government/Semi-Government/Large Institutions within interoperable National Payments Interface (NPI) and 45 service providers (creditors) within digital payment ecosystem of *connectIPS* e-Payment, by the end of the project.

- Sub-Project 1 - Marketing - Promotion/Orientation: To facilitate for promotion, awareness and training of *connectIPS* e-Payment system, targeted at banks/branches; creditors/institutions (non-conventional and commercial); and bank customers – Scaling-up of mobile and web based financial services solutions to increase P2G, P2B and P2P transactions through bank accounts.
- Sub-Project 2 - Development and Rollout of National Payments Interface (NPI): To support in the development and rollout of National Payments Interface (NPI) including Corporate channel – Establish consolidated application programming interface (APIs) of multiple payment systems for ease of integration and interoperability for the Banks, Payment Service Providers (PSPs) and service providing institutions (Govt/Semi-Govt/Large institutions); Provide additional channel of electronic payment for SMEs/Corporates; in order to increase non-conventional and commercial service providers in the digital payments ecosystem.
- Sub-Project 3 – Contribution in Settlement Guarantee Fund (SGF): To contribute for expanding Settlement Guarantee Fund (SGF) – Mitigate settlement risk of mobile & web based financial services (based on real-time and/or guaranteed payments) for scaling-up of electronic payments (in volume and value).

Since the implementation of the program activities has been downscaled or halted during the lockdown period with some of the project target being missed, the project is expected to extend from the current end date of 31st July 2020. The utilization of the grant project as of the end of the fiscal year is presented as follows:

Particulars	Project Commitment		Project Utilization	
	NCHL	SCF Grant	NCHL	SCF Contribution
Sub Project 1-Marketing - Promotion/Orientation	47,121,171	47,533,558	43,904,969	43,904,969
Sub Project 2-Development and rollout of National Payments Interface (NPI)	22,232,256	22,232,256	12,671,733	12,671,733
Sub Project 3-Contribution in Settlement Guarantee Fund (SGF)	60,887,652	60,000,000	60,501,136	60,000,000
TOTAL	130,241,079	129,765,814	117,077,838	116,576,702

9.3. 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 ISO 27001 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 a 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:

9.3.1. 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.
- connectIPS* e-Payment, *connectIPS* Integration components, National Payments Interface (NPI) and *connectRTGS* are in-house developed by NCHL, which may carry additional software development related risks. Hence, vulnerability and penetration testing (VAPT) are usually performed from 3rd party service providers for major developments and/or changes thereon as a part of the information security (IS) assessments.

9.3.2. 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. One full drill was conducted during the FY 2076/77.
- 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.
- NCHL Business Continuity Plan & Disaster Recovery Plan was activated in the FY 2076/77 during the COVID-19 outbreak. The BCP Plan covered human resource management, business & operational processes and infrastructure operations in order to prevent the risk of NCHL's premise becoming node of transmission and keep NCHL's services intact. A drill exercise was also conducted prior to nation-wide lockdown to ensure the status of the BCP Plan.

9.3.3. 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 poor execution of business strategy, Government or regulatory policy changes, 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.
- Business risk on NCHL-ECC and NCHL-IPS is relatively low but due to the overlapping business line of *connectIPS* with other PSPs/PSOs licensed by NRB, there are possibilities of high business risk. Extreme pressure on pricing on various systems of NCHL, in spite of it being the lowest amongst other

PSPs/PSOs, it is one of the major business risks for its sustainability in long run.

4. NCHL has been taking a policy to establish multiple payment systems by reinvesting into national payment infrastructures with the revenue or cash flow generated from already implemented systems and in anticipation of business growth of the existing systems. However, the current Covid-19 situation with extended lockdowns may largely impact NCHL's business risk, which may further be aggravated if any further pressure on its pricing is imposed. NCHL had already provided full waiver of transaction fees in all its systems during the lockdown period till the end of last FY. With the recent revision on the transaction fees, and it being the main source of revenue for NCHL, any further impact may largely increase the risk of its inability to upgrade infrastructure, risk management and to support other new payment systems.
5. NCHL has obtained a principle approval from NRB to establish and operate National Payment Switch (NPS), which is expected to be one of the major projects for NCHL, requiring sizable investments from its reserves. A possibility of not being able to realize cost benefit from the NPS project, whatsoever the reason may be, it may heavily increase NCHL's business risk. So, NPS project will have to be planned and executed closely with NRB, BFI and other stakeholders.

9.3.4. Liquidity and Settlement Risk

1. 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, NCHL-IPS and *connectIPS* e-payment systems, 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. And the members are provided with facility to monitor their settlement positions in the system.
2. 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 shortfall for a particular member. The finality of payments in NCHL-ECC and NCHL-IPS are defined after the settlement.
3. For *connectIPS* e-Payment System, which is based on instant faster payment, allows the creditor bank to credit the beneficiary account prior to the Nostro settlement. So, 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 for *connectIPS* e-Payment system. The contribution for the SGF made by NCHL and the participating banks are held at NCHL SCF Account at Nepal Rastra Bank.
4. A potential liquidity risk that NCHL may face is insufficiency of liquid funds to meet its financial obligations for its normal business operations and enhancements. 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.

9.3.5. 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. For Indirect/Technical Members, all transactional fees and charges are settled through the respective settlement bank, whereas annual fees are recovered from such members, which may partly increase the credit cycle.

9.3.6. 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, corresponding to which compliance self-assessment and cross-functional assessment are intermittently conducted in addition to quarterly internal audits and statutory audits.

9.3.7. 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. It may also arise from the possibility of any undue event occurring at NCHL. NCHL, being an operator of systemically important payment systems (SIPS) in Nepal, any short-term decisions imposed or indecisiveness thereof may trigger systemic risk with severe repercussion on the payments eco-system. NCHL has been working closely with Nepal Rastra Bank and with the participating member BFIs to avoid likelihood of any events that may result into systemic risk.

9.3.8. 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, internal 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.

9.4. Impact due to COVID-19

1. NCHL's payment system related services being the essential services, they were in operations during the Covid-19 lockdown period also. However, due to the lockdown, the transactions had decreased and also as part of the facilitation to the general public, the transaction fees and charges for all systems were waived for the Ltd. period between Chaitra 11, 2076 to Ashadh 31, 2077. The details of such waiver and the impact on revenue is provided under Note – 8.14.1 Operating Revenue.
2. The impact of Covid-19 is expected to continue for the FY 2077/78 due to possible reduction in the economic activities, NCHL's Profit After Tax for the fiscal year has been NRs. 185,000,941, reduction of 22.2% compared to the previous year. However, considering the company's current position and in absence of the material uncertainties for the next 12 months, the financial statement has been prepared on a going concern basis.
3. Other COVID-19 impact on the asset's impairment, provisions & contingencies and payment & receipt of the financial instruments are highly unlikely. Hence, adjustments due to COVID-19 have not been considered in the preparation of the financial statement.

9.5. Profit Appropriation

9.5.1. Appropriation of Profit

Appropriation of Profit for Technology Enhancement Reserve, Land & Building Reserve and General Reserve & Surplus are defined under 8.13 Reserve & Surplus.

9.5.2. Proposed Dividend and Bonus Share

The Board of Directors has proposed 38% of Bonus Shares (equivalent to 1,132,704 units of shares) and 2% of Cash Dividend for tax purpose (amounting to NRs. 5,961,600) from the Profit of the FY 2076/77, subject to final approval in the next Annual General Meeting. Proposed Bonus shares equivalent are not adjusted in the financial statements. The increase in paid-up capital is intended to support investments on the infrastructures and risk managements of existing payment & settlement systems and for establishment of additional national payment systems.

9.6 Transition from NFRS for SMEs to full NFRS

1. NCHL had adoption of NFRS for SMEs since FY 2074/75 and from the FY 2076/77, NCHL has migrated to full NFRS as part of the best practices for financial transparency and disclosures. The major changes applicable to NCHL in the transition to full NFRS has been actuarial valuation of the company's Defined Benefit Plan as per the NAS 19 Employee Benefits and the calculation of the Operating Leases on a straight-line basis as per NAS 17.
2. Actuarial Valuation of the company's Defined Benefit Plans (i.e. Superannuation Benefit & Leave Benefit) have been valued by an Independent Actuary (Mrs. Teja Ranade Gadhoke, Fellow of Society of Actuaries, Pune, India) based on the calculation of the financial assumptions including discount rate, salary increment rate and staff turnover rate. Superannuation and Leave expenses for the FY 2076/77 have been booked as per the final liabilities provided in the valuation report less previous year's liability. Actuarial Gains on the Superannuation Benefit has been presented in the Statement of Comprehensive Income.
3. The requirements of the NAS 17 were waived out on Carve-Outs in NFRS with Alternative Treatments as per the 129th Meeting of the ASB and are hence, not adjusted in the financials.
4. There were no changes in comparative figures due to the adoption of the full NFRS. A comparison statement of the Statement of Profit or Loss and the Statement of Comprehensive Income for this year as per full NFRS and NFRS for SMEs is presented as below:

Impact on Statement of Profit or Loss (Migration from NFRS for SMEs to Full NFRS)

Particulars	Full NFRS	NFRS for SMEs	Variance	Impact Reason
Operating Income:				
Revenue	382,509,416	382,509,416	-	
Software License - Members	565,000	565,000	-	
Operating Expenses:				
Operating Expenses	61,248,854	61,248,854	-	
Cost of Software License - Members	-	-		
Gross Profit	321,825,562	321,825,562	-	
Add: Interest Income	67,158,686	67,158,686	-	
Add: Other Income	1,574,226	1,574,226	-	
Less: Administrative Expenses	50,513,664	50,513,664	-	
Less: Human Resource Expenses	59,590,813	56,962,795	2,628,019	Actuarial Valuation of Defined Benefit Plans as per NAS 19
Operating Profit	280,453,997	283,082,015	(2,628,019)	
Depreciation Expenses	17,904,930	17,904,930	-	
Amortization Expenses	15,883,210	15,883,210	-	
Profit Before Tax	246,665,857	249,293,876	(2,628,019)	
Provision for Income Tax	62,177,761	62,104,760	73,001	Reduced Staff-Bonus
Deferred Tax Expenses (Income)	(512,844)	22,449	(535,293)	Future tax liabilities due to increase of Defined Benefit Plans Expenses
PROFIT AFTER TAX	185,000,941	187,166,668	(2,165,727)	

Impact on Statement of Comprehensive Income (Migration from NFRS for SMEs to Full NFRS)

Particulars	Full NFRS	NFRS for SMEs	Variance	Reason
Profit After Tax	185,000,941	187,166,668	(2,165,727)	
Other Comprehensive Income (Net of Income Tax)				
a) Items not Reclassified to Profit or Loss				
Actuarial Gain/(Loss) on Defined Benefit Plan	778,850	-	778,850	Actuarial Valuation of Defined Benefit Plans as per NAS 19
Deferred Tax Income/(Expenses)	(194,713)	-	(194,713)	Future tax liabilities due to Actuarial Gains
Net Other Comprehensive Income (Not Reclassified to Profit or Loss)	584,138	-	584,138	
b) Items Reclassified to Profit or Loss	-	-	-	
c) Share of Other Comprehensive Income of Associate Accounted as per Equity Method	-	-	-	
Other Comprehensive Income for the Year (Net of Income Tax)	-	-	-	
NET PROFIT	185,585,078	187,166,668	(1,581,589)	

नवौ वार्षिक साधारण सभा सम्बन्धी सूचना
(पहिलो पटक प्रकाशित मिति:२०७८/०१/१४)

श्री शेयरधनी महानुभावहरू,
यस कम्पनीको सञ्चालक समितिको मिति २०७८/०१/१२ मा बसेको १७ औं बैठकको निर्णय बमोजिम यस कम्पनीको नवौं वार्षिक साधारण सभा निम्न लिखित मिति, स्थान र समयमा निम्न विषयहरूमा छलफल तथा निर्णय गर्न बस्ने भएको हुँदा कम्पनी ऐन, २०६३ को दफा ६७(२) अनुसार सबै शेयरधनी महानुभावहरूको जानकारीको लागि यो सूचना प्रकाशित गरिएको छ ।

सभा हुने मिति, स्थान र समय :-
मिति : २०७८ साल जेठ महिना ५ गते बुधवार (तदनुसार 19th May 2021, Wednesday)
स्थान : ZOOM Meeting, NCHL Operations Office, कमलादी, काठमाडौं ।
समय : साँझ १:०० बजे
(विश्व व्यापी रुपमा फैलिएको कोरोना भाईरस (कोभिड-१९) महामारीको भिषण परिस्थितिलाई मध्यनजर गरी साधारण सभालाई अनलाईन/भर्चुअल (Zoom) मार्फत संचालन गरीने छ र सहभागी हुनको लागि शेयरधनी महानुभावहरूलाई Meeting ID र Password उपलब्ध गराउने छौं ।)

- छलफल गर्ने विषयहरू :-**
- क. साधारण प्रस्ताव:**
- १. सञ्चालक समितिको आ.व. २०७६/७७ को प्रतिवेदन पारित गर्ने ।
 - २. लेखा परीक्षण प्रतिवेदन सहितको २०७७ आषाढ मसान्त सम्मको वासलात तथा सोही मितिमा समाप्त आ.व. २०७६/७७ को नाफा नोक्सान हिसाब तथा नगद प्रवाह विवरण स्वीकृत गर्ने ।
 - ३. सञ्चालक समितिले प्रस्ताव गरे बमोजिम २ प्रतिशत नगद लाभांश (बोनस शेयरको कर प्रयोजनका लागि) स्वीकृत गर्ने ।
 - ४. आ.व. २०७७/७८ को लागि लेखा परीक्षकको नियुक्ति तथा निजको पारिश्रमिक निर्धारण गर्ने । (वर्तमान लेखा परीक्षक श्री जोशी एण्ड भण्डारीको ३ वर्षको अवधि पुरा भएको र आ.व. २०७७/७८ को लागि लेखा परीक्षक श्री एम. बि. श्रेष्ठ एण्ड कम्पनीलाई लेखापरीक्षण समितिबाट नियुक्तिको निमित्त सिफारिस भएको ।)
 - ५. कम्पनीको नियमावली अनुसार समुह “ख-१” का शेयरधनीको तर्फबाट सञ्चालक समितिमा प्रतिनिधित्व गर्ने तीन जना सञ्चालकहरूको निर्वाचन गर्ने ।

- ख. विशेष प्रस्ताव:**
- १. सञ्चालक समितिले प्रस्ताव गरे बमोजिम ३८ प्रतिशत बोनस शेयर स्वीकृत गर्ने तथा सोही बमोजिम चुक्ता पुँजी बृद्धि गर्न प्रबन्धपत्रको संशोधन स्वीकृत गर्ने ।
 - २. समुह “ग” अन्तर्गतको शेयर उपसमुह “ख-१” को शेयरधनीले खरिद गरे पश्चात् समुह “ख” को जम्मा शेयर स्वामित्व परिवर्तन गर्ने तथा समुह “ग” र उक्त समूहले प्रतिनिधित्व गर्ने संचालक समेत हटाउने गरि प्रबन्धपत्र र नियमावलीमा संशोधन स्वीकृत गर्ने ।
 - ३. 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 मा पनि हेर्न सकिनेछ । कुनै कारणले प्रतिवेदन प्राप्त नगर्नु हुने शेयरधनीज्यूहरूले यस कम्पनीको रजिष्टर्ड कार्यालयमा (accounts@nchl.com.np) मार्फत शेयरधनी प्रमाण-पत्रको स्क्यान कपी शेयरधनी प्रमाण-पत्र प्रस्तुत गरी सो प्राप्त गर्न सक्नु हुनेछ ।
- (२) लेखापरीक्षकको प्रतिवेदन सहित कम्पनीको वार्षिक आर्थिक विवरण, सञ्चालक समितिको प्रतिवेदन, कम्पनी ऐन, २०६३ 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) विश्वव्यापी रुपमा फैलिएको कोरोना भाईरस (कोभिड - १९) को महामारी रोकथाम तथा नियन्त्रणको लागि नेपाल सरकारबाट जारी गरिएका स्वास्थ्य सम्बन्धी
- (४) निर्देशन एवं मापदण्डहरूको सम्मान एवं परिपालना गर्दै अनलाईन/भर्चुअल (Zoom) माध्यमबाट सभामा सहभागी हुने व्यवस्था मिलाइएको हुँदा अनलाईन/भर्चुअल (Zoom) माध्यमबाट सभामा सहभागी भई दिनु हुन शेयरधनी महानुभावहरूलाई विशेष अनुरोध छ । अनलाईन/भर्चुअल सभामा उपस्थित हुने शेयरधनी कम्पनीको प्रतिनिधित्व गर्ने आधिकारिक पत्र कम्पनीको केन्द्रीय कार्यालयमा वा उक्त पत्रको स्क्यान कपी accounts@nchl.com.np मा पठाउनु हुन अनुरोध छ । अनलाईन/भर्चुअल (Zoom) मा शेयरधनी महानुभावहरूलाई उपलब्ध गराइएको Meeting ID र Password प्रयोग गरि प्रवेश गर्न सकिने छ ।
- (५) सभामा सहभागी हुन 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 सहभागी हुन र मतदान गर्नका लागि प्रतिनिधि नियुक्त गरिसकेपछि उक्त प्रतिनिधि बदर गरी अर्कै मुकदर गर्ने भएमा सोको लिखित सूचनाको स्क्यान कपी सोही अवधिभित्र कम्पनीको केन्द्रीय कार्यालयमा वा accounts@nchl.com.np मा पठाई दर्ता गरिसक्नुपर्नेछ ।
- (६) शेयरधनीज्यूहरूको सुविधाको लागि अनलाईन/भर्चुअल (Zoom) सभा हुने दिन १२:३० बजे देखि सभा चालु रहेसम्म खुल्ला रहनेछ ।
- (७) अन्य कुनै जानकारीका लागि कम्पनीको रजिष्टर्ड कार्यालय, कमलादी, काठमाडौंमा सम्पर्क गर्नु हुन अनुरोध छ ।



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

विषय : प्रतिनिधि नियुक्ति गरेको बारे ।

महाशय,
.....जिल्ला.....न.पा./गा.वि.स. वडा नं.....बस्ने म/हामी
.....ले त्यस कम्पनीको शेयरधनीको हैसियतले २०७८ साल जेठ महिना ५ गते बुधवार
हुने नवौं वार्षिक साधारण सभामा स्वयंम उपस्थित भइ छलफल तथा निर्णयमा सहभागी हुन नसक्ने
भएकोले उक्त सभामा भाग लिन तथा मतदान गर्नका लागि न.पा./गा.वि.स.
वडा नं.बस्ने त्यस कम्पनीका शेयरधनी श्रीशेयर 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:-

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

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