

ANNUAL REPORT

2011/12

(2068/69)

BANKING ON TECHNOLOGICAL CHANGE



NEPAL CLEARING HOUSE LTD.

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VISION

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

MISSION

The missions of NCHL are to:

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

VALUES

NCHL values the highest standards of ethics, integrity and teamwork. NCHL is committed towards its employees, members, partners and shareholders.

MILESTONES

23rd December 2008 (8th Poush 2065)

Nepal Clearing House Ltd. incorporated under Company Act 2063 of Nepal

14th January 2011 (30th Poush 2067)

Obtained pre-operating approval from Nepal Rastra Bank

14th February 2011 (2nd Falgun 2067)

Electronic cheque clearing software and infrastructure implementation project commenced

14th June 2011 (31th Jestha 2068)

Obtained operating license from Company Registrar Office

21st June 2011 (7th Ashad 2068)

Obtained Operating approval from Nepal Rastra Bank

3rd February 2012 (20th Magh 2068)

Commencement of NCHL-ECC System for foreign currency denominated cheques

9th April 2012 (27th Chaitra 2068)

Commencement of NCHL-ECC System for Nepali currency denominated cheques

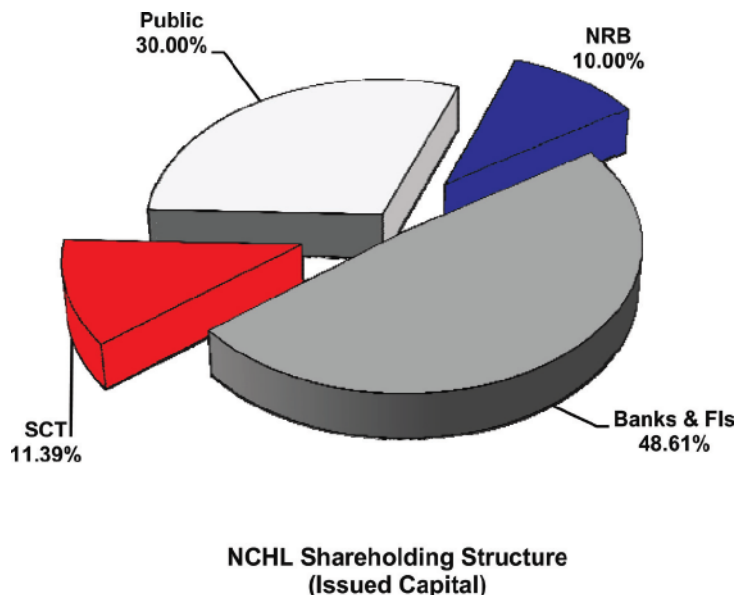
COMPANY PROFILE

Nepal Clearing House Ltd. (NCHL) recognizes technology oriented services as one of the key ingredients for the bank & financial institutions to improve their efficiency, productivity and also provide innovative financial solutions to their customers. And NCHL intends to help them realize these by providing various payment and settlement related services without having to invest heavily into infrastructures by themselves. We approach NCHL's services as a long term proposition. This is reflected in the way the company is structured, its products & services are built and proposed to the Banks/FIs.

We currently are providing to the Banks/FIs an automated cheque clearing services. We plan to offer other interbank payment services and later establish a national payments gateway to facilitate electronic payments and settlement across Banks/FIs. We aspire to be a leading provider of electronic payment and settlement services in the country.

NCHL was incorporated on 23rd December 2008 as a public limited company as per the Companies Act 2063, under the leadership and guidance of Nepal Rastra Bank (the Central Bank of Nepal), Nepal Bankers Association and Smart Choice Technologies P. Ltd (SCT). NCHL is regulated by the rules and regulations of the Nepal Rastra Bank.

NCHL has an Authorized Capital of NPR 250,000,000 and Issued Capital of NPR 128,570,000 out of which 70% from the Promoter shareholders amounting to NPR 89,999,000 is fully paid. It currently has 27 institutional promoter shareholders including Nepal Rastra Bank, 23 Commercial Banks, 2 Development Banks and Smart Choice Technologies P. Ltd.



The list of the shareholders and their shares are as follows.

<i>Name of Shareholders</i>	<i>Shares Quantity</i>
Nepal Rastra Bank	128,570
Bank of Asia Nepal Limited	25,000
Bank of Kathmandu Limited	25,000
Citizens Bank International Limited	25,000
Grand Bank Nepal Limited	25,000
Everest Bank Limited	25,000
Global IME Bank Limited	25,000
Himalayan Bank Limited	25,000
Kumari Bank Limited	25,000
Laxmi Bank Limited	25,000
Lumbini Bank Limited	25,000
Machhapuchchhre Bank Limited	25,000
Nabil Bank Limited	25,000
Nepal Bangladesh Bank Limited	25,000
Nepal Bank Limited	25,000
Nepal Credit and Commerce Bank Limited	25,000
Nepal Industrial and Commercial Bank Limited	25,000
Nepal Investment Bank Limited	25,000
Nepal SBI Bank Limited	25,000
Prime Commercial Bank Limited	25,000
Rastriya Banijya Bank Limited	25,000
Siddhartha Bank Limited	25,000
Standard Chartered Bank Nepal Limited	25,000
Sunrise Bank Limited	25,000
Ace Development Bank Limited	25,000
Manakamana Development Bank Limited	25,000
Smart Choice Technologies Pvt. Limited	146,420

BOARD OF DIRECTORS



Mr. Ashoke SJB Rana, Chairman
CEO, Himalayan Bank Ltd.



Mr. Hari Prasad Kaphle, Director
Executive Director, Nepal Rastra Bank



Mr. Sashin Joshi, Director
CEO, NIC Bank Ltd.



Mr. Rajan Singh Bhandari, Director
CEO, Citizens Bank International Ltd.



Mr. Rabindra B Malla, Director
Chairman, Smart Choice Technologies P. Ltd.



Mr. Neelesh Man Singh Pradhan
Chief Executive Officer &
Company Secretary

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is with an immense pleasure to welcome you all in the 1st Annual General Meeting of Nepal Clearing House Ltd. (NCHL).

Since the incorporation of our company on 23rd December 2008, we are now standing at a crossroad of having implemented a national electronic cheque clearing system in Nepal. This is a major milestone achieved, which the entire banking and financial community including Nepal Rastra Bank have been looking forward to.

Electronic cheque clearing system will result in significant reduction of tedious and time consuming manual process of cheque clearing, both for the banks and for the customers. Our participating member Banks/FIs will certainly observe improved efficiency, reduced risk and reduced cost of transaction for cheque clearing & settlement once NCHL-ECC system is in place nationwide. It will not only help better serve their customers by providing faster and improved services but it will also help increase the acceptability of cheques in the general market thereby reducing the dependency on cash. We anticipate that the cheque volume will increase considerably from the current level in the first year itself. Increased payments through cheques will also contribute to the growth of the formal economy of the country.

Though we faced numerous challenges and hurdles in establishing the institution, during implementation process and then after enrolling the Banks/FIs within NCHL, our company was able to headstart its first service and also gather considerable support from its members. We are now in the process of increasing our membership base and also planning to rollout the service for the Banks/FIs located outside Kathmandu valley.

Once the service is fully operational nationwide, we will expand our product and services into similar other ventures in the field of electronic interbank payment and settlement systems. We will develop ourselves as one of the leading provider of interbank clearing, payment and settlement services for the banks & financial institutions and ultimately establish a national payments gateway in Nepal.

We have also formulated and implemented the necessary policies and procedures to streamline the processes and to have control mechanisms in place both financially and operationally. Since we have come into operation in the last quarter of the fiscal year only, all measures to the extent possible were put in place to minimize the expenses. With the issued capital of NPR 128,570,000 and paid up capital of NPR 89,999,000, we are fully paid up from the promoters. The net loss for the year was NPR 9,456,123.78 as compared to the net profit of NPR 2,893,312.99 the last fiscal year which was mainly due to the interest income on capital fund. Accumulated reserve and surplus stands at loss of NPR 6,677,741.06 against profit of NPR 2,778,382.72 in the last fiscal year. Capital expenditure for the year was NPR 77,353,183.55 against NPR 6,602,456.29 in the last fiscal year.

NCHL considers its staff as valuable assets who have put all the effort to bring our institution into operation. Retaining the existing employees is our main objective and at the same time we are further building our core team. Regular trainings to enhance their professional skills have been arranged and will continue in the coming days.

In order to make our institution equitable amongst all the concerning Banks/FIs, it is proposed to increase the issued and paid up capital to NPR 150,000,000 to include non equity holder Commercial Banks, Development Banks and Finance Companies who have shown their interest for equity participation.

I express my sincere gratitude to all our shareholders, Nepal Rastra Bank, other Banks & FIs and other regulatory bodies for their support and cooperation. I also assure you that your suggestions and recommendations will be given due attention and acted upon as appropriate. I look forward to the continuous guidance from the members of the Board of Directors, dedication and hard work from our employees, valuable advice and support from our shareholders and as well as other stakeholders.

I would like to reassure shareholders that we will leave no stone unturned in our effort to make our company a strong partner in the financial services industry.

I once again welcome all of you in the 1st Annual General Meeting of our company.

Mr. Ashoke SJB Rana
Chairman

CEO's MESSAGE

The year 2011/12 has been a remarkable year for NCHL and also for the entire banking & financial industry for being able to 'Establish' this institution and to successfully start the much awaited electronic cheque clearing (NCHL-ECC) service. With the nationwide rollout of the NCHL-ECC system, Nepal will soon join rest of the South Asian countries to have achieved a unique status in the payment and settlement arena with a nationwide electronic cheque truncation system in place.

We believe that the NCHL-ECC system is definitely a starting point for NCHL's vision of establishing itself as a leading provider of electronic payment and settlement services. We are committed towards our vision in spite of multiple hurdles that we may face in the process. NCHL has been an unprecedented example to be able to establish itself with the support from the shareholders, the Board, regulators, other Banks/FIs and our vendors. This is also paramount to the commitment and untiring dedication shown by our staff.

We have always tried to inculcate highest level of transparency at NCHL which is shared and valued by all the stakeholders. With the same objective, we have tried to include as many numbers of Banks/FIs as possible in every phase of our establishment, including technical design & system selection; drafting business process; system testing and periodic feedbacks. We have included almost all the banks and financial institutions in the training of NCHL-ECC system irrespective of their membership commitment.

Financially, we are now fully paid up from the promoter category of shareholders, which also reflects the support and trust on NCHL's business model and its future. We have made necessary capital expenditures for setting up the infrastructures. As we have started cheque clearing of the major four currencies from the last quarter of the fiscal year 2011/12 only, the net loss for the year was NPR 9,456,123.78 as against net profit of NPR 2,893,312.99 the last fiscal year, which was mainly from interest income.

Operationally, we have completed the implementation of the NCHL-ECC System with the support from our software and hardware vendors who had expertise in similar systems at national and international levels. This is also a testimony of our limited but dedicated staff. We have tried to strike a right balance between the best practices followed for setting up such national financial systems against the level of investment required for such establishments. We have already introduced electronic cheque clearing services of NPR, USD, EUR and GBP denominated cheques for our member Banks/FIs, who can clear their cheques from anywhere in Nepal. And we are now in the process of enrolling the Banks/FIs located outside Kathmandu valley.

At the end, I would like to thank and acknowledge Nepal Rastra Bank, the Board, shareholders, other regulators, Banks/FIs, our staff, the vendors and the community as a whole who have supported and guided in establishing this institution and I am confident that similar support will be extended in making this institution 'Sustainable'.

Mr. Neelesh Man Singh Pradhan
Chief Executive Officer

DIRECTOR'S REPORT

Dear Shareholders,

It is with great pleasure on the behalf of the Board of Directors of Nepal Clearing House Ltd. (NCHL) to welcome you and the invited guests in our first 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 2011/12.

Snapshot of last year's performance:

With an objective of establishing nationwide electronic cheque clearing services to the Banks/FIs, we have successfully implemented the system and started clearing of NPR, USD, GBP & EUR denominated cheques. By the end of the fiscal year, we already have 37 participating member Banks/FIs. Summary of the financial position of the company for the fiscal year 2011/12 is presented through the following table.

Particulars	FY 2010/11 (2067/68)	FY 2011/12 (2068/69)
Paid up capital	89,999,000.00	89,999,000.00
Reserve & Surplus	2,778,382.72	(6,677,741.06)
Investment	-	-
(Pre-) Operating Income	8,621,352.80	67,701,884.58
(Pre-) Operating Expenses	4,973,486.67	65,127,708.99
(Pre-) Operating Profit	3,647,866.13	2,574,175.59
Interest Expense	-	3,016,666.42
Depreciation	168,411.74	8,277,159.45
Differed Tax Surplus/(Deficit)	(754,553.14)	(736,473.50)
Profit (Loss) for the year	2,893,312.99	(9,456,123.78)

Profit/ Loss:

During the year under review the company has made net loss of NPR 9,456,123.78 as against profit of NPR 2,893,312.99 for the last fiscal year. Cumulative loss till the end of the fiscal year stands at NPR 6,677,741.06.

Capital and Reserves:

No additional capital was collected during the fiscal year 2011/12. The paid-up capital of the company stands at NPR 89,999,000. The net loss made during the fiscal year has been transferred to the balance sheet as Reserve & Surplus.

NCHL-ECC Project:

Our company has given due importance to the electronic cheque clearing project and the entire effort was put in completing this project. We have successfully implemented the NCHL-ECC System & infrastructure and started providing NCHL-ECC services to the Banks/FIs located within Kathmandu valley. Our existing member Banks/FIs can extend the service to their customers from any of their branches across the country. We are now in the process of enrolling the Banks/FIs located outside the valley.

The main software required for the electronic cheque clearing was procured from Jordan based software vendor Progresssoft Corporation through global sealed tender process. Other necessary hardware and equipments were purchased locally through sealed tender process. The clearing software required for NCHL and the participating member BFIs were procured at US\$ 310,000 and US\$ 1,357,000 respectively. Applicable taxes including TDS and VAT were also paid by NCHL. The cost of software for the participating member BFIs is inclusive for unlimited number of participating members and their branches anywhere in Nepal.

Human Resource:

In order to operate and provide NCHL-ECC Service, we have built a team of qualified, skilled and dedicated resources. By the end of the year under review we have 6 full time staff and 3 contract staff. Formal and on the job trainings have been arranged to all the staff to improve their technical and non-technical skills. We will keep building the right team in the future as well.

Affect of national and international situation on business:

The recent banking & financial crisis in the country, absence of qualified & experienced human resource, acute electricity problem and appreciation of US Dollars against NPR are some of the major challenges and hurdles that we had to face in the year gone by. With the recent trend of merger of banks and financial institutions, it has created difficulty in obtaining membership commitment from many Banks/FIs. Despite of such challenges, our company gathered considerable support from the Banks/FIs with total membership base of 37 at the end of the fiscal year.

Current years' achievement and future plan:

Planned activities of NCHL for the coming financial year include:

- Increase membership base of NCHL-ECC up to 80.
- Rollout of NCHL-ECC System outside Kathmandu valley.
- Assist member Banks/FIs for introducing standard MICR cheques.
- Organize continuous training for the participating member Banks/FIs and for the NCHL staff.
- Organize awareness programs on electronic cheque clearing.
- Assist member Banks/FIs for integrating with their core banking system.

Industrial and business relationship:

NCHL has always maintained cordial relationships with Nepal Rastra Bank, Banks & Financial Institutions and various other business groups. And because of the continuous support and confidence shown by all the parties, NCHL has been able to bring the institution up to the current state. NCHL has also maintained a balanced relationship with the national and international vendors and service providers. NCHL will continue to gain the trust and confidence from different sectors and will work in future to fulfilling their expectations.

Change in Board of Directors:

Mr. Siddhi Krishna Joshi nominated by Nepal Rastra Bank from the promoter shareholders (Category A) was replaced by Mr. Hari Prasad Kaphle as a Board of Directors effective from 21st December 2011 (6th Poush 2068). Mr. Ashoke SJB Rana representative of Himalayan Bank Ltd. was elected as the Chairman of the Board of Directors effective from 19th June 2012 (5th Ashad 2069) which went vacant after the departure of Mr. Suman Joshi, representative of Laxmi Bank Ltd. And Mr. Rajan Singh Bhandari representative of Citizens Bank International Ltd. was nominated with effective date 17th July 2012 (2nd Shrawan 2069) in place of Mr. Suman Joshi. NCHL would like to thank and acknowledge the contribution made by Mr. Siddhi Krishan Joshi and Mr. Suman Joshi during their tenure.

Major factors affecting business:

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

1. Current trend of merger of various Banks and Financial Institutions ultimately reducing the potential members.
2. Possibility of change of rules and policies from the regulatory bodies.
3. Not able to increase cheque transaction volume.
4. Increase in the exchange rate of foreign currency.

5. Limited availability of the skilled resources.
6. Continuation of both manual cheque clearing and electronic cheque clearing for long which may adversely affect both NCHL and its members.

Remarks from Auditors report:

Auditor has expressed their satisfaction on the financial transactions of the company. Complete auditor report is attached in the later section of the report.

Dividend:

There is no provision of dividend for the fiscal year 2011/12.

Share seized:

No share has been seized.

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

The reviews of the company have been mentioned in the report in various sections. Also there is no subsidiary of NCHL.

Major transactions that the Company and its subsidiary company have performed and any important changes that occurred in business of the company:

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

Information provided to the company on share transactions by the promoter shareholders:

There was no report on share transactions by the promoter shareholders.

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

Not Applicable.

Mention if the company has purchased its own share:

Not Applicable.

Internal control mechanism of the company and details of the same:

NCHL has formulated and implemented major policies and procedures for the company. Other control policies and procedures will be developed as per the requirement. A separate audit committee has been formed as per the prevailing Company Act to oversee and to ensure adequate controls are in place for the financial and operational activities of the company.

Total management expenses in the fiscal year 2011/12:

The details of the management expenses are as follows:

	(NPR)
Employee Expenses	7,905,252.52
Office Operation Expenses	5,275,295.74
Total Administration Expenses	13,180,548.26

Members of the Audit Committee, their remunerations and benefits and details of their activities performed along with recommendations:

Members of the Audit Committee are:

1. Mr. Hari Prasad Kaphle – Chairman of the Committee
2. Mr. Rabindra B Malla – Member of the Committee
3. Mr. Dilli Man Shakya – Member Secretary of the Committee

There was no provision for remunerations to any of the members of the Audit Committee. As a meeting allowance for each Audit Committee meetings, NPR 2,500 for the member was provided except for the Member Secretary who is not provided with the meeting allowance. Total of NPR 5,000 was disbursed as meeting allowance to the Audit Committee members. Applicable tax was deducted prior to the payment in all such payments.

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

1. There was no provision for remunerations to any of the Directors. As a meeting allowance for each board meeting, NPR 2,500 for each Director was provided per sitting. The Board had 14 meetings during the period under review and total of NPR 132,500 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
Mr. Suman Joshi	10,000
Mr. Ashoke SJB Rana	30,000
Mr. Siddhi Krishna Joshi	12,500
Mr. Hari Prasad Kaphle	17,500
Mr. Sashin Joshi	30,000
Mr. Rajan Singh Bhandari	-
Mr. Rabindra B Malla	32,500

*Nomination of Mr. Rajan Singh Bhandari was effective from 17th July 2012 only

2. The Chief Executive Officer during the year under review was paid salary of NPR 1,800,000 and NPR 1,800,000 as allowance & benefits including provident fund contribution. A car facility and mobile expense of up to NPR 2,000 per month on actual was also provided.

Dividend payable:

NCHL has not yet paid any dividend.

Any transactions with associated companies:

No.

Other necessary information:

- a. Commission for Investigation of Abuse of Authority (CIAA) has conducted an investigation in the process of purchase of electronic cheque clearing software by NCHL and hence the operation of NCHL was halted by CIAA from 29th December 2011 (14th Poush 2068) and later released on 1st February 2012 (18th Magh 2068) while the investigation was ongoing. After full investigation, CIAA did not find any wrong doing by NCHL and hence provided clearance on 30th May 2012 (17th Jestha 2069).

b. **Amendment of Article of Association and Article of Memorandum.**

In order to include the non equity holder commercial banks, development banks and finance companies, the Board of Directors have proposed to offer equity shares to the interested Commercial Banks, Development Banks and Finance Companies. Hence it is proposed to increase the issued capital of the company to NPR 150,000,000 and accordingly amend the Memorandum and Article of Association.

c. **Auditor**

J. B Rajbhandary & DiBins was the external auditor for the statutory audit of the fiscal year 2011/12. And J. B Rajbhandary & DiBins is eligible for the statutory audit for the fiscal year 2012/13 also.

Finally, on the behalf of the Board of Directors I would like to thank Nepal Rastra Bank, Banks, Financial Institutions, other regulatory bodies and other stakeholders who have been part of this company since its inception till date. Sincere thanks to the management team and other staff of the company whose untiring hard work and determination has brought the company up to this stage. We expect same kind of support and suggestions from all the stakeholders in coming days also.

Thank you.

On behalf of Board of Directors.

Mr. Ashoke SJB Rana
Chairman

OUR PRODUCTS & SERVICES

Electronic Cheque Clearing (NCHL-ECC) is an image-based nationwide MICR cheque processing & settlement solution where an original paper cheque is converted into an image for electronic processing and is transferred through a secured medium between participating member Banks/FIs. The physical movement of the cheques are truncated or stopped at the level of the presenting bank resulting in a faster and easier processing of the cheque transactions. The members of NCHL can service their customers from any of their branches in the country. While the NCHL membership currently has been offered to the Banks/FIs having presence within Kathamandu valley, it will soon be expanded to enroll the Banks/FIs located outside the valley.

NPR Electronic Cheque Clearing

This is an electronic cheque clearing service for NPR currency cheques. It is available for both standard (MICR based) and non-standard (existing non-MICR based) cheques.

FCY Electronic Cheque Clearing

This is an electronic cheque clearing services for USD, GBP and EUR currency cheques. Participating members need to have settlement account in the respective foreign currency at Nepal Rastra Bank to avail of this service. It is available for both standard (MICR based) and non-standard (existing non-MICR based) cheques.

Express Cheque Clearing

Express NCHL-ECC service is a special arrangement of short duration for cheque presentment, response and settlement allowing the Banks/FIs and their customers to present and realize their cheques faster. Currently the express cheque clearing is operational on Fridays for all four currencies NPR, USD, GBP and EUR. Such express clearing session will be operational on all weekdays and multiple such sessions in a day will be added in future.

Cut-off times for cheques clearing are as follows:

	<i>Standard Cheques</i>	<i>Non-Standard Cheques</i>	<i>Express Clearing</i>
Presentment cut-off time	14:00	12:00	11:00
Paying bank response cut-off time	15:00	15:00	11:30
Settlement of the session	15:30	15:30	12:00

National Cheque Archive

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

CORPORATE GOVERNANCE

Corporate governance provided an effective direction and control to the company ensuring highest degree of transparency and business integrity. Being given the responsibility of establishing nationwide electronic cheque clearing services in Nepal with stakeholders involving the central bank, various Banks/FIs and their customers, NCHL is proud of the level of transparency it has exercised in its establishment and now in its operation. NCHL is committed to ensure effective direction and supervision of the business conducts of the company; to adhere to the applicable regulations and; to maintain highest standards of business best practices. NCHL is regulated by the Company Act, Negotiable Instrument Act, Electronic Transaction Act, Nepal ECC Rules and regulations promulgated by Nepal Rastra Bank from time to time.

The Board

The Board of NCHL is responsible for protecting the rights and interests of the Shareholders and hence is accountable to the Shareholders. The Board normally involves in making decisions related to the company's plan; ensuring proper control mechanisms and maintaining financial health of the company. The Board currently comprises of 5 non-executive Directors including the Chairman, who is elected from amongst the Directors. Current composition of the Directors includes one representative from Nepal Ratra Bank, three from Banks & FIs and one from Smart Choice Technologies Pvt. Ltd.

All major policy and procedure related guidelines are approved by the Board. Financial Rules & Regulation, Employee Service Rules, NCHL Code of Conduct, IT Policies, Disaster Recovery Plan, Standard Operating Procedures (covering majority of the company functions) are formulated and implemented.

Board Meetings

Board meeting is called by the Company Secretary in writing to the Directors along with the necessary documents so that the Directors are well informed in the matters to be discussed. Board sometimes invites external independent experts in some of the meetings to have their professional advice. The decisions made by the Board are deliberated for implementation by the Management.

Shareholders Communication

Shareholder communication is mainly through Annual General Meeting. Necessary information are incorporated in the Annual Report and are in adherence with the Company Act. NCHL has also shared necessary information to the respective shareholders through various mediums and in various platforms. Other company information are also available in NCHL's website (www.nchl.com.np).

Audit and Audit Committee

The financials for the fiscal years 2008/2009, 2009/2010 and 2010/11 were audited by S.R Pandey & Co. And the financials for the fiscal year 2011/12 is audited by J. B Rajbhandary & DiBins. The details of the audited financials for the fiscal year 2011/12 (2068/69) are incorporated in the Financial Information section of this report. Total fees paid to the external auditor for the fiscal year 2011/12 was NPR 50,850 including taxes.

A Board level three member Audit Committee was formed as per the requirement of the Company Act 2063 to oversee the financial and operational transactions of the company and to assure that appropriate control mechanisms are in place.

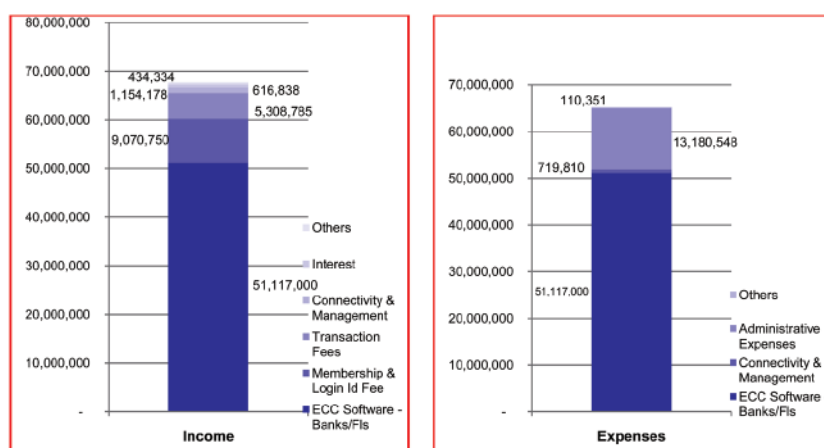
FINANCIAL REVIEW

NCHL's equity from the promoter shareholders category is fully paid amounting to NPR 89,999,000. The total shareholders fund at the end of fiscal year was NPR 83,321,258.94. The company made a loss of NPR 9,456,123.78 during the year under review against the profit of NPR 2,893,312.99 the last year. As of the year end the cumulative loss stands at NPR 6,677,741.06. The income in the previous fiscal year was mainly from the interest income on the deposits of the capital fund and from the sale of bidding documents. NCHL signed membership agreement with total of 37 participating member Banks/FIs and has recovered the cost of ECC Software from the Banks/FIs of value NPR 51,117,000. It has booked membership & Login Id fees income of NPR 9,070,750; Transaction fees income of NPR 5,308,785 during the period.

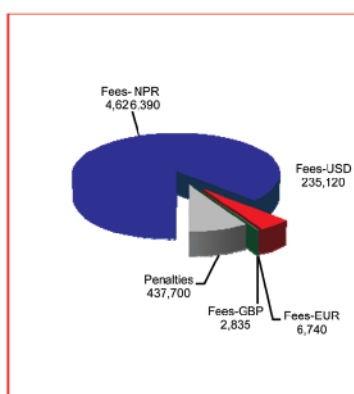
The Company made an additional capital expenditure of NPR 77,353,183.55 for the fixed assets during the fiscal year against NPR 6,602,456.29 in the last fiscal year. The capital expenditure was mainly for purchase and setup of the hardware, software and related infrastructures. The accumulated depreciation on the fixed assets increased to NPR 8,449,337.85 from NPR 172,178.40 in the last fiscal year.

The Prepaid, Loan, Advances & Deposits decreased to NPR 6,605,265.55 as compared to NPR 57,878,561.05 the last fiscal year which is mainly on account of advance tax of NPR 5,826,855.83 on deposit interest income and payments received from the members.

The administrative expenses increased to NPR 13,180,548.26 from NPR 4,805,074.93 the last year. The major expense item was the staff salary and allowance which increased from NPR 3,197,545.50 last fiscal year to NPR 7,905,252.52 in the year under review. There were only five employees by the end of the last fiscal year joined in various months compared to nine staff by the end of the year under review.



Operational Income & Expense Distribution



Breakup of Transaction Fees Income

OPERATIONAL REVIEW

Use of modern technologies in the area of payment and settlement systems is of paramount for the development of banking and financial sector in a country. And NCHL intends to contribute immensely towards this endeavor of Nepal under the guidance and supervision of Nepal Rastra Bank; in collaboration with the Banks/FIs and; in support from the local & global technology partners.

The necessary pre-operating setups including technical and non-technical activities were completed during the year under review. NCHL has setup its corporate office including the main data center at Kamaladi Complex, Kamaladi, Kathmandu and disaster recovery site at Bode, Thimi, Bhaktapur. Necessary hardware, software and other infrastructures were designed and implemented keeping in view the best practices recommended for hosting such national level payment and settlement systems.

NCHL obtained the operating license from the Company Registrar Office on 14th June 2011 (31st Jestha 2068) and the final operating approval from the Nepal Rastra Bank on 21st June 2011 (7th Ashad 2068). Subsequently the NCHL-ECC service was started from 3rd February 2012 (20th Magh 2068) for foreign currency (USD, EUR and GBP) denominated cheques and NPR denominated cheques from 9th April 2012 (27th Chaitra 2068). By the end of the fiscal year, there were total of 37 members and their 1,032 branches enrolled for transaction within NCHL-ECC System.

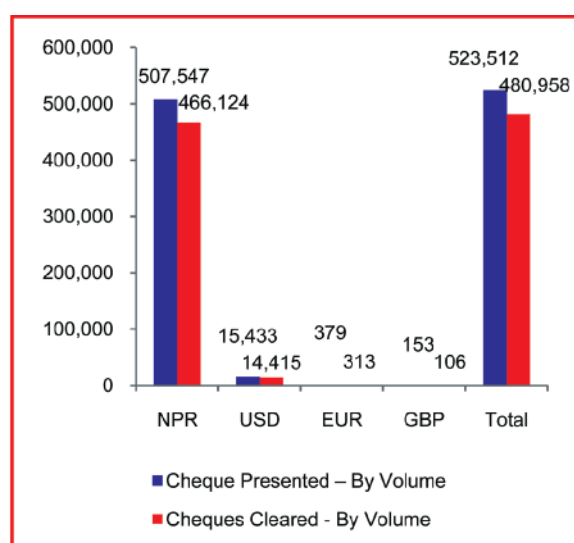
NCHL-ECC Members (As of 15th July 2012)

Nepal Rastra Bank	
Agriculture Development Bank Ltd.	ACE Development Bank Ltd.
Bank of Asia Nepal Ltd.	Bank of Kathmandu Ltd.
Century Commercial Bank Ltd.	Citizens Bank International Ltd.
Civil Bank Ltd.	Commerz and Trust Bank Ltd.
Everest Bank Ltd.	Grand Bank Nepal Ltd.
Global IME Bank Ltd.	Himalayan Bank Ltd.
Janata Bank Nepal Ltd.	Kist Bank Ltd.
Kumari Bank Ltd.	Laxmi Bank Ltd.
Lumbini Bank Ltd.	Machhapuchchhre Bank Ltd.
Mega Bank Ltd.	Nabil Bank Ltd.
Nepal Credit & Commerce Bank Ltd	Nepal Bangladesh Bank Ltd.
Nepal Bank Ltd.	Nepal Industrial & Commercial Bank Ltd
Nepal Investment Bank Ltd.	Nepal SBI Bank Ltd.
NMB Bank Ltd.	Prabhu Finance Ltd.
Prime Commercial Bank Ltd.	Rastriya Banijya Bank Ltd.
Sanima Bank Ltd.	Siddhartha Bank Ltd.
Standard Chartered Bank Nepal Ltd.	Sunrise Bank Ltd.
Union Finance Ltd.	Vibor Bikas Bank Ltd.

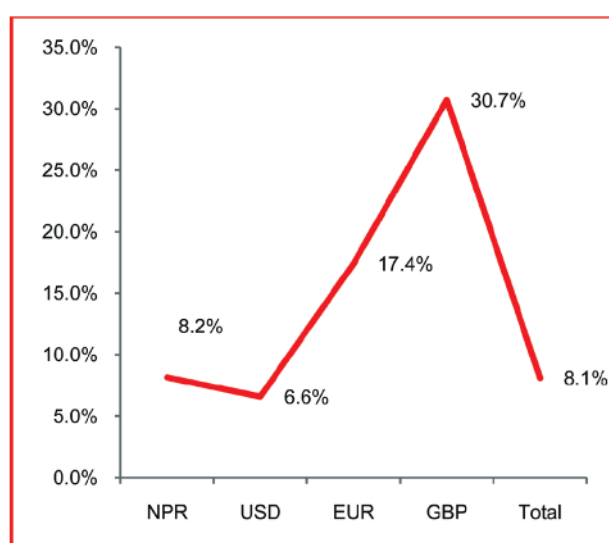
Total of 523,512 cheques were presented through NCHL-ECC System during the fiscal year 2011/12 out of which 480,958 were cleared. An average presented cheques per day during the period was 8,112 (since NPR clearing was started). An average cheque return percentage with respect to the total cheques presented was 8.1%. The snap shot of the transactions through NCHL-ECC System during the fiscal year 2011/12 are depicted as follows.

	NPR	USD	EUR	GBP	Total
Cheque Presented – By Volume	507,547	15,433	379	153	523,512
Cheques Cleared - By Volume	466,124	14,415	313	106	480,958
Cheque Presented – By Value ('000)	238,589,693	77,217	10,500	2,244	
Cheque Cleared – By Value ('000)	215,438,540	67,166	1,604	540	
Cheque Rejection % (By Volume)	8.2%	6.6%	17.4%	30.7%	8.1%
Average Cheque per day *	7,930	175	4	2	8,112
Number of Regular Clearing Days	64	88	88	88	
Number of Friday Clearing Days					23

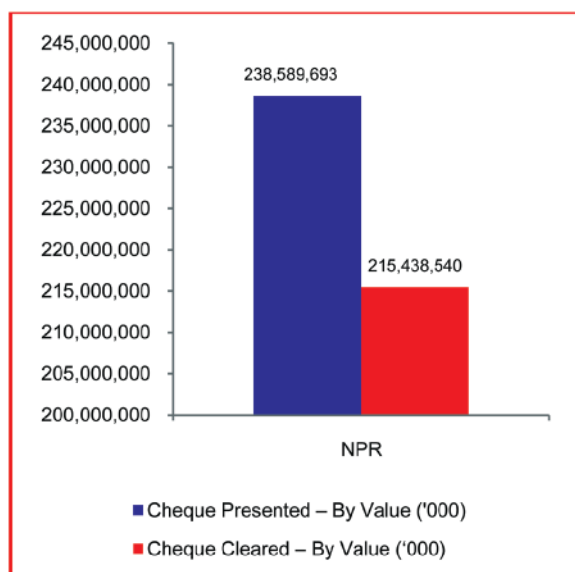
*Average Cheque per day excludes Friday session and computed after NPR clearing was started.



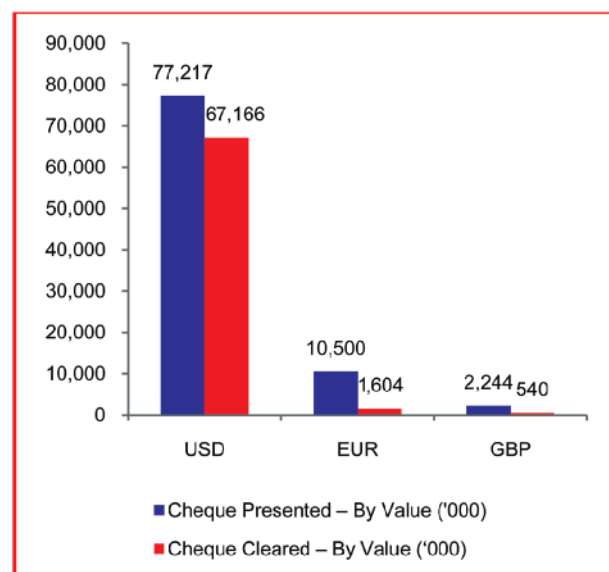
Cheques presented & cleared - Volume wise



Cheque Return Percentage



Cheque presented & cleared - Value wise



1. **Neelesh Man Singh Pradhan, Chief Executive Officer**
Mr. Pradhan has experience of over 11 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. He is also Certified Information System Auditor (CISA) and Project Management Professional (PMP).
2. **Dipesh B Shrestha, Chief Project Manager**
Mr. Shrestha has experience of over 15 years in the field of banking systems implementation and support. He has worked at Thesys Technologies in India as Business Consultant; at Rastriya Baniya Bank as IT Consultant under the World Bank project; and at Himalayan Bank Ltd. as Senior Officer. He holds Computer Science degree from University of Philippines and MBA from Asian Institute of Technology, Thailand.
3. **Shashi Manandhar, Finance & Admin Officer**
Mr. Manandhar has worked in finance and administration arena for 10 years in various organizations including SCT P. Ltd, Avco International P. Ltd, Amoo Audit Service and Nava Jivan Textile P. Ltd. He holds Bachelor of Business Studies degree from Public Youth Campus, Nepal.
4. **Dilli Man Shakya, Technology & Infrastructure Manager**
Mr. Shakya has over 8 years of experience in the field of IT infrastructure operations. He has earlier worked as Head of IT at Social Development Bank, prior to which he was associated with Rastriya Baniya Bank as Data Center In-charge and at 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 Microsoft Certified Technology Specialist.
5. **Bishnu Gautam, System Analyst & DBA**
Mr. Gautam has over 7 years of experience in the field of banking system operation and software development. He has worked as Assistant Manager at Nepal Bank Ltd. prior to joining NCHL. He holds Bachelor of Computer Application degree from Pokhara University and MSc-IT from Sikkim Manipal University. He is also an Oracle Certified Professional.
6. **Rupak Gyawali, Network/Hardware Engineer**
Mr. Gyawali has over 4 years of experience in the field of network. He has worked as Support Engineer at Worldlink Communication Ltd. prior to joining NCHL. He holds Bachelor of Engineering degree from Tribhuvan University.
7. **Other Team Members are:**
Prasant Shrestha, System Analyst Rabin Panthi, System Analyst Raju Shrestha, Office Assistant

RISK MANAGEMENT

NCHL being a provider of banking and financial technology services, it has many inherent risks apart from the regular operational and financial risks. Hence NCHL must continue working to identify, to manage and regularly monitor such risks. We will continue to update and upgrade our risk management system in a continuous basis.

Business Risk

The main business risk faced by NCHL as the national service provider for clearing & settlements is the risk of not having sufficient banks and financial institutions enrolled as its members and thus significant reduction in the cheque transaction volume. To mitigate this risk NCHL has always worked together with Nepal Rastra Bank, most of the Banks/FIs, their associations and other stakeholders. Also we will continuously evaluate the past trends of the clearing in Nepal and in similar other countries and forecast the volume of such transactions in order to ascertain the transaction fluctuations. NCHL has kept abreast with the technological developments in the clearing, payments & settlements area in order to provide the necessary infrastructure. Further, NCHL will also look out for other similar ventures in the area of payment & settlement in future to off-set high dependency into a cheque clearing only.

Operational Risk

The operational risk management at NCHL is focused at establishing itself as an efficient and effective electronic cheque clearing service provider. In order to accomplish this, risks need to be mitigated in the areas of processes, people and technology. Appropriate policies and procedures namely NCHL Code of Conduct, Financial Rules & Regulation, Employee Service Rules, Information Technology Policies, Disaster Recovery Plan and Standard Operating Procedures are formulated and implemented. Other necessary policies and procedures will be developed. It's IT Policies are closely aligned with COBIT standards in order to mitigate the risks associated with information security and to follow best practices. NCHL has also setup a fully functional Disaster Recovery Site (DRS) at Thimi, Bhaktapur for both redundancy and high availability to mitigate the risk of main site failure. Continuity of Business (COB) site has also been setup at NCHL premise to provide business continuity to access NCHL-ECC System by the members in case they have a failure at their bank/branch.

The effectiveness of our clearing systems and the associated processes and technology are testimony to the well qualified and trained staff, who we believe are our valued assets. In order to minimize the risk associated with our people, we have ensured that right skills are developed and continuously improved.

Various event based risks that may damage the physical assets/property of the company are extensively reviewed to cover from insurance policies. Apart from the physical risk, various other risks have been analyzed and are mitigated by means of service contracts with the vendors. In order to maintain the financial accounts of the company, we are using Tally accounting software.

Financial Risks

Liquidity Risk

Though our company will be profitable in a long run, there is a high probability of liquidity risk in a short run. The

liquidity risk includes the inability of the company to handle the short and medium term financial liabilities. In order to manage the liquidity risk, the Board and the management regularly monitor and analyze the cash flow forecasts. Company financials are also analyzed and monitored in a regular basis.

Risk on revenue due to limited number of memberships

The main driver for our revenue is the increase in NCHL membership resulting in increase of cheque transaction volume. Given the current situation of many Banks/FIs running through turbulent conditions and in the process of merger, not achieving targeted membership may adversely affect our cash flow and hence revenue. This factor has already shown some effect but we have taken strategy to discuss and be flexible enough with the Banks/FIs and their associations to have maximum participation.

Interest Rate Risk

In the fiscal year 2010/11 and partly in 2011/12, considerable portion of the revenue was derived from the interest income on our cash deposits. But upside risk on the interest rate may affect adversely in the coming fiscal year in view of our anticipated cash requirements.

Foreign Exchange Risk

A significant proportion of the software and maintenance services are sourced from the international vendor and the payment is made in US Dollars. In order to avoid the upside risk due to the fluctuations of the Rupee against the Dollar, NCHL managed to enter into US dollar forward contract with a local bank and hence is able to manage the foreign exchange risk at manageable levels. Total savings in the fiscal year under review due to the US\$ forward contract was equivalent to NPR 1,380,276.

AUDIT REPORT & FINANCIAL INFORMATION

J . B . Rajbhandary & DiBins

CHARTERED ACCOUNTANTS

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P.O. Box: 23725, Kathmandu, Nepal
Tel: (01) 4228352, (01) 4247177
Fax: 977-1-4244971
E-mail: jitendrarb@mos.com.np
E-mail: pdjoshi@mos.com.np

Auditor's Report to the Shareholders of Nepal Clearing House Limited

We have examined the attached Balance Sheet of Nepal Clearing House Limited as at 31 Ashad 2069 (Corresponding to 15 July 2012), Profit and Loss Account, Cash Flow Statement and Statement of Changes in Equity for the period ended on that date annexed thereto.

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

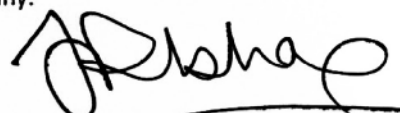
We have obtained all information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit. In our opinion, proper books of accounts as required by law have been maintained by the Company, in so far as appears from our examination of those accounts, Balance Sheet, Profit and Loss Account, Cash Flow Statement and Statement of Changes in Equity dealt with by this report are in agreement with the books of accounts.

In our opinion, the financial statements read with Notes to Account (we draw attention on the point no 3.2 and 3.4 disclosed in notes to accounts), give true and fair view of the financial position of the company as of 31 Ashad 2069 (15 July 2012), results of its operations, its cash flows and changes in equity for the year ended on that date in accordance with Nepal Accounting Standards and Companies Act 2063.

Further, in our opinion, to the best of our information, according to the explanations given to us and from our examination of the books of accounts of the Company, we have not come across cases where any member or Board of Directors or any employee of the Company have acted contrary to the provisions of law or caused loss or damage to the Company or committed any misappropriation and acted in a way to jeopardize the interest and security of the Company.

Kathmandu, Nepal

Date: 12 Aswin 2069 (28 September 2012)



CA. Jitendra Bahadur Rajbhandary
Senior Partner



NEPAL CLEARING HOUSE LTD.
Balance Sheet

As on 31st Ashad, 2069 (15th July, 2012)

Particulars	Schedule	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32,2068 (16 July, 2011)
Shareholder's Fund:			
Share Capital	1	89,999,000.00	89,999,000.00
Reserve & Surplus	2	(6,677,741.06)	2,778,382.72
Total Shareholder's Fund		83,321,258.94	92,777,382.72
Medium & Long Term Loans	3	-	-
Deferred Tax Liability		1,538,366.20	801,892.70
Total		84,859,625.14	93,579,275.42
Fixed Assets	4 & 4.1		
Gross Block		84,068,639.84	6,715,456.29
Less : Accumulated Depreciation		8,449,337.85	172,178.40
Net Block		75,619,301.99	6,543,277.89
Investment	5	-	-
Current Assets		101,956,243.76	95,243,482.39
a) Inventories	6	83,770,357.76	-
b) Trade & Other Receivables	7	11,396,219.51	-
c) Cash & Bank Balances	8	184,400.94	37,364,921.34
d) Prepaid, Loans, Advances & Deposits	9	6,605,265.55	57,878,561.05
e) Deferred Tax Assets		-	-
Less: Current Liabilities & Provisions		92,715,920.61	8,207,484.86
a) Current liabilities		92,301,937.27	8,054,298.20
i) Current liabilities and Payables	10	81,098,372.69	8,054,298.20
ii) Short Term Loan (secured Overdraft)		11,203,564.58	-
b) Provisions	11	413,983.34	153,186.66
Net Current Assets		9,240,323.15	87,035,997.53
Expenditures to the extent not written off	12	-	-
Total		84,859,625.14	93,579,275.42
Contingent Liability	13		
Notes to Accounts	17		

Schedules 1 to 17 form integral part of this statement

As per our report of even date

Neelesh Man Singh Pradhan
Chief Executive Officer

Ashoke SJB Rana
Chairman

CA. Jitendra Bahadur Rajbhandary
Senior Partner
For J. B. Rajbhandary & DiBins
Chartered Accountants

Hari Prasad Kaphle
Director

Sashin Joshi
Director

Rajan Singh Bhandari
Director

Rabindra B. Malla
Director

NEPAL CLEARING HOUSE LTD.
Profit & Loss Account

From 1st Shrawan, 2068 up to 31st Ashad, 2069 (17th July, 2011 - 15th July, 2012)

Particulars	Schedule	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Operating Income			
Revenue/ Sales	14	66,650,713.00	-
Operating Expenses			
Cost of Sales	15	51,947,160.73	-
Gross Profit		14,703,552.27	-
Other commercial income		1,051,171.58	8,621,352.80
i) Interest Income		616,837.98	8,268,352.80
ii) Other Income		434,333.60	353,000.00
Administrative Expenses	16	13,180,548.26	4,805,074.93
Profit from Operation		2,574,175.59	3,816,277.87
Interest expenditure		3,016,666.42	-
Depreciation		8,277,159.45	168,411.74
Staff Bonus		-	-
Profit before Tax		(8,719,650.28)	3,647,866.13
Provision for Tax		-	-
Deferred Tax Surplus (Deficit)		(736,473.50)	(754,553.14)
Net Profit after Tax		(9,456,123.78)	2,893,312.99
Profit (Loss) Up to Last year		2,778,382.72	(114,930.27)
Profit (Loss) Balance		(6,677,741.06)	2,778,382.72
Appropriation:			
a. Ordinary Reserve Fund		-	-
b. Proposed Dividend		-	-
c. Balance of profit and loss transferred to Balance Sheet			
		(6,677,741.06)	2,778,382.72

Schedules 14 to 17 from integral part of this statement

As per our report of even date

Neelesh Man Singh Pradhan
Chief Executive Officer

Ashoke SJB Rana
Chairman

CA. Jitendra Bahadur Rajbhandary
Senior Partner
For J. B. Rajbhandary & DiBins
Chartered Accountants

Hari Prasad Kaphle
Director

Sashin Joshi
Director

Rajan Singh Bhandari
Director

Rabindra B. Malla
Director

NEPAL CLEARING HOUSE LTD.
Cash Flow Statement

From 1st Shrawan, 2068 up to 31st Ashad, 2069 (17th July, 2011 to 15th July, 2012)

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Net Profit/(Loss)	(8,719,650.28)	3,647,866.13
Preliminary & Pre-operating (Expenses)/Surplus	-	-
Add/(Less) : Adjustment		
Depreciation	8,277,159.45	168,411.74
Gratuity Provision	95,750.01	54,166.66
Leave Provision	165,046.67	99,020.00
Financial Expenses	3,016,666.42	
Cash Flow from Operation Before Working Capital	2,834,972.27	3,969,464.53
Increase(Decrease) in Current Liabilities	73,044,074.49	7,811,928.20
Decrease (Increase) in Current Assets	(43,893,281.77)	(57,675,333.07)
Cash Flow From Operating Activities (A)	31,985,764.99	(45,893,940.34)
Purchase of Fixed Assets	(77,353,183.55)	(6,602,456.29)
Investment	-	-
Sale of Fixed Assets	-	-
Cash Flow From Investing Activities (B)	(77,353,183.55)	(6,602,456.29)
Interest on loan	(3,016,666.42)	-
Increase(Decrease) in Loans	11,203,564.58	-
Share Capital	-	31,161,005.00
Sale of Fixed Assets	-	-
Cash Flow From Financing Activities (C)	8,186,898.16	31,161,005.00
Net Increase(Decrease) in Cash & Bank Balances (A+B+C)	(37,180,520.40)	(21,335,391.63)
Cash & Bank Balances at the Beginning of the Year	37,364,921.34	58,700,312.97
Cash & Bank Balance at the end of the Year	184,400.94	37,364,921.34

Neelesh Man Singh Pradhan
Chief Executive Officer (CEO)

Ashoke SJB Rana
Chairman

CA. Jitendra Bahadur Rajbhandary
Senior Partner
For J. B. Rajbhandary & DiBins
Chartered Accountants

Hari Prasad Kaphle
Director

Sashin Joshi
Director

Rajan Singh Bhandari
Director

Rabindra B. Malla
Director

NEPAL CLEARING HOUSE LTD.

Statement of Changes in Equity

For the financial year ended 31st Ashad 2069 (15th July 2012)

Particulars	Share Capital	Share Premium	Revaluation Reserve	Translation Reserve	Accumulated Profit	Total
Balance at 16 July 2011	89,999,000.00	-	-	-	2,778,382.72	92,777,382.72
Changes in Accounting Policy	-	-	-	-	-	-
Restated balance	89,999,000.00	-	-	-	2,778,382.72	92,777,382.72
Surplus on Revaluation of properties	-	-	-	-	-	-
Deficit on Revaluation of Investment	-	-	-	-	-	-
Current Translation Difference	-	-	-	-	-	-
Net gains and losses not recognized in the income statement	-	-	-	-	-	-
Net Profit for period	-	-	-	-	(9,456,123.78)	(9,456,123.78)
Dividend	-	-	-	-	-	-
Issue of Share Capital	-	-	-	-	-	-
Balance as at 15 July 2012	89,999,000.00	-	-	-	(6,677,741.06)	83,321,258.94

NEPAL CLEARING HOUSE LTD.
Schedule Attached to and Forming Part of Financial Statements
for 31st Ashad, 2069 (15th July 2012)

Share Capital

Schedule - 1

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Authorized Capital		
2,500,000 Ordinary Shares of Rs 100/- each	250,000,000.00	250,000,000.00
Issued Capital		
1,285,700 Ordinary Shares of Rs 100/- each	128,570,000.00	128,570,000.00
Subscribed Capital		
899,990 Ordinary Shares of Rs. 100/- each	89,999,000.00	89,999,000.00
Paid up Capital		
899,990 Ordinary Shares of Rs. 100/- each	89,999,000.00	89,999,000.00
Less: Calls in Arrears	-	-
Deposit for Share	-	-
Total	89,999,000.00	89,999,000.00

Reserve & Surplus

Schedule - 2

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Asadh 32, 2068 (16 July, 2011)
Capital Reserve	-	-
Adjustment for deferred tax liability	-	-
Profit (Loss) Account	(6,677,741.06)	2,778,382.72
Total	(6,677,741.06)	2,778,382.72

Medium & Long Term Loans

Schedule - 3

Particulars	As on Asadh 31, 2069 (15 July, 2012)	As on Asadh 32, 2068 (16 July, 2011)
i) Secured Loan	-	-
ii) Un Secured Loan	-	-
Total	-	-

NEPAL CLEARING HOUSE LTD.
Schedule Attached to and Forming Part of Financial Statements

For 31st Ashad, 2069 (15th July 2012)

Fixed Assets and Depreciation					Schedule - 4	
PARTICULARS	Office Equipment	Vehicle	Other Assets	Software	_Total_	
Cost Price	-	-	-	-	-	-
Opening Balance	3,363,189.29	2,884,100.00	28,287.00	439,880.00	6,715,456.29	
Addition during the year	41,496,493.28	-	2,050.00	35,854,640.27	77,353,183.55	
Deletion during the year	-	-	-	-	-	
TOTAL NRS	44,859,682.57	2,884,100.00	30,337.00	36,294,520.27	84,068,639.84	
Depreciation						
Opening Balance	99,030.52	72,102.50	66.05	979.33	172,178.40	
For the year	7,708,538.52	432,615.00	4,524.93	131,481.00	8,277,159.45	
Deletion during the year	-	-	-	-	-	
Total Depreciation	7,807,569.04	504,717.50	4,590.98	132,460.33	8,449,337.85	
WDV as on 31/03/69 (15/07/12)	37,052,113.53	2,379,382.50	25,746.02	36,162,059.94	75,619,301.99	
WDV as on 32/03/68 (16/07/11)	3,264,158.77	2,811,998	28,220.95	438,900.67	6,543,277.89	

NEPAL CLEARING HOUSE LTD.

Detail of Fixed Assets & it's Depreciation as on 31st Ashad, 2069 (15th July 2012)

Schedule - 4.1

Particulars	Purchase Date	Cost Value			Depreciation			Written Down Value					
		Last Year	Current Year	Deletion	Balance	Month	Rate	Last Year	Current Year	Balance	Deletion	Current Year as on 31.03.2069	Last Year as on 32.03.2068
Group A													
Building & Structure													
TOTAL													
Group B													
Computer & Accessories													
Computer	67/02	90,400.00	-	-	90,400.00	12	20%	21,093.33	18,080.00	-	39,173.33	51,226.67	69,306.67
Printer	67/02	22,600.00	-	-	22,600.00	12	20%	5,273.33	4,520.00	-	9,793.33	12,806.67	17,326.67
Lenovo Desktop Computer	68/01	104,000.00	-	-	104,000.00	12	20%	3,466.67	20,800.00	-	24,266.67	79,733.33	100,533.33
Lenovo Desktop Computer	68/02	255,000.00	-	-	255,000.00	12	20%	4,250.00	51,000.00	-	55,250.00	199,750.00	250,750.00
Lenovo Desktop Computer	68/04	-	204,000.00	-	204,000.00	11	20%	-	37,400.00	-	37,400.00	166,600.00	-
Lenovo Desktop Computer	69/02	-	61,020.00	-	61,020.00	1	20%	-	1,017.00	-	1,017.00	60,003.00	-
USB Hard disk 500 GB	67/12	12,511.00	-	-	12,511.00	12	20%	625.55	2,502.20	-	3,127.75	9,383.25	11,885.45
1 TB External Hard Disk	68/05	-	9,300.00	-	9,300.00	10	20%	-	1,550.00	-	1,550.00	7,750.00	-
Laptop HP Pavillion	67/12	63,600.00	-	-	63,600.00	12	20%	3,180.00	12,720.00	-	15,900.00	47,700.00	60,420.00
Ben Q Note Book	68/04	-	34,500.00	-	34,500.00	11	20%	-	6,325.00	-	6,325.00	28,175.00	-
Canon Multimedia Printer	67/12	22,455.50	-	-	22,455.50	12	20%	1,122.78	4,491.10	-	5,613.88	16,841.62	21,332.72
Brother Multifunctional Printer	68/03	65,700.00	-	-	65,700.00	12	20%	-	13,140.00	-	13,140.00	52,560.00	65,700.00
Epson TM-S100 MICR Scanner	68/03	136,000.00	-	-	136,000.00	12	20%	-	27,200.00	-	27,200.00	108,800.00	136,000.00
Panini MICR Scanner	68/05	-	141,577.70	-	141,577.70	10	20%	-	23,596.28	-	23,596.28	117,981.42	-
Brother Multifunctional Printer	68/03	6,780.00	-	-	6,780.00	12	20%	-	1,356.00	-	1,356.00	5,424.00	6,780.00
IBM X3250 M3 Server with 8GB	68/03	296,000.00	-	-	296,000.00	12	20%	-	59,200.00	-	59,200.00	236,800.00	296,000.00
IBM X3250 M3 Server with 4GB	68/03	133,500.00	-	-	133,500.00	12	20%	-	26,700.00	-	26,700.00	106,800.00	133,500.00
DATA Base Server -740	68/04	-	3,443,900.52	-	3,443,900.52	11	20%	-	631,381.76	-	631,381.76	2,812,518.76	-
Application server -740	68/04	-	4,358,692.50	-	4,358,692.50	11	20%	-	799,093.63	-	799,093.63	3,559,598.87	-
Test Server -740	68/04	-	1,452,897.50	-	1,452,897.50	11	20%	-	266,364.54	-	266,364.54	1,186,532.96	-
IBM- 300GB SAS SFF DHH	68/08	-	135,600.00	-	135,600.00	7	20%	-	15,820.00	-	15,820.00	119,780.00	-
National Archive Infrastructure Mgmt. Server	68/04	-	1,728,999.44	-	1,728,999.44	11	20%	-	316,983.23	-	316,983.23	1,412,016.21	-
External Storage Server	68/04	-	6,412,124.72	-	6,412,124.72	11	20%	-	1,175,556.20	-	1,175,556.20	5,236,568.52	-
Server	68/04	-	819,000.00	-	819,000.00	11	20%	-	150,150.00	-	150,150.00	668,850.00	-

Security Server	68/04	-	819,000.00	-	819,000.00	11	20%	-	150,150.00	-	150,150.00	668,850.00	-
SAN Switch	68/04	-	4,412,500.42	-	4,412,500.42	11	20%	-	808,958.41	-	808,958.41	3,603,542.01	-
OME Rack	68/04	-	1,138,588.00	-	1,138,588.00	11	20%	-	208,741.13	-	208,741.13	929,846.87	-
Tape Library	68/04	-	1,237,270.90	-	1,237,270.90	11	20%	-	226,833.00	-	226,833.00	1,010,437.90	-
Fortinet Firewall 60C	68/03	64,000.00	-	-	64,000.00	12	20%	-	12,800.00	-	12,800.00	51,200.00	64,000.00
Planet 24 Port Gigabyte Switch	68/03	17,000.00	-	-	17,000.00	12	20%	-	3,400.00	-	3,400.00	13,600.00	17,000.00
Fortinet Fortigate 620B	68/06	-	3,254,400.00	-	3,254,400.00	9	20%	-	488,160.00	-	488,160.00	2,766,240.00	-
Fortinet Fortigate 50B	68/12	-	53,110.00	-	53,110.00	3	20%	-	2,655.50	-	2,655.50	50,454.50	-
Cisco Catalyst Ws-C2960 Switch	68/06	-	491,550.00	-	491,550.00	9	20%	-	73,732.50	-	73,732.50	417,817.50	-
Cisco Catalyst Ws-C2960S	68/08	-	160,000.00	-	160,000.00	7	20%	-	18,666.67	-	18,666.67	141,333.33	-
Cisco Catalyst Stack Plex	68/06	-	178,540.00	-	178,540.00	9	20%	-	26,781.00	-	26,781.00	151,759.00	-
Cisco Catalyst Stack Plex	68/08	-	158,200.00	-	158,200.00	7	20%	-	18,456.67	-	18,456.67	139,743.33	-
TEW- 634GRU 300 Mbps	67/11	7,910.00	-	-	7,910.00	12	20%	527.33	1,582.00	-	2,109.33	5,800.67	7,382.67
3KVA UPS with Battery	68/01	94,999.00	-	-	94,999.00	12	20%	3,166.63	18,999.80	-	22,166.43	72,832.57	91,832.37
Power Ware 9155 30 KVA UPS	68/05	-	1,993,320.00	-	1,993,320.00	10	20%	-	332,220.00	-	332,220.00	1,661,100.00	-
Power Ware 9155 15 KVA UPS	68/05	-	542,626.00	-	542,626.00	10	20%	-	90,437.67	-	90,437.67	452,188.33	-
Battery with Connector	68/05	-	1,370,644.80	-	1,370,644.80	10	20%	-	228,440.80	-	228,440.80	1,142,204.00	-
Battery Cabinet	68/05	-	116,277.00	-	116,277.00	10	20%	-	19,379.50	-	19,379.50	96,897.50	-
Panasonic Air Condition	68/03	158,200.00	-	-	158,200.00	12	20%	-	31,640.00	-	31,640.00	126,560.00	158,200.00
Mitsubishi & Acson	68/01	231,069.00	-	-	231,069.00	12	20%	3,851.15	46,213.80	-	50,064.95	181,004.05	227,217.85
Panasonic Fax Machine	68/02	9,944.00	-	-	9,944.00	12	20%	662.93	1,988.80	-	2,651.73	7,292.27	9,281.07
Projector NEC NP115	67/11	42,000.00	-	-	42,000.00	12	20%	1,400.00	8,400.00	-	9,800.00	32,200.00	40,600.00
Jumbo Electronics Pvt. Ltd (Vacuum Cleaner)	68/01	11,500.00	-	-	11,500.00	12	20%	575.00	2,300.00	-	2,875.00	8,625.00	10,925.00
UTL Telephone Set	67/12	4,880.00	-	-	4,880.00	12	20%	325.33	976.00	-	1,301.33	3,578.67	4,554.67
National Stand Fan	68/02	5,600.00	-	-	5,600.00	12	20%	93.33	1,120.00	-	1,213.33	4,386.67	5,506.67
Stand Fan	69/02	-	2,900.00	-	2,900.00	1	20%	-	48.33	-	48.33	2,851.67	-
Media KIT	68/03	8,800.00	-	-	8,800.00	12	20%	-	1,760.00	-	1,760.00	7,040.00	8,800.00
Paper Shredder	68/04	-	7,006.00	-	7,006.00	11	20%	-	1,284.43	-	1,284.43	5,721.57	-
24 port Patch Panel	68/05	-	7,000.00	-	7,000.00	10	20%	-	1,166.67	-	1,166.67	5,833.33	-
24 port Switch	68/05	-	17,000.00	-	17,000.00	10	20%	-	2,833.33	-	2,833.33	14,166.67	-
Power Distribution Unit	68/04	-	15,000.02	-	15,000.02	11	20%	-	2,750.00	-	2,750.00	12,250.02	-
Jacson Cummins Generator.	68/04	-	1,129,999.78	-	1,129,999.78	11	20%	-	207,166.63	-	207,166.63	922,833.15	-
Data Center Temp. Monitoring	68/11	-	72,461.25	-	72,461.25	4	20%	-	4,830.75	-	4,830.75	67,630.50	-
2kg Co2 Type Fire Extinguisher	68/12	-	13,447.00	-	13,447.00	3	20%	-	672.35	-	672.35	12,774.65	-
5kg ABC Type Fire Extinguisher	68/12	-	7,846.72	-	7,846.72	3	20%	-	392.34	-	392.34	7,454.38	-
AC Volt Meter	69/03	-	15,820.00	-	15,820.00	0	20%	-	-	-	-	15,820.00	-

Dark Core Fiber- W-Link	68/08	-	1,130,000.00	-	1,130,000.00	7	20%	-	131,833.33	-	131,833.33	998,166.67	-
Dark Core Fiber- Subisu	68/12	-	1,250,000.00	-	1,250,000.00	3	20%	-	62,500.00	-	62,500.00	1,187,500.00	-
Earthing DR Site	68/05	-	50,827.00	-	50,827.00	10	20%	-	8,471.17	-	8,471.17	42,355.83	-
Earthing Data center	68/05	-	69,495.00	-	69,495.00	10	20%	-	11,582.50	-	11,582.50	57,912.50	-
Neutral Line -Vertex	69/03	-	34,691.00	-	34,691.00	0	20%	-	-	-	-	34,691.00	-
Furniture & Fixture													
Furniture & Fixture	68/01	1,466,289.00	-	-	1,466,289.00	12	20%	48,876.30	293,257.80	-	342,134.10	1,124,154.90	1,417,412.70
VIP 32" Steel Locker	68/02	32,451.79	-	-	32,451.79	12	20%	540.86	6,490.36	-	7,031.22	25,420.57	31,910.93
Desk with Drawer	68/06	-	152,550.00	-	152,550.00	9	20%	-	22,882.50	-	22,882.50	129,667.50	-
Over Heads	68/06	-	47,460.00	-	47,460.00	9	20%	-	7,119.00	-	7,119.00	40,341.00	-
Partition and lease hold	68/06	-	362,490.00	-	362,490.00	9	20%	-	54,373.50	-	54,373.50	308,116.50	-
Data Center	68/05	-	2,382,860.01	-	2,382,860.01	10	20%	-	397,143.34	-	397,143.34	1,985,716.67	-
TOTAL		3,363,189.29	41,496,493.28	-	44,859,682.57			99,030.52	7,708,538.52	-	7,807,569.04	37,052,113.53	3,264,158.77
Group C.													
Vehicle and Automobile													
Ford Fiesta Car	68/01	2,884,100.00	-	-	2,884,100.00	12	15%	72,102.50	432,615.00	-	504,717.50	2,379,382.50	2,811,997.50
TOTAL		2,884,100.00	-	-	2,884,100.00			72,102.50	432,615.00	-	504,717.50	2,379,382.50	2,811,997.50
Group D													
Other Assets													
Smoke Detector	68/01	2,642.00	-	-	2,642.00	12	15%	66.05	396.30	-	462.35	2,179.65	2,575.95
Glass Art	68/03	25,645.00	-	-	25,645.00	12	15%	-	3,846.75	-	3,846.75	21,798.25	25,645.00
Tools	68/04	-	1,250.00	-	1,250.00	11	15%	-	171.88	-	171.88	1,078.12	-
Tools	68/04	-	800.00	-	800.00	11	15%	-	110.00	-	110.00	690.00	-
TOTAL		28,287.00	2,050.00	-	30,337.00			66.05	4,524.93	-	4,590.98	25,746.02	28,220.95

Group E													
Software													
Tally Accounting Software ERP 9	68/01	29,380.00	-	-	29,380.00	12	20%	979.33	5,876.00	-	6,855.33	22,524.67	28,400.67
MS Windows 2008 R2 Premium CAL	68/03	138,000.00	-	-	138,000.00	12	20%	-	27,600.00	-	27,600.00	110,400.00	138,000.00
Office 2010 Standard Edition	68/03	250,000.00	-	-	250,000.00	12	20%	-	50,000.00	-	50,000.00	200,000.00	250,000.00
MS Forefront End Point Protection	68/03	9,500.00	-	-	9,500.00	12	20%	-	1,900.00	-	1,900.00	7,600.00	9,500.00
Forefront for Exchange	68/03	13,000.00	-	-	13,000.00	12	20%	-	2,600.00	-	2,600.00	10,400.00	13,000.00
NCHL-ECC Software	69/03	-	30,814,355.90	-	30,814,355.90	0	20%	-	-	-	-	30,814,355.90	-
Oracle Software	69/03	-	4,667,384.37	-	4,667,384.37	0	20%	-	-	-	-	4,667,384.37	-
Windows Server 2008 Ent. Edt (SCAL)	68/08	-	372,900.00	-	372,900.00	7	20%	-	43,505.00	-	43,505.00	329,395.00	-
TOTAL		439,880.00	35,854,640.27	-	36,294,520.27			979.33	131,481.00	-	132,460.33	36,162,059.94	438,900.67
GRAND TOTAL													
		6,715,456.29	77,353,183.55	-	84,068,639.84			172,178.40	8,277,159.45	-	8,449,337.85	75,619,301.99	6,543,277.89

NEPAL CLEARING HOUSE LTD.
Schedule Attached to and Forming Part of Financial Statements
for 31st Ashad, 2069 (15th July 2012)

Investment

Schedule - 5

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Investment	-	-
Total	-	-

Inventories

Schedule - 6

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
NCHL-ECC Software-Banks/Fls	83,770,357.76	-
Total	83,770,357.76	-

Trade & Other Receivables

Schedule - 7

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Member Banks	11,396,219.51	-
Total	11,396,219.51	-

Cash & Bank Balance

Schedule - 8

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Cash Balance	8,033.81	12,360.89
Bank Balance		
Development Credit Bank Ltd.	11,328.02	10,481,768.57
Laxmi Bank Ltd.	28,163.98	2,233,807.59
Laxmi Bank Ltd. (Current)	5,000.00	-
Nepal Rastra Bank	6,600.00	-
Siddhartha Bank Ltd.	125,275.13	24,636,984.29
Total	184,400.94	37,364,921.34

NEPAL CLEARING HOUSE LTD.
Schedule Attached to and Forming Part of Financial Statements
for 31st Ashad, 2069 (15th July 2012)

Prepaid, Loan, Advances & Deposits

Schedule - 9

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Other Receivable	22,650.00	22,650.00
Tax Deposit (Advance Tax)	5,826,855.83	1,420,830.89
Prepaid Insurance Expenses	-	43,991.88
Advance rent	-	189,100.00
Advance for Fuel	100,000.00	-
Staff advance	-	55,750.00
Security deposit	182,440.00	178,440.00
Advance to Supplier	-	55,967,798.28
Prepaid Expenses-Insurance	34,831.01	-
Prepaid Expenses-Oracle AMC	438,488.71	-
Total	6,605,265.55	57,878,561.05

Current Liabilities & Accounts Payable

Schedule - 10

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Sundry Creditors	45,855,002.49	287,631.56
Account payables	547,259.12	-
P.F. Payable	67,360.00	-
Staffs Payable	96,866.14	-
TDS Payable	8,220,115.22	523,691.64
Development Bankers Association	2,500,000.00	2,500,000.00
Advance from Members	-	4,742,975.00
Others Payable-VAT	19,599,984.72	-
Advance Income	4,211,785.00	-
Total	81,098,372.69	8,054,298.20

Provisions

Schedule - 11

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Provision for Gratuity	149,916.67	54,166.66
Provision for Leave	264,066.67	99,020.00
Total	413,983.34	153,186.66

NEPAL CLEARING HOUSE LTD.
Schedule Attached to and Forming Part of Financial Statements
for 31st Ashad 31, 2069 (15th July 2012)

Expenditures to the extent not written off

Schedule - 12

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Expenditure to the extent not written off	-	-
Total	-	-

Contingent Liabilities

Schedule - 13

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
a. Claim against company	-	-
b. Capital commitment	-	-
c. Unpaid uncalled share amount	-	-
Total	-	-

NEPAL CLEARING HOUSE LTD.
Schedule Attached to and Forming Part of Financial Statements
for 31st Ashad, 2069 (15th July 2012)

Operating Income

Schedule - 14

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Cheque Clearing Fees -NPR	4,626,390.00	-
Cheque Clearing Fees -USD	235,120.00	-
Cheque Clearing Fees -EUR	6,740.00	-
Cheque Clearing Fees -GBP	2,835.00	-
Cheque Clearing Fine & Penalties	437,700.00	-
ECC Software- Banks/Fls	51,117,000.00	-
NCHL Login ID Fee	420,750.00	-
NCHL-Membership Fee	8,650,000.00	-
Network Connectivity & Management	1,154,178.00	-
Total	66,650,713.00	-

Operating Expenses

Schedule - 15

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32, 2068 (16 July, 2011)
Cost of Good Sold		
Network Connectivity -Member	719,810.00	-
NCHL-ECC Software	51,117,000.00	-
AMC Expenses- Dark Core Subisu	20,000.00	-
AMC Expenses- Dark Core Wlink	27,120.00	-
AMC Expenses-Oracle	63,230.73	-
Total	51,947,160.73	-

NEPAL CLEARING HOUSE LTD.
Schedule Attached to and Forming Part of Financial Statements
for 31st Ashad, 2069 (15th July 2012)

Administrative Expenses

Schedule - 16

Particulars	As on Ashad 31, 2069 (15 July, 2012)	As on Ashad 32,2068 (16 July, 2011)
Advertisement Expenses	192,837.68	279,307.73
Audit Fee	50,850.00	45,200.00
Bank Commission	72,299.75	52,031.25
Books and Subscription Exp.	10,100.00	1,700.00
Business Promotion Exp.	20,000.00	-
Common Area & Parking Exp	279,048.00	38,400.00
Consultancy Fee	185,000.00	165,000.00
Courier Expense	11,773.35	3,762.90
Dashin Allowance	230,000.00	80,000.00
Electrical Goods	7,510.11	-
Electricity Expenses	779,516.00	26,239.00
Fines & Penalty	1,000.00	59,720.00
Fuel Expenses	23,310.00	3,612.00
Fuel Expenses-CEO	110,962.90	15,095.00
Fuel Expenses -Generator	551,374.00	-
House Rent	778,461.66	378,200.00
Rental DR site	467,778.00	-
Insurance Expenses	275,495.04	9,710.58
Internet Expenses	203,965.00	-
Legal Fee	290,000.00	180,000.00
Local Conveyance	19,205.00	1,270.00
Meeting Allowance	137,500.00	157,500.00
Mobile Expenses-CEO	11,742.16	3,921.23
Mobile Expenses-Temperature Monitor	2,692.77	-
Office Expenses	150,890.98	45,691.00
Other Project Expenses	110,850.78	45,947.19
Printing & Stationery Exp.	94,196.60	65,723.12
Provident Fund Contribution	362,028.39	156,000.00
Registration & Renewal	11,550.00	-
Repair & Maintenance	138,661.18	22,049.95
Salary & Allowances	6,902,427.45	2,758,358.84
Security Expenses	191,794.97	-
Telephone Expenses	72,329.81	7,448.48
Web Site Development Expenses.	22,600.00	-
Leave Fare Allowance	150,000.00	50,000.00
Leave Provision	165,046.67	99,020.00
Gratuity Provision	95,750.01	54,166.66
Total	13,180,548.26	4,805,074.93

NEPAL CLEARING HOUSE LTD.
Schedule Attached to and Forming Part of Financial Statements
Financial year 2068/69 (2011/12)

Significant Accounting Policies and Notes to Accounts

1 Background Information

- 1.1** NCHL is a limited liability company registered with Company Registrar Office since 8th Poush 2065 (corresponding to 23rd December 2008). It has obtained the letter of commencement of business from Company Registrar Office effective from 2068.02.31. NCHL has obtained approval from Nepal Rastra Bank for operation of ECC system for foreign currency cheques clearance effective from 7th Poush 2068 and obtained circular for conducting the cheque clearance in Nepalese currency effective from 20th Chaitra 2068.

The principle objective of the company is to facilitate Electronic Cheque Clearance (ECC) for its member banks. Till Ashad end 2069, NCHL has entered agreement with 37 Banks/members (Nepal Rastra Bank, 32 commercial banks and 2 development banks & finance companies each).

These financial statements have been prepared under the responsibility of the management and approved by Board of Directors on 10th Ashwin 2069 (corresponding to 26th September 2012).

2 Significant Accounting Policies

- 2.1** Financial statement is prepared under accrual basis of accounting and in line with Nepal Accounting Standards (except otherwise stated).

2.1.1 Income Recognition

Fee charged for clearance charges, network connectivity and management charges, ECC software charges, login ID fee and membership fee is accounted for under accrual basis. Interest income has been accounted on accrual basis.

2.1.2 Recognition of assets and Depreciation

a. Recognition of fixed assets

Fixed assets have been recognized in historical cost convention basis at the cost of construction/acquisition inclusive of incidental expenses related to construction/acquisition.

b. Depreciation method and rates

Depreciation on fixed assets is charged on Straight Line Method (SLM) at rates approved by Board specifying the pool heads under Office equipment, Vehicles, and Other assets; and the depreciation rate applied is 20%, 15%, and 15% respectively. Depreciation for procurement of assets during current fiscal year has been applied on month basis from next month of procurement of fixed assets till fiscal year end.

Acquisition of software has been categorised under separate pool called "Software" and depreciation rate has been applied on the basis of estimated life of 5 years on Straight Line Basis as per decision of Board.

2.1.3 Inventories

Inventories are valued at cost on FIFO basis.

2.1.4 Employee Liabilities

a. Gratuity

Provision for gratuity is considered as per Employee's Service Rules (May 2009)

b. Leave

Provision for accumulated leave is considered as per Employee's Service Rules (May 2009)

2.1.5 Income tax

a. Income tax provision is considered in line with provisions of Income Tax Act 2058 .

b. Deferred tax liability/assets is considered at the tax rate applicable to Company as per Income Tax Act 2058 based on the on temporary differences between carrying amount and tax base in line with Nepal Accounting Standards.

3 Notes to Accounts

3.1 Related party Disclosure

NCHL has not conducted any transaction with related parties.

3.2 Inventories

ECC software purchased for member banks has been accounted under the head of inventory. Total cost of purchase incurred amounts to Rs. 134,887,357.76 and total sales at cost to member banks & financial institutions amounts to Rs. 51,117,000.00. Balance amounting to Rs. 83,770,357.76 has been presented as inventory balance which will be sold to additional member banks/ financial institutions on cost to cost basis.

Inventory of recurring inventory has not been maintained since the value of such purchases were minor which has been expensed off as purchased.

3.3 Income tax liability

No provision for income tax has been provided since company is in loss.

Additional deferred tax liabilities has been provided amounting to Rs 736,473.50 (opening deferred liability amounting to Rs. 801,892.70) considering the provision of Nepal Accounting Standards on the temporary timing differences between carrying amount and tax base of assets & liabilities.

3.4 VAT Exemption

NCHL has accounted for income through Non-VAT bills to member banks for fees, connectivity and maintenance charge, software charge etc. NCHL's VAT exemption application is under process with appropriate government authority. The possible financial liabilities if VAT exemption status not received has not been quantified.

3.5 Reverse VAT Charging

Other Payables include Rs. 19,063,029 VAT payables, on the payment made to Progress Soft Corporation as per Section 8 of VAT Act 2052 (under reverse VAT charging) on the software cost, payment of such VAT has been deferred. Such liabilities have been deposited subsequently with competent authority.

3.6 Provision for Gratuity & Leave

Provision for Gratuity amounting to Rs. 149,916.67 (addition this year Rs. 95,750.01) and Provision for Leave amounting to Rs. 264,066.67 (addition this year Rs. 165,046.67) has been made.

3.7 Forward contract

Forward contract with Laxmi Bank Ltd. was entered into for purchase of USD on forward date for the payment to be made to progress Soft Corporation for ECC software charges (3 forward contracts entered during the current fiscal year for purchase of USD from bank), where forward rate has been used for booking of purchase directly .

4 Previous years figures are regrouped or rearranged wherever necessary.

NOTES

[illegible]

NOTES

[illegible]

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