



NIFT DIRECTORS' REPORT

Your Directors are pleased to present the Annual Report and the Audited Financial Statements of the Company for the year ended June 30th, 2019 together with the Auditors' report thereon.

Profit and Loss Appropriations

The Directors propose following appropriations out of the profit for the current year:

	2018 - 19	2017 - 18
	<i>Rupees</i>	
Profit Before Tax	126,198,927	232,545,153
Taxation	58,210,358	71,327,927
Profit After Taxation	67,988,569	161,217,226
Un-appropriated Profit as at July 1st, 2018 / 2017	401,594,445	365,377,219
	469,583,014	526,594,445
Appropriations during the year		
- Final Cash Dividend for the year 2017-18 @ 30% (2016-17: 20%)	(75,000,000)	(50,000,000)
- Interim Dividend for 2018-19 @ 30% (2017-18 : 30%)	(75,000,000)	(75,000,000)
Un-appropriated Profit as at June 30th, 2019 / 2018	319,583,014	401,594,445

Subsequent Effects

	2018 - 19	2017 - 18
The Board of Directors of the Company in their meeting held on October 9 th 2019, have recommend final dividend payment:		
- Final Cash Dividend @ 30% (2017-18 : 30%)	75,000,000	75,000,000
- Issuance of Bonus Shares @ nil (2017-18 : nil)	-	-
	75,000,000	75,000,000

Financial Results

The sales revenue of Rs.1.673 billion for the year was higher by 1.7% compared to Rs.1.645 billion of previous year, resulting in lower after tax profitability of Rs.68 million for the year as compared to Rs. 161.2 million for the previous year.

The Earnings per Share (EPS) of the Company for the year stood at Rs. 2.72 against Rs.6.45 for the year 2017-18.

Cost of Services during the year increased by 5.6% from previous year. Inflationary pressure was maintained by controlling costs. The cost of the projects was booked as incurred while revenues were recognized based on work done.

Other Income of Rs.22.3 million was earned mainly on placement of term deposits and write back of liabilities no more payable.

Liquidity Management and Cash Flow Strategy

During the year under review, liquidity was maintained to support normal operations and support business growth initiatives. During the year, company's cash and cash equivalents were down by Rs.99.5 million as compared to last year. The funds generated by operations were mainly used for running and supporting core businesses including and capital expenditure needs. At the end of the year, the Company had a net positive position comprising cash and cash equivalent amounting to Rs.60.2 million.

Current cash requirements are adequately financed through internal cash generation and with recourse to external financing where required. Borrowing capacity of the company is mainly linked to hypothecation of Projects related receivables.

Dividends

During the year, shareholders were paid final cash dividend of Rs. 75 million as recommended by the Board on the audited financial results of 2017-18 and an interim dividend of Rs. 75 million (30%) based on third quarter review of current years' financial statements.

The Board of Directors have recommend 30% final cash dividend for the year under review (2017-18: 30%).

Operations and Significant Events

PRINTING BUSIENESS OF BOARD OF INTERMEDIATE & SECONDARY EDUCATION-PUNJAB

BISE printing project is continuing as we have had orders for 2019 and production against these orders was completed and billed. Printing revenue of Rs. 179.5 million was booked in current year. In 2017, arbitration award was given on NIFT's petition for the settlement of stuck up amounts against results tabulation business. Relevant court of law was approached for the registration of award so that it can be challenged in the higher court. Despite many hearing, court decision is still pending until filing of this report. As a matter of prudence, bad debt provision had been booked in earlier years for the disputed amounts.

PRINTING OF ELECTORAL ROLLS - NADRA / ELECTION COMMISSION OF PAKISTAN

During the year, there has been partial activity in this area as we have received orders from ECP/NADRA for bi-elections related for the Printing and Binding of Electoral Rolls for few constituencies. In all 6.5 million sheets were printed valuing Rs. 20.7 million and accordingly revenue was booked in August 2018 and May 2019.

CHECK CLEARING OPERATIONS

For the period under reporting overall clearing revenue slightly increased by 0.5 % compared to last year. Absolute increase in revenue was PKR 6 million.

Clearing volumes under normal/same day clearing in 2018-2019 registered a decline of 8% compared to last year (54 million instruments in 2018-19 vs 58 million instruments in 2017-18). This is due to moving online activity by banks as well as centralization and cash management initiatives.

There was a negative growth of 40% in intercity clearing as SBP guidelines on clearing operations now requires instruments to be processed locally (within the same city – centralized intercity clearing) for online banks. Also observed a decrease in gross revenue by 14% for processing of instruments only. However overall revenue stream of clearing operations remains constant as PKR 1.32 billion.

Courier revenue increased by 9% due to revision of courier rates for the bank branches as well as opening of new bank-branches.

Primary clearing rates were upward revised last year from July 01, 2017. This was due for revision in 2018 however despite making timely submissions to rates review committee of the State Bank of Pakistan target could not be achieved in the reporting year.

Audit & Compliance

During the year finalized the following SOP in coordination with IT and Compliance:

- Compliance management handling – implemented in all Ops centers
- Clearing & other IT systems - Password management – finalized with IT/Compliance
- Clearing data and Image – Backup/restore/retention – SOP finalized and implemented

BCP

- ISB/RWP BCP BOQ/plan finalized – BCP drill planned in Oct/Nov 2019
- Karachi and Lahore new BCP sites are now operational
- LHR BCP performed on 30Aug19 whereas KHI BCP drill performed on 21Jun19

Image based clearing

- EOI of the project developed for potential vendors
- IBC synopsis and framework shared with members banks
- Project kickoff planned in – Q1 2020

Service Level Agreements with Member Banks

- Updated SLA with banks have been finalized

Process improvement

- Implemented centralized billing information via NIFT portal
- Efforts in place to introduce e-Billing for banking customers
- Streamlining of intercity clearing cycle to achieve cost optimization
- Karachi operations printing – outsourced model implemented via Managed Printing Services

UTILITY STUBS PROCESSING

During the year contracts from KE, SNGPL, KWSB, SSGC continued whereas PTCL business was lost.

During the year KE contract was renewed for further period of one year on new rates. Revenue contribution from this segment was 29.3 million despite 33% drop in volumes compared to last year.

Contract with SNGPL was renewed on March 1, 2018 for 3 years. The existing average monthly volume remains between 1.8-2million stubs. We are providing these services to SNGPL since August 2004. Revenue contribution was around Rs. 45.8 million.

In SSGC, new addendum was signed for a one-year extension of the stub collection & processing and fund reconciliation project in April 2019. No significant changes in the contract terms. Revenue for this segment was Rs. 23.8 million.

In KW&SB, three-year contract for stub processing & reconciliation was signed in the reporting year, which generated revenue of Rs. 11.9 million.

PUBLIC KEY INFRASTRUCTURE (PKI)

PKI is an information security division of NIFT to provide Public Key Infrastructure (PKI) and Authentication & Information Security consultancy services to assist all types of companies and institutions conducting their business over the internet. Business in Pakistan are using digital signatures (issued by NIFTeTrust infrastructure) for B2G, C2G, B2B and C2B communication securely with the latest security standards on an insecure public network, such as the internet.

In the reporting year, revenue was increased by 66% compared to last year. Increase in revenue was attributable to sales of SSL certificates.

Since last year after losing SECP Business, PKI division decided to expand their business by introducing Digital Identity Stack (Pakistan Stack) backed by PKI and Blockchain technologies and started to connect the stockholders one by one. Pakistan Stack will be comprising of NIFT as Certification Authority (CA), Registration Authorities or Relying parties (RA) as clients, Validation Authorities (VA) like NADRA, Telecom operators (PMD), Banks, PEC, ICAP, PBC, NTC and other Accreditation Councils/Bodies. This initiative will greatly increase business possibilities for PKI division. We are anticipating sizable revenue in FY2019-20 from the first lot of our Pakistan Stack customers.

Other business including SSL Business are still on legacy Verisign platform. Digicert is planning to consolidate SSL business platform. This initiative will increase our business and profitability because from the consolidated platform NIFT will get 50% discount rate for the region and it will enable us to offer SSL and other Digicert's service on more economical rates. We are anticipating 30% growth in SSL business in FY2019-20.

E-PAYMENT GATEWAY (NIFT e-PAY)

There was significant progress during this year on the NIFT ePay project and the focus has remained to launch the NIFT ePayment Gateway. The deployment of new applications for the payment gateway from TPS was completed and license and support agreements for these applications were signed. Moreover, a comprehensive 3-year Business Strategy and Roadmap was developed and presented to the Board of Directors and State Bank of Pakistan covering existing plan to launch digital financial services across multiple banks and partner institutions digitizing different use cases. The business strategy has been formulated to capitalize on the market needs and current gaps in the payment landscape along with the consideration of changing regulatory environment and technological advancements. Concept papers, standard commercials, business proposal formats and pitch presentation summarizing existing strategy and offerings were created to maintain consistency in all communication about NIFT ePay.

This year, we also successfully completed the technical integration with institutions collaborating with NIFT for the pilot of ePay services. Standard Operating Procedures and policies were also developed for NIFT ePay services and operational and legal readiness with the partner institutions was worked upon to ensure readiness for launch. Work was also initiated for onboarding of more banks and merchants to

ensure business growth beyond the pilot at a quick pace. Internal assessments from audit and information security teams were conducted to identify improvement areas and recommendations were incorporated to ensure compliance and security of the payment transactions.

Submissions to regulator has been completed based on which inspection was conducted for assessing the readiness of the pilot. Approval of the regulator, for the commencement of the pilot, is awaited.

COMPLIANCE & INTERNAL AUDIT

In the reporting year, Compliance department has been reinforced and achieved following goals:

- Audit done under SGS ISO 27001
- Finalization of BCP s
- (IT & OPS) Risk register and Risk Assessment update.
- Developed end User Compliance of Policies & Procedures
- Assessment by external consultant under ETGRM, VAPT, Network Configuration

NIFT has an in-house Internal Audit Department composed of qualified professionals. During the year under review department was further strengthened with the inclusion of the specialized IS Auditor. Internal Audit team works under the approved Internal Audit Charter / Policy formulated, as per provisions of the applicable regulations and best practices, duly approved by the Board of Directors.

During the year, apart from routine audit activities, Internal Audit was also involved to independently observe BCP Drill exercise of Karachi Clearing Operation.

INFORMATION TECHNOLOGY

Following were the highlights of the IT function for the year under review:

- Enhanced bandwidth across branches including DR site
- Replaced Core firewall with fourth generation solution
- Brought branches in centralized domain model with implementation of centralized Security software
- Modified in-house developed software to include domain ID Management, localized central database, framework upgrade etc., for improvement in performance and security.
- Implemented various VPN connectivity with Banks, Merchants and Government entities for e-pay
- Successfully completed the external consultant's engagement for Gap analysis and Risk assessment for ETGRM and its subsequent vulnerability assessment and penetration testing.
- Successfully supported and executed BCP and DR drill activity in 2019.

Future Prospects and Plans

Image based clearing - Efforts will continue to focus on getting alignment of Regulator and Banks to converge on business model and its time lines for implementation. In parallel efforts will also continue to develop internal road map including technology front, financial modelling and different phases of implementation plan.

Business opportunities of data entry, scanning, image archiving and high-speed printing - New opportunities are constantly explored in the areas of documentation, digitization and data entry projects at both federal and provincial level. NIFT due to its strong logistical advantage and data processing capabilities shall be better placed to indulge in those projects.