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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, 2020 together with the Auditors' report thereon.

Profit and Loss Appropriations

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

	2019 - 20	2018 - 19
	Rupees	
Profit Before Tax	276,812,746	126,198,927
Taxation	11,0370,939	58,210,358
Profit After Taxation	166,441,807	67,988,569
Un-appropriated Profit as at July 1st, 2019 / 2018	319,583,014	401,594,445
	486,024,821	469,583,014
Appropriations during the year		
- Final Cash Dividend for the year 2019-20 @ 30% (2018-19: 30%)	(75,000,000)	(75,000,000)
- Interim Dividend for 2019-20 @ 35% (2018-19 : 30%)	(87,500,000)	(75,000,000)
Un-appropriated Profit as at June 30th, 2020 / 2019	323,524,821	319,583,014
Subsequent Effects		
	2019 - 20	2018 - 19
The Board of Directors of the Company in their meeting held on Octo have recommend final dividend payment:	ber 6 th 2020,	
- Final Cash Dividend @ 00% (2018-19 : 30%)		75,000,000
- Interim Cash Dividend @ 35% (2019-20 : 30%)	87,500,000	75,000,000
	75,000,000	75,000,000





Financial Results

The sales revenue of Rs.1.909 billion for the year was higher by 14.1% compared to Rs.1.673 billion of previous year, resulting in higher after tax profitability of Rs.166 million for the year as compared to Rs. 68 million for the previous year.

The Earnings per Share (EPS) of the Company for the year stood at Rs. 6.66 against Rs.2.72 for the year 2018-19.

Cost of Services during the year increased by 4.8% 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.31.3 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 increased by Rs.153 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.212.7 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 2018-19 and an interim dividend of Rs. 87.5 million (35%) based on third quarter review of current years' financial statements.

The Board of Directors have recommend %1.% final cash dividend for the year under review (2018-19: 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 2020 and production against these orders was completed and billed. Printing revenue of Rs. 218 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.

CHECK CLEARING OPERATIONS

For the period under reporting (2019-2020), overall clearing revenue increased by 18.91% as compared to last year (Rs.1.57 billion vs 1.32 billion). Absolute increase in revenue was PKR 248 million. This is due to standard clearing services rates were increased from 1st July 2019 as agreed in rate review committee of SBP, PBA & NIFT however this increase in rates were supposed to be effective from 1st July 2018 as the last increased was done in July 2017. It is to be further noted that the current rate that was increased from July 2019 is fixed until June 2022.

Clearing volumes under normal/same day clearing in 2019-2020 registered a decline of 20% as compared to last year (47 million instruments vs 59 million instruments). This is due to moving online activity by banks as well as centralization of core banking and cash management initiatives. Pandemic situation of Covid-19 during Feb-Jun 2020 also badly affected the decreasing in the clearing volume where major business and social activities were suspended. Further, SBP advised the banks to use Prism as well as 1Link-1IBFT and MT102 channels to accept cheques in their branch counters and transfer funds in another bank's customer account real time.

Courier revenue increased by 36% due to revision of courier rates for the bank branches as well as adding of satellite bank-branches in clearing grid. As an initiative to expend the clearing in satellite cities, 1425+ banks-branches have been added during the reporting period.

Process improvement

- Implemented E-billing process to eliminate paper/printing cost as well as manual distribution of invoices via NIFT centers. Out of 42, 38 banks are now on E-billing
- Also implemented centralized payment mechanism with majority of the banks. This will further improve the collection and recovery of payments
- Revised the courier riders movement and collection mechanism to extend the clearing operations in satellite cities where the distance is more than 100KM from the NIFT center
- Implemented Returned cheque capturing via Mobile application. This will facilitate the timely completion of clearing process for satellite bank-branches
- Karachi operations printing outsourced model implemented via Managed Frinting Services with further revision in rates.

BCP

- · Karachi and Lahore BCP sites are now operational and drills have been performed
- ISB/RWP BCP drills also been performed successfully
- BCP plan have been finalized and approved for other NIFT centers



SES URAS

Image based clearing

- IBC synopsis document and framework finalized and shared with PBA members banks
- In-house development of backend applications and front end portal have been done
- UAT and SIT is in progress Target to complete by 30th September 2020
- Information Security review, Penetration and stress testing to be scheduled in Nov 2020
- NIFT to present the solution to the Board Committee, to SBP and selected banks from Nov 2020
- Pilot launch in Karachi for Image based Same Day clearing from Jan/Feb 2021

Service Level Agreements with Member Banks

SLAs with all Banks and Courier Companies have been signed

Audit & Compliance

Clearing Operation manual has been updated for all NIFT centers

UTILITY STUBS PROCESSING

During the year contracts from KE, SNGPL, KWSB, SSGC continued.

During the year KE contract was expired in August 2019 and renewed for further period of one year on same rates. Revenue contribution from this segment was 27.4 million despite 22.1% 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 1.7 million stubs. We are providing these services to SNGPL since August 2004. Revenue contribution was around Rs. 42.7 million.

In SSGC, new addendum was signed for a one-year extension of the stub collection & processing and fund reconciliation project in April 2019. In March 2020 contract was renewed for one more year without any significant changes in the terms. Revenue for this segment was Rs. 21.3 million

In KW&SB, three-year contract for stub processing & reconciliation was signed last year. In the reporting year average monthly stubs was around 331,000. Revenue for this segment was 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. Our key business areas are SSL, MPKI, eKYC (Identity stack), USB tokens, and other eKYC capturing hardware. Remote Signature (Cloud signature)

In the reporting year, revenue was down by 7% compared to last year. Decrease in revenue was attributable to drop in SSL volumes.

SSL

THE current SSL market in Pakistan is 1650, which is a more than 25% increase since last year's market volume, which was 1229. NIFT's SSL market share is around 20%. During FY19-20 SSL business remain stagnant as compare to FY18-19. Now we are planning to introduce a sales incentive program to increase our market share. We are anticipating a 20% growth during the next financial year (FY20-21). Current SSL business is between 20 to 25 million

MPKI

After losing SECP Business, MPKI growth was negative however during the FY19-20 MPKI business remains stagnant between 6 to 7 million. Now PKI division has decided to bundle electronic KYC with MPKI service to expand the MPKI business.

We are naming this new service as "Digital Identity Stack". It will be backed by new and automated validation procedures, PKI, and Block-chain technologies.

We have developed a prototype eKYC-PKI application for the "Pakistan Stock Exchange" and started connecting the relevant stakeholders (including Brokerage houses, NCCPL, CDC, NADRA, and Telecom Operators via PMD, Banks, and SECP) one by one. Under the supervision of the Pakistan Stack Exchange, we did a successful test to perform an instant digital onboarding of capital market investors.

We are anticipating 50 to 60 million revenue from the first lot of our Capital Market customers in the next financial year. Current MPKI Business is 6 to 7 million

USB Tokens and Hardware

THE current PKI USB token business is less than 1 million. Among the initiatives like SBP's microfinance gateway, NIFT ePay, and image-based cheque clearing service, we are anticipating 200% growth in the USB token business next year.

Remote Signature (Cloud signature)

Remote signature is legally accepted globally however ETO 2002 policies are very old and do not recognize the remote signature. Even then, companies like DocuSign, Ascertia, Digidoc, and Paksign are developing remote signature solutions for the local market as per the local market demand. These projects are still in the development phase. Once completed, these projects will replace OTP and pin base solutions.





Business uncertainty

Unfortunately, we have a delay in our new initiatives like Identity stack and electronic KYC because NADRA suddenly stopped its services and due to this, we were unable to move into production during FY19-20. This issue has just been resolved in the last week and we have received a soft copy agreement from NADRA for new projects.

The COVID-19 situation has also slowdown the PKI business. During the lockdown, the need for an online business is growing rapidly however we are still facing some uncertainty in the pipeline business. This is because of the limited physical availability of the client or the human resource.

Positive indicators

More and more customers are approaching us to discuss their need for PKI services. State Bank of Pakistan is also introducing the PKI to the banking sector and we are collaborating with them to provide secure their service. Government Root Authority of PKI is also in process and after that PKI business will grow many folds in the local market.

PKI will replace passwords and OTP because of the information security situation and legal requirements in the country.

According to the A2Z market research report, "Public Key Infrastructure Market is growing at a High CAGR during the forecast period 2020-2026. The increasing interest of the individuals in this industry is the major reason for the expansion of this market".

E-PAYMENT GATEWAY (NIFT e-PAY)

During the year 2019-20, NIFT ePay continuously strived to create a vibrant digital payment ecosystem in Pakistan and received approval from the State Bank of Pakistan (SBP) for launch of pilot operations on 04th of December 2019 which provided a first-mover advantage to NIFT ePay as the first live Domestic Payment Gateway in the country offering multiple payment options, channels and functionalities under pilot.

On June 7, 2020, NIFT ePay clocked its first live transaction with Allied Bank as the Issuer Bank and Keenu as the Merchant Aggregator. Until the end of August 2020, we have signed 12 banks including (Allied Bank, Bank Alfalah, Bank of Punjab, Askari Bank, Telenor MFB, Faysal Bank, BankIslami, Dubai Islamic Bank, Bank of Khyber, Habib Metropolitan Bank, Standard Chartered and Samba Bank). Two banks went live in June 2020, as Issuer Banks on NIFT ePay platform under ongoing pilot operations. Furthermore, we signed a strategic partnership agreement with Bank Alfalah for settlement of NIFTePay transaction under the guidance of SBP.

On the Merchant side, we have one direct merchant (Dawlance) live together with 33 other merchants live through Keenu as a Merchant Aggregator out of more than 100 merchants on their platform . We





have also signed Merchant Aggregator partnership with PayPro which will bring more than 200 merchants on NIFT ePay platform. Other important merchants sign ups include Bykea, Webdoc and PayIT. As part of our strategy, we are also inviting Acquiring banks to offer NIFTePay payment gateway to their Cash management Customers that will have a major impact on the number of merchants / institution utilizing the NIFTePay platform.

We have also signed a strategic partnership agreement with Haball to enable B2B transaction through NIFTePay platform. One of the significant development during the year was a MoU signed with Checkout.com for enabling international payment methods in Pakistan.

Throughout the year, we have kept SBP engaged about the progress and the future roadmap for the Commercial launch of NIFTePay Service and we feel confident that NIFTePay service will bring significant development in the e-commerce landscape in Pakistan.

RISK & COMPLIANCE

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

SGS ISO/IEC 27001 2nd Surveillance Audit

ISO 27001 Information Security Management System (ISMS) is an international standard on how to manage information security. NIFT is certified for this standard by SGS. The management certification generally follow a practice of three years. The first year of certification followed by the two yearly cycles of Surveillance Audits.

SBP Cyber Security Inspection 2019

SBP as a regulator and as per general practice conducts its Inspection-Audits on a cyclic basis across financial industry (and where applicable) as deemed necessary. After the inspection, SBP issues a report to be complied with a defined timeline. At NIFT, SBP came in during this period and conducted such inspection. NIFT is currently in the process of compliance of this Inspection report.

ETGRM, VAPT, Network Configuration (by PWC) Internal Assessment

During the year, PWC carried out an internal assessment of IT, IS and related areas benchmarking with the SBP ETGRM Framework. This exercise also included an external Vulnerability Assessment and Penetration Testing (VAPT) as well as Network Configuration.

BCP Drill for NIFT Centers

Continuity of Business at all cost without compromising on quality is the underline principle, which defines NIFT since its inception. After continuation of Business Continuity Drill at its Karachi Center, NIFT continues to do such drills at other centers.





INFORMATION TECHNOLOGY

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

Provided extensive support to business by deploying various Work from Home initiative owing to COVID-19 Pandemic. It also included split work environment service deployment for daily processing of Cheque clearing operations.

Successfully deployed Pilot NIFT-e-PAY service on production environment with our technology partner TPS. The Service is going to go on commercial launch in October 2020. The service is deployed on latest VSAN ready nodes with 10G backbone.

Shifted countrywide branches/centers VPN deployment to Fiber using PTCL as Primary ISP and Mobilink as backup ISP. This resulted in minimum 8 Mbps CIR on Primary circuit and backup link on minimum 4 Mbps. Also, increase the internet facing bandwidth to 100 Mbps on production and 50 Mbps on DR site with multiple service provider redundancy.

Images archive with 10 years near line repository is completed with around verified 90 images. This is ongoing process and would be completed by end of this year. The repository is located in Karachi data center with its replica housed in Islamabad DR Site. Due to this effort, we have implemented centralized reports and images enquiry service accessible to all branches.

INTERNAL AUDIT

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, Internal Audit performed following activities:

During the year, the audit preformed risk evaluation of the entity and based on that implemented Risk-Based Internal Audit Methodology. Departments / functions including IT were segregated into auditable entities/process and these categorized based on risk associated with them. On the basis these risk next year's internal audit plan that included plan for IT related processes was presented to the board audit committee.

Internal Audit completed the audit/review assignment relating to finance department, fixed assets tagging, utility department, branches of ACH, Procurement; while fieldwork of Disposal of Assets and Inventory Management were completed and draft reports are under discussion with the management. IT audits/reviews included pre-implementation of E-pay Pilot, Utility department and IT procurement; while Fieldwork for the IT Network, Infrastructure and Performance Management has been concluded and report is under discussion with the management.

In addition to the above, audit regularly followed up on audit recommendations of previous audits and provided consultancy services to the management on internal control related matters.



SIGNIFICANT EVENTS



COVID-19 Emergency

In order to ensure continuity of business operations under COVID emergency, elaborate operational SOPs were implemented at all data centers, management meetings, for visitors and screening at the gates to ensure safety and continuity of operations. Measures were also taken from HR and Administrative side to ensure compliance with laws and regulations. Renewed emphasis was given to expedite efforts on digitization drive.

Implementation of SOPs and strict safety regulations greatly helped the company to avoid casualties at staff level. On the business side, last three months of the 2019-20 financial year were slow where check-clearing volumes were dropped by almost 30%.

FBR - Tobacco Track & Trace Project

In order to prevent leakage of revenue, under-reporting of production and sales of tobacco products and to ensure proper payment of FED and Sales Tax on the manufacture and sale of tobacco products, the FBR is mandated to license the implementation of a track and trace system; which is to be developed, operated and maintained by the licensee for tobacco products manufactured in and imported into Pakistan. To this end, the FBR invited applications for grant of license to be issued under the Sales Tax Rules of 2006 for the development, maintenance and operation of track and trace system. NIFT participated in the bidding process along with two partners and later on challenged the decision of award of contract in superior court.

FUTURE PROSPECTS & PLANS

Image based clearing - Efforts are in place to launch the first phase of IBC from January 2021 as necessary base work has been completed including discussions and alignment with Regulator and Banks on the operating model. In parallel efforts will also continue to develop road map for the next phases to cover technology front, financial modelling and time lines of implementation plan.

E-Payment Gateway – Successfully launch and consolidate commercial operations of e-payment gateway and continue to expand and capitalize on the related business opportunities.

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.

<u>Prevalence of COVID-19</u> — Although business activity has picked up after relaxation in lock down and gradual opening of various business sectors, yet there are apprehensions on full resumptions of business activities as threat level of pandemic is still intact. Continuation of current situation will have an adverse impact on next year's profitability.





INDUSTRIAL RELATIONS

Peaceful industrial relations prevailed at all locations of the Company. Forth Charter of Demand was presented by CBA in February 2019 and still under negotiation for amicable conclusion.

DIRECTORS

Since the last Annual General Meeting held on 31st October, 2019, one new Director namely Mr. Shah Sajid Hussain from Allied Bank has joined the Board pending clearance from SBP under Fit and Proper criteria of PSO/PSP rules. During the same period, Mr. Nadeem Afzal MCB Bank had resigned from the Board.

During the year, changes were made in Articles of Association of the Company pertaining to the tenure of additional Director on the Board. The term of additional Director is now three years compared to previous one-year term.

AUDITORS

The auditors A. F. Ferguson & Company, Chartered Accountants will retire after audit of 2019-20. Being eligible, they have offered themselves for reappointment as external auditors for 2020-21. Board of Directors has recommended the name of M/s. A.F. Ferguson & Company, Chartered Accountants as auditors for the year ending June 30th, 2021.

On behalf of the Board

Chief Executive

Director