

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, 2022 together with the Auditors' report thereon.

Profit and Loss Appropriations

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

	2021 – 22	2020 – 21
	<i>Rupees</i>	
Profit Before Tax	298,875,300	218,451,012
Taxation	77,656,884	83,523,629
Profit After Taxation	221,218,416	134,927,383
Un-appropriated Profit as at July 1st, 2021 / 2020	145,952,204	323,524,821
	367,170,620	458,452,204
Appropriations during the year		
- Final Cash Dividend for the year 2020-21 @ NIL (2019-20: NIL)	-	-
- Interim Dividend for 2021-22 @ 50% (2020-21 : 125%)	(125,000,000)	(312,500,000)
Un-appropriated Profit as at June 30th, 2022 / 2021	242,170,620	145,952,204

Subsequent Effects

	2021 - 22	2020 - 21
The Board of Directors of the Company in their meeting held on Oct. 3 rd , 2022 have recommend final dividend payment:		
- Final Cash Dividend @ 00% (2020-21 : NIL)	-	-
- Interim Cash Dividend @ 50% (2020-21 : 50%)	125,000,000	125,000,000
	125,000,000	125,000,000

Financial Results

The revenue for the year reflected a growth by 9.58% to Rs. 2.025 billion as compared to Rs. 1.848 billion of previous year, resulting in higher after-tax profitability by Rs. 86 million for the year as compared to Rs. 135 million for the previous year.

Increase in revenue is primarily from enhancement in coverage of bank branches and increase in scope of ancillary services to the cheque clearing activities which is marginally offset by decrease in BISE printing business.

The Earnings per Share (EPS) of the Company for the year stood at Rs. 8.85 against Rs. 5.40 for the previous year.

Cost of Services during the year increased by 8.6% from previous year to Rs. 1.543 billion as compared to Rs. 1.421 billion of previous year. The increase was primarily from increase in cost of courier services due to increase in courier charges and enhancement in coverage of bank branches as well as increase in sale of PKI certificates and ijarah rentals. The salaries and wages expense in cost of services reduced by Rs. 27 million despite increment due to VSS cost reflected in the previous year.

During the year, the Company also recorded a provision of Rs. 31 million on prudence basis in relation to a disputed cheque transaction without admission to any liability in this regard. The matter is under investigation by FIA and the Company will evaluate the actual liability against any potential claim against any of the parties or insurance after completion of the investigation.

Other Income of Rs. 122 million primarily includes Rs. 100 million Dividend received during the year from subsidiary company Image Systems Marketing (Pvt) Limited. The income from placement of term deposits and other interest income reduced by 54% to Rs. 13.3 million from Rs. 28.8 million due to lower cash and cash equivalents balance during the year.

During the year allowance for expected credit loss of Rs. 4.6 million was booked on the receivables from Board of Intermediate and Secondary Education – Punjab related to printing business done in 2017, 2018 and 2020 as per IFRS-9. No specific provisions were recorded on these receivables in addition.

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. 34 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. During the year the Company paid Rs. 57 million in relation to the payroll financing facility in comparison to the cash inflow of Rs. 81 million in previous year. At the end of the year, the Company had a net positive position comprising cash and cash equivalent amounting to Rs. 255 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 interim cash dividend of Rs. 125.0 million (50%) based on Nine months' review of current year's financial statements.

The Board of Directors recommended 35% final cash dividend for the year under review (2020-21: NIL).

Operations and Significant Events**CHECK CLEARING OPERATIONS**

For the period under reporting overall clearing revenue increased by 10% to Rs. 1.8 billion as compared to Rs. 1.65 billion in previous year. Increase was primarily attributable to collection and delivery revenue. Standard clearing services rates were increased from 1st July 2019 as agreed in rate review committee of SBP, PBA & NIFT to be effective for three years.

Clearing volumes in 2021-22 have registered an increase of 1.4% as compared to last year (45.6 million instruments as compared to 45 million instruments). The increase is primarily in clearing volumes of normal standard clearing instruments by 7.4% (27 million instruments as compared to 34.5 million instruments) while a significant decline by 16% has been observed in normal non-standard clearing instruments (9.2 million instruments as compared to 10.9 million instruments). A further decline is observed in inward clearing of non-standard articles by 20% (7.2 million instruments as compared to 9 million instruments).

Courier revenue increased by 16% due to increase in rates from October, 2022 with increased coverage of bank branches in clearing grid as well as application of fuel adjustment charges from April 2022 onwards.

During the year, the Company filed a rate review application to SBP and PBA for a 40% rate increase effective 1st July 2022 and thereafter a bi-annually revision of schedule of charges based on CPI and increasing cost of services. The previous rate revision of 25% was allowed for three years effective from 1st Jul 2019. The meeting is expected to be held and concluded during the month of October 2022.

Major Highlights

- Reviewed and revised the Operational Processes / SOPs and circulated/enforced them to all NIFT Centers.
- Upgraded In-house Clearing Applications (NACHCAP / NACHSYS / RTGS / Image Loader) to improve operational processes.
- Operation centers closely worked with banks-branches and ensured smooth pickup, delivery and processing of clearing instruments in the locked down and pandemic situations of Covid-19 where several Banks-Branches/CPU's shutdown their operations or shifted to other/alternate premises.

- Performed renovations/shifting of 4 Ops centers (Sukkur, Larkana, Nawab shah and Jhang) and shifted then to less costly premises, resulted saving in rental cost. Also reviewed other operational expenses of all the centers and reduced expenses where possible.
- Beside successful BPC drills in 4 big centers (i.e. KHI, LHR, ISB & RWP), designed and implemented the cost-effective business continuity strategy by procuring and implementing 5 BCP Kits placed in NIFT regions. Successfully performed BCP drills further 10 centers (i.e. QTA, HYD, FSB, MUL, BWP, SKT, GUJ, SUK, LKR and PSH).
- Rolled out clearing operations in new satellite areas which converted several loss-making centers into profit. More than 900 satellite banks-branches have been added in the clearing grid which covered additional 75 cities. NIFT is now serving over 14,475 banks-branches by covering 620 cities.
- Designed and developed the “NIFT Digital Cheque Mobile Application” with included the complete workflow of “eCheque” as well as “Digital Cheque Deposit” products for individual customers. Presented the mobile application to SBP and few banks. Finalizing the SOP with SBP and discussing with banks for pilot testing and integration.
- Designed the strategy to expand the Same Day clearing to other areas of big cities by setting up boots/sub-centers. Solution is under development to scan and process cheques remotely.
- Designed the concept to develop “Cheque Credit Score” and “Verified Cheque” Mobile Applications as directed by SBP.
- In consultation with banks and courier companies, formulated and implemented a strategy of Fuel Price Adjustment on courier charges to accommodate the constantly increase in fuel prices without revision of courier rates.

UTILITY STUBS PROCESSING

During the year contracts from KE, SNGPL, KWSB, SSGC continued. The revenue increased by 7% to Rs. 110 million from Rs. 103 million of previous year.

The negotiation with KWSB has been finalized with rate increase to Rs. 5.81 from Rs. 3.00 per stubs whereas agreement with KE is in process with expected increase of 25% from existing rates.

PUBLIC KEY INFRASTRUCTURE (PKI)

In the reporting year, revenue was increased by 50% to Rs. 76 million as compared Rs. 51 of previous year. Increase in revenue was attributable to higher SSL volumes and exchange rate.

E-PAYMENT GATEWAY (NIFT e-PAY)

NIFT ePay obtained approval for commercial operations from SBP after completing relevant prerequisites laid out in SBP's rules for PSOs and PSPs on 7th September 2021 after their inspection.

During the year, 04 banks went live on NIFT ePay taking the total number of live banks on NIFT ePay to 12. By end of the year, NIFT ePay had additionally signed agreements with 07 more banks and currently in process of enabling all these banks on NIFT ePay. Discussions are ongoing with the remaining banks in Pakistan to achieve NIFT ePay's ambition to create an inclusive and interoperable payments platform.

NIFT ePay also continued to strengthen the demand side of payments including merchants enabled directly through NIFT and Merchant Aggregators. The number of NIFT's directly enabled merchants at the end of the year is 23 with an additional 18 merchant aggregators live.

BATCH PRINTING BUSINESS

During the year batch printing business has continued for Lotte Kolson and Rupali Foods. The project involves printing of batch information on food packages. Batch information contains manufacturing date and time, expiry date and production batch number. 90 hi-tech printers are installed at two locations for this purpose. In the reporting year, revenue of Rs. 14.6 million was booked compared to Rs. 21 million last year. Decrease of revenue is due to combination of increase and decrease of batches. During the year the Company didn't record a revenue of Rs. 9.7 million from minimum guaranteed volumes as per the contract. The Company intends to invoice and negotiate with both customers to ensure full receipt of this revenue along with the continuation of the arrangement.

RISK & COMPLIANCE

Significant events in the reporting year:

- SBP completed their Cybersecurity inspection and provided their on-site assessment report. The inspection was concluded on 31st January 2022 with a period covering from 1st January 2020 to 31st December 2021. The final report was provided on 2nd Jun 2022 covering 05 areas of Report consists of 5 sections. IT Operations, Board of Directors, Senior Management, Risk Management, Internal Management with total 35 observations.
- During the year the Company prepared and implemented the approved Cybersecurity framework along with its action plan. The Company also prepared and implemented the approved Risk management framework.

INFORMATION TECHNOLOGY

Following major updates from Infrastructure and Technology areas for the year:

- Upgrade to Sophos firewall.
- All Flash SAN to enhance the performance of IBCS web portal and data loading banks instead of licensing of SQL Server EE to supports Asynchronous Always On. The real time replication of Images data would be managed by application architect redesigning and using DFS replication service of Windows server.
- During the year Oracle completed its License audit which resulted in significant deficiencies in license available and licenses required especially in ERP area. The Company is reviewing its infrastructure and systems requirements to reduce the dependency on Oracle licenses. Discussions are also underway with Oracle to procure the deficiencies.
- Successfully Window 8.1 upgrade to Windows 10 on existing client machines hardware.

INTERNAL AUDIT

NIFT has an in-house Internal Audit Department comprising qualified internal audit professionals. Internal Audit team works under the approved Internal Audit Charter / Policy formulated as the provisions of the applicable Laws and Regulations and duly approved by the Board of Directors. Along with the policy, IAD carries out task as determined in the annual internal audit plan and any special assignment as directed by the BOD, Audit Committee and the CEO. IAD follows Risk-based Internal Audit Methodology under which Annual Internal Audit plan is derived from the Audit Universe after determining risk associated with each auditable entity/process/function. IAD has during the period performed multiple audits including coverage of technology related areas.

SIGNIFICANT EVENTS

Super Tax

In the Finance Act 2022, the Government of Pakistan implemented a super tax on tax year 2022. In this regard the Company has recorded a tax liability of Rs. 4.99 million as per the relevant slab.

FUTURE PROSPECTS & PLANS

Image based clearing - Efforts are in place to launch roll-out the second phase of IBCS during the year as phase 1 has been rolled out and discussions as well as alignment with Regulator and Banks on the operating model are finalized. In parallel efforts will also continue to develop road map for the next digital progress to cover technology front, financial modelling and time lines of implementation plan. The Company is fully committed to invest in new technologies and provide best digital solutions to digitize and automate the transaction processes as per digital banking vision.

E-Payment Gateway – Successfully launched and consolidated commercial operations of e-payment gateway during the year. The efforts are in progress to expand the financial network coverage to include more banks as well as enhance the merchants network. Along with enhancement of coverage from both ends, significant efforts are being made to improve the user interface and experience to ensure positive customer feedback. The Company has planned to conduct advertisement activities in next year to enhance the scale of transactions in line with plans to onboard and activate high volume merchants.

Divesture of PKI Business Segment – In order to tap true market potential of PKI business the Company collaborated with a team of technical experts to form a new company in partnership with NIFT to carry on PKI business under new brand name. During the year a new Company naming Khazana Digital E-Trust (Pvt) Limited has been formed to transfer the PKI business to the new company. Share-Purchase Agreement has been signed regarding purchase of significant stake by the new partners while the Shareholders' Agreement is under progress. The Company expects to complete the transaction by December 2022.

Business opportunities of outward clearing – Inline with the Image Based Clearing regime, the Company is working on new business opportunities to provide outsourcing services to customer banks for digitization of cheque and related instruments along with enhancement of the services and products portfolio to instrument digitization and logistics services.

INDUSTRIAL RELATIONS

Peaceful industrial relations prevailed at all locations of the Company. Essential Service cover for the extended till February 2023.

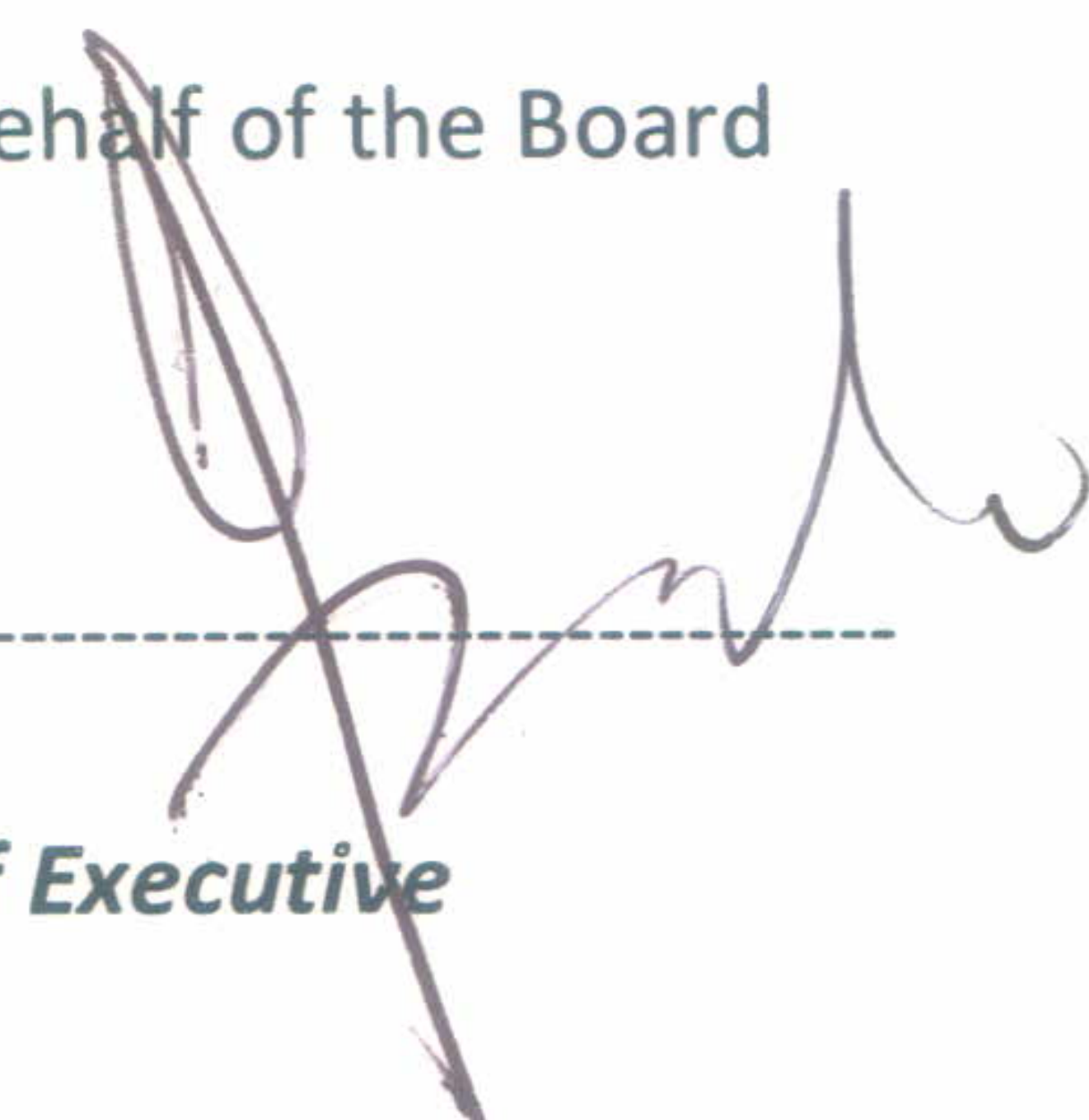
DIRECTORS

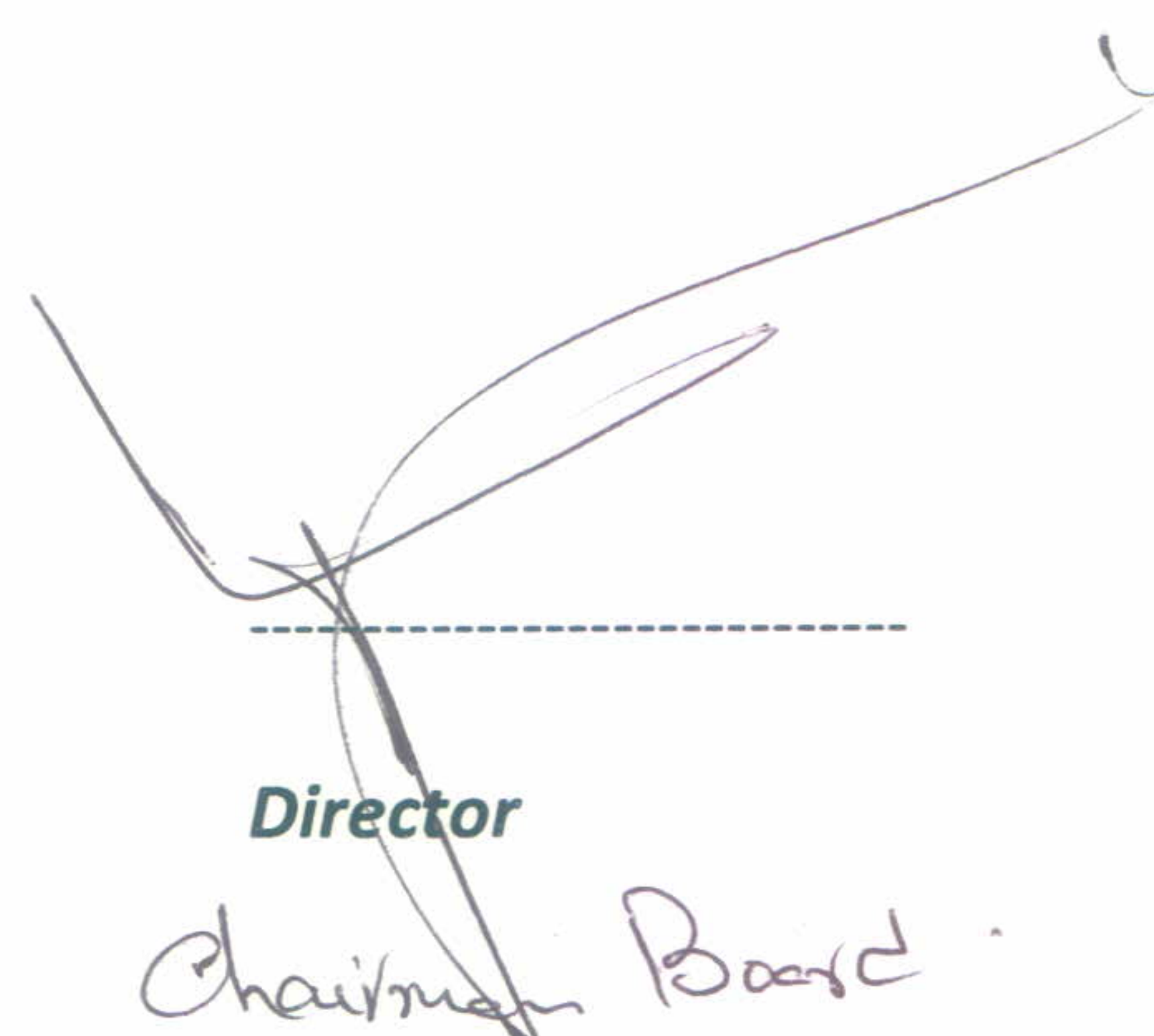
Since the last Annual General Meeting held on 25th October 2021, one new Director Mr. Muhammad Muzaffar Khan has joined the Board. During the same period Mr. Muhammad Amin has resigned from the Board.

AUDITORS

The auditors A. F. Ferguson & Company, Chartered Accountants will retire after audit of 2021-22. Being eligible, they have offered themselves for reappointment as external auditors for 2022-23. Board of Directors have recommended the name of M/s. A.F. Ferguson & Company, Chartered Accountants as auditors for the year ending June 30th, 2023.

On behalf of the Board



Chief Executive

Director
Chairman Board