ANNUAL BANK SUPERVISION REPORT

2003-2004

NEPAL RASTRA BANK
BANK SUPERVISION DEPARTMENT
CENTRAL OFFICE
KATHMANDU
September 2005

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Foreword

Foreword

This annual report has been prepared covering all the activities of the Bank Supervision Department during the year 2003-04. Purpose of this report is to provide an overview of the departmental activities to the users of this report and general public at large. Bank Supervision Department has been executing supervisory functions entrusted by Nepal Rastra Bank Act 2001 so as to ensure whether commercial banks are operating prudentially and complying with regulatory requirements. The ultimate objective of the supervision lies in the protection of the depositors' interest.

Tuning with the present scenario of globalization and increased economical activities in the country, commercial banks are now introducing complex and innovative banking products. This has amplified as well as diversified the functions to be performed by the Bank Supervision Department. In this light, Bank Supervision Department has adopted Risk Based Supervision both at Onsite and Offsite Level. Offsite surveillance can often identify potential problems, particularly in the interval between on-site inspections, thereby providing early detection and prompting corrective action. Onsite inspection ensures that returns received from the commercial banks are reliable and the banks are operating in line with prudential banking practice and complying with applicable laws and regulations.

Nepal Rastra Bank is heading towards successful implementation of Basel II in our country. For this we have already formed an accord implementation group for proper analysis and formulation of necessary directives. This will again enhance our strength in the course of supervision.

I am thankful to the team who has worked hard to prepare this Annual Supervision Report. Any constructive suggestions and recommendations from the users of this annual report shall be highly appreciated.

Rajan Singh Bhandari
Executive Director
Bank Supervision Department
Nepal Rastra Bank

1 Bank Supervision in Nepal

1.1 Introduction:

One of the missions of Nepal Rastra Bank is to promote safe, sound, accessible banking system and stable financial market through supervision and regulation of the nation's banking, financial, and payment system and through effective implementation of statutes designed to inform and protect the consumers and depositors.

Bank Supervision Department is responsible for executing the supervisory policies to ensure effective supervision of commercial banks of the country. The elements of the supervisory process encompassed in the objective of the Department include on site examination, Offsite supervision and enforcement of prescribed regulations. Department's functioning is broadly regulated by the Inspection and Supervision Bye Law, 2059.

Trained examiners and analysts in the Bank Supervision Department supervise and monitor the activities of commercial banks. In addition to monitoring the financial condition of the banks, examiners also review compliance with applicable laws and regulations and seek corrective measures where necessary. For effective supervision and enforcement action' Department function is divided in five division or units, namely Policy planning, Onsite Inspection, Offsite supervision, enforcement and Internal administration division.

1.2 Principles of Supervision:

Bank Supervision Department believes that the manner in which supervision policies are implemented is critical to the vitality of the banking system. Bank Supervision Department has adopted banking supervision principals promulgated by Basel Committee on Banking Supervision (BCBS) as guiding principals while formulating supervision plan and policies. For this reason, the Department adheres to following eight key operating principals to guide its processes:-

Risk-Based Supervision:

Risk-Based supervision is a process by which the risks facing each supervised bank is analyzed and an appropriate supervisory strategy is developed. The supervisory strategy is customized to each bank, thereby avoiding the rigid supervisory processes. Risk-focused supervision relies heavily on internal risk management processes. Those banks with a demonstrated ability to identify, measure, monitor and control the risk of financial loss will receive a reduced level of regulatory scrutiny during offsite financial analysis and compliance review. Reduced regulatory scrutiny may include infrequent examinations and minimal or no transaction testing and reduced application information and processing time requirements.

Integrated Overall Supervision:

Integrated supervision is the coordinated implementation of one or combination of supervisory activities among all supervisory functions in order to make the best possible decisions.

Coordinated Supervision within the Department:

Bank Supervision Department has onsite and offsite divisions. On site inspection report is reviewed during annual offsite review and the offsite review is taken as supplementary to the onsite supervision.

Service and Outreach:

Bank Supervision Department is committed to providing the best quality service possible. One means by which we will pursue this goal is by making resources available to the banking industry as many ways as possible: through participation in industry gatherings and presentations offered to industry representatives, and by making division staff available on a consulting basis. We recognize customer service as a key in our ultimate goal of excellence in supervision.

Open and Honest Communications:

Bank Supervision Department believes that open and honest communication is an important part of the supervisory process. As a part of these communication means' we are committed to providing banking industry with the best professional guidance and assistance possible. Informal contacts with commercial banks and industry associations are encouraged as a means by which to respond promptly to issues and development.

Reduced Regulatory Burden:

Bank Supervision Department believes that the public interest in a stable and efficient financial system is best served by minimizing the regulatory burden that is placed on the industry. The degree and regulatory burden is based on the financial soundness of each individual bank.

Use and Understanding of Technology:

Bank Supervision Department recognizes the value of technology as applied in the supervisory framework. Among other applications, management and staff are committed to employing technology to monitor the condition and operation of supervised commercial banks to the greatest possible extent.

Professional and Technical Competence:

Bank Supervision Department actively encourages the development of professionalism and technical competence among its staff. The combined effect of personal contact with banks between examination and the quarterly review and analysis of CAELS results will undoubtedly improve our staff's ability to assess and supervise the condition of any particular bank. It is also our goal for the quarterly financial analysis to foster a closer and more personal working relationship with each bank.

1.3 Industry development:

After the successful implementation of 1988 capital accord in more than 100 countries, the Basel Committee on Banking Supervision reached an agreement on a number of important issues for promoting prudential and uniform banking practices as well as setting standards and guidelines for supervisory functions. Realizing the fact, it has developed a new comprehensive framework for capital requirements based on the various risk exposures of the banking business, which is also popularly known as Basel–II. The Basel–II has been introduced basically for the protection of depositor's interest by preserving the integrity of capital of Banks. It is expected that the Basel–II will be a milestone in the global banking history

Key Elements of the New Accord:

The New Accord consists of three re-enforceable pillars:

(1) Minimum capital requirements,

(2) Supervisory review process and

(3) Market discipline.

The proposals comprising of each of the three pillars are summarized below:-

Pillar 1: Minimum capital requirements:

The current accord is based on the concept of a capital ratio where the numerator represents the amount of capital a bank has available and the denominator is a measure of the risks faced by the bank and is referred to as risk-weighted assets. The resulting capital ratio may be not less than 8%.

The current accord explicitly covers three types of risks in the definition of risk-weighted assets: (1) credit risk (2) market risk, and (3) operational risk

A major innovation of the proposed Basel–II is the introduction of three distinct options for the calculation of three types of risk. It is not feasible or desirable to insist upon a one-size-fits-all approach to the measurement of either risk. Instead, for credit, operational and market risk, there are three approaches of increasing risk sensitivity to allow banks and supervisors to select the approach or approaches that they believe are most appropriate to the stage of development of bank's operation and of the financial market infrastructure. The following table identifies the three primary approaches available by risk type.

	Credit Risk	**Operational Risk**	**Market Risk**
1	Standardized Approach	Basic Indicator Approach	Variance Co-variance Approach
2	Foundation IRB Approach	Standardized Approach	Monte Carlo Simulation Approach
3	Advanced IRB Approach	Advanced Measurement Approaches (AMA)	Historical Simulation Approach

Credit risk:

A bank always faces the risk that some of its borrowers may renege on timely repayments of loan, interest on loan or meet the other terms of contract. This risk is called credit risk, which varies from borrower to borrower depending on their credit quality. Basel–II requires banks to accurately measure credit risk to hold sufficient capital to cover it.

Factors affecting credit risk can be summarized by the following formula:

Expected Loss (EL) on a loan = Exposure at default (EAD) X Loss given default (LGD) X Probability of Default (PD).

The bank can also suffer losses in excess of expected losses, say, during economic downturns. These are called unexpected losses. Ideally, a bank should recover expected loss on a loan from its customer through loan pricing. The capital base is required to absorb the unexpected losses, as and when they arise.

Market risk:

Investment is risky because of the change in their prices due to market forces. This volatility in the value of a bank's investment portfolio is known as the market risk, as it is driven by the market forces. The change in the value of the portfolio can be due to changes in interest rate, fluctuation in exchange rate or the changes in the values of equity or commodities.

Operational risk:

Several events that are neither due to default by third party nor because of the volatility of the market mechanism are called operational risks and can be attributed to internal systems, processes, people and external factors.

Pillar 2: Supervisory review process:

Pillar II ensures that not only do the banks have adequate capital to cover their risks, but also that they employ better risk management practices so as to minimize the risks. Capital cannot be regarded as a substitute for inadequate risk management practices.

This pillar requires that if the banks use asset securitization and credit derivatives and wish to minimize their capital charge they need to comply with various standard and control. As a part of the supervisory process, the supervisors need to ensure that the regulations are adhered to and the internal measurement systems are standardized and validated.

The supervisory review process is based on four principles:

Principle 1: Banks should have a process for assessing their overall capital adequacy vis-à-vis their risk profile and a strategy for maintaining their capital levels.

Principle 2: Supervisors should review and evaluate bank's internal capital adequacy assessments and strategies, as well as their ability to monitor and ensure compliance with regulatory capital ratios. Supervisors should take appropriate supervisory action if they are not satisfied with the result of this process.

Principle 3: Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum.

Principle 4: Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored.

Given the kind of responsibilities, the supervisor's role assumes high importance in the Basel–II . Pillar II does not seek to harmonize supervisory processes across countries as they have different supervisory objectives, legal processes and authority of supervisors. It allows for sufficient national discretion but still it wants supervisors to maintain some degree of consistency in their approaches.

Pillar 3: Market discipline:

Banking operation is becoming complex and difficult for supervisors to monitor and control. Though supervisors try to indoctrinate corporate governance in banks, they can take indication from the market to strengthen their supervisory and monitoring activities. In this context, Basel Committee has recognized that market discipline is so important that it warrants being the third pillar of Basel–II norms.

This market discipline is brought through greater transparency by asking banks to make adequate disclosures. The potential market participants of these disclosures are supervisors, bank's customers, rating agencies, depositors and investors.

With frequent and material disclosures, outsiders can learn about the bank's risk. Armed with this information, the outsiders can always protect themselves by ending their relationships with the bank.

Market discipline has two important components:

- Market signaling is the form of change in bank's share prices or change in bank's borrowing rates
- Responsiveness of the bank or the supervisor to market signals

Seeing the importance of the impact that the market can have on banks, Pillar III provides a comprehensive menu of public and regulatory disclosures like disclosures related to capital structure (core and supplementary capital), capital adequacy, risk assessment and risk management processes to enhance the transparency in banking operations.

Impact of Basel–II:

Basel–II norms are expected to have far-reaching consequences on the health of financial sectors worldwide because of the increased emphasis on banks' risk-management systems, supervisory review process and market discipline.

The new norms bring to front not only the issues of bank-wide risk measurement but also of active risk management.

1.4 Development in supervisory framework:

Comprehensive onsite inspection manual has been developed in line with international standard, which is based on principle of Risk Based Supervision (RBS). Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk are well addressed in the manual providing guidance for effective on site supervision. CAMELS rating for internal purpose are basic indicators for further monitoring and necessary action in the areas of problems.

Bank Supervision Department conducts periodical financial surveillance and monitoring based on the reports and returns received from the commercial banks and provide pre-examination analysis and other analytical support to onsite supervisors and supervision Department management.

Financial analysis and reviews of the offsite division works as an early warning signal helps to identify those commercial banks, which display a high probability of financial constraints. Offsite supervision reports are useful to identify the areas of review in the pre-onsite inspection planning process. Risk focused inspection (special inspection) and corporate level inspection may be recommended if need for such requirement is identified during the offsite review.

Objectives of the Nepal Rastra Bank include regulating, inspecting, supervising and monitoring financial system. Accordingly banking legislation has been amended over time and is currently being revised and strengthened in order to make the power and authority of the

Nepal Rastra Bank as regulator and supervisor of commercial banks more effective. Section 84 of the Nepal Rastra Bank Act, 2058 authorizes the NRB to inspect and supervise the commercial banks. Board has framed and implemented inspection and supervision byelaw, 2059 confirming to international standard for inspection and supervision of the commercial banks licensed by the Nepal Rastra Bank.

Necessity to consolidate prevailing laws relating to bank and financial institutions was felt and Bank and Financial Institution Ordinance 2061 was enacted, which has come into effect from 4th February 2004. Some amendments in the Bank and Financial Ordinance, 2061 and Nepal Rastra Bank Act, 2058 were also made as considered necessary.

Directive in respect of Credit Information and Blacklisting was issued on 2060-06-01 repealed and new directive on 2061-02-22. To regulate consortium loans granted by bank and financial institutions directive on Consortium loans was also issued on 2061-02-18. Similarly directive regarding Provision on Non-Banking Assets was issued on 2060-10-29

1.5 Assessment of compliance with the Basel Core Principles For Effective Banking Supervision:

NRB has adopted Basel Core Principles for Effective Banking Supervision as guideline for supervision of commercial banks. Core principles methodology adopted by Basel Committee provides a uniform template for both self-assessment and independent assessment. It involves four part qualitative assessment system: compliant, largely compliant, materially non-compliant, and non-compliant. For each principle essential and additional criteria are defined. To achieve a "compliant' assessment with a principle, all essential and additional criteria must be met without any significant deficiencies. A "largely compliant" assessment is given if only minor shortcomings are observed, and these are not seen as sufficient to raise serious doubts about the authority's ability to achieve the objective of that principle. A "materially non-compliance assessment has made when the shortcomings are sufficient to raise doubts about the authority's ability to achieve compliance. A "non-compliant" assessment is given when no substantial progress towards compliance has been achieved. Following self-assessment was based on this methodology.

Objectives, autonomy, powers and resources (Principle 1)

Most of the essential criteria for each of the six sub-principles of CP1 were considered to have been met. Nepal Rastra Bank Act, 2058 has legally recognized Nepal Rastra Bank as the only supervisory authority not only for commercial banks but also the whole financial Institution of the country. Powers and duties of Nepal Rastra Bank as a supervising agency have been clearly laid down.

Licensing and structure (Principles 2-5)

Bank Supervision Department has assessed "Compliant" status of these principles.

Prudential regulations and requirements (Principles 6-15)

Clear directives has been issued regarding minimal capital requirements, loan loss provisioning, single obligor limit, accounting policies, insider lending etc. Risk management policies and other internal control systems of commercial banks are periodically reviewed for effective supervision.

Supervision reports indicate commercial banks are not complying with specific directives as well as prudential guidelines. Currently NRB is in the process of issuing revised set of directives. Thus it can be concluded that there are areas of improvement to achieve compliance status with Pr. 6-15.

Methods of ongoing supervision (Principles 16-20)

Bank supervision Department has both on site and off site supervision system in place. Standard formats are prescribed for regular reporting of statistical data of the banks, which is verified, on onsite examination to establish reliability of data. Corporate level examination of banks is done to ensure supervision of the banks on consolidated basis. It is assessed that Pr. 16-19 is largely complied with.

However there is supervisory concern over the matter of issues raised in the earlier onsite examination remaining uncorrected in the subsequent examination. Consolidated supervision (Pr.20) was a critical issue because of the prevalence of cross-ownership and other links between and among banks and financial institutions.

Information requirements (Principle 21)

Banks are required to publish their data on quarterly basis and annual reports with complete disclosure in the statutory formats laid down by the NRB. Banks are generally inspected every year with gap of not more than two years to ensure that the data submitted by the banks are reliable and up to date and bank maintains records as per the consistent policies and practices to ensure availability of true and fair picture of the banks earnings and financial position. Efforts are being done to Inspect all Commercial bank every year.

However, difference between the provisional figure and audited figure of the financial statements is found to be above acceptable limit in respect of most of the commercial banks. Requirement of the periodical returns was almost not complied by the two public sector banks. With the expected improvement, Pr.21 system was assessed as largely compliant.

Formal powers of the supervisors (Principle 22)

Pr.22 was assessed largely compliant. Banking supervisors are entrusted with the clearly laid down powers under the Nepal Rastra Bank Act, 2058 and Bank and Financial Institution ordinance, 2061. Corrective measures are taken when prudential regulations are violated and depositors are threatened in any other ways.

Cross Border Banking (Principles 23-25)

Nepal was assessed to be compliant with Principles 23-25 because foreign banks do not have any branches in Nepal nor does any Nepalese bank have any branch outside Nepal.

2 Supervisory Activities in 2003/04

Enactment of Nepal Rastra Bank Act, 2058, Implementation of Inspection and Supervision Byelaw, 2059, consolidation of banking and financial institution Acts into Bank and Financial Institution Ordinance, 2061, Restructuring of the Department and capacity building program of Bank supervision Department under NRB Re-engineering had laid many opportunities and challenges in front of the Department. Responsibilities are required to be more defined clearly and priority target needs to be segregated from the general one. This requires proper planning and implementation thereof. In this context, Department prepares annual plan for onsite and offsite supervision according to which supervision work is carried out in coming year.

2.1 Annual Plan:

Increased number of commercial banks, increase in competition complexities of banking products and varied nature of transactions has put more challenge to improve existing supervision technique. It was felt that contemporary changes in the supervisory methods for identification of risk in the banking system are required. Accordingly, alteration in the inspection and supervision technique was made in line with "Inspection and Supervision Byelaw, 2059" and "On-site Inspection manual"**.** Byelaw provides that all commercial banks are subject to a full scope on-site examination once a year and it also provides for deadline of the on-site and offsite reports. However, Bank Supervision Department has planned to have corporate level (full scope) on site inspection of all commercial banks in financial year 2061/62 as declared in monetary policy. Following supervision plan was made for the financial year- 2004-05.

S.No.	Supervision Work Plan Detail
1	**Onsite Inspection**
1.1	Corporate level inspection of all commercial banks.
1.2	Target inspection of Damak, Jaleshor, Bharatpur, Tansen, branch of Rastriya Banijya Bank and Dhulabari, Malangawa, Narayangadh, Nepalgunj, Palpa, and Duhabi branch of Nepal Bank Limited.
2	**Offsite Supervision**
2.1	Preparing quarterly consolidated offsite supervision report reflecting financial analysis and compliance to directives and regulations.
2.2	Preparation of annual offsite supervision reports of every commercial banks.
3.	**Report enforcement**
3.1	Compilation, study analysis approval and monitoring of policies, work plan and other papers of commercial banks
3.2	Preparing quarterly report reflecting implementation status of each bank
3.3	Monitoring implementation status of offsite supervision report.
4	Publication of annual report of Bank Supervision Department.
5	Capacity Building Programs (such as seminar, workshops, interaction programme and trainings etc.)

This work plan reflects normal routine supervisory function of the Department. Special supervision, and ad-hoc supervision is normally carried out as and when needed. Department also executes other necessary activities related to bank supervision. For example Department is working on the implementation of "New Capital Accord" (Basel–II) in all commercial banks of Nepal by Mid July, 2007.

2.2 On-site supervision:

During the year under review' the Department carried out a number of full scope inspection of commercial banks, which was designed to provide supervisory assurance on the financial condition and soundness of the banks supervised. Onsite Inspection was carried out focusing mainly on the appraisal and verification of capital, asset quality, management, earnings, liquidity and sensitivity to risk and compliance with regulatory requirements.

During the year 2003/04 Corporate level inspection of Nepal Bank Limited, Rastriya Banijya Bank, Nabil Bank limited, Nepal SBI Bank Limited, Nepal Bangaladesh Bank Limited, Nepal Credit and Commerce Bank Limited, Lumbini Bank limited, Machhapuchhre Bank Limited and Kumari Bank Limited were completed.

Rastriya Banijya Bank

Corporate level inspection of the bank was completed on 31st Ashad 2061. Report writing was on progress. During the year under review 11 branches of Rastriya Banijya Bank were inspected including 3 branches, which were visited for Letter of Credit Inspection. However, no pertinent improvement was noticed in branch management after handover of management to the contracted People.

Nepal Bank Limited

Corporate level inspection of the bank was completed on 31st Ashad 2061. Report writing was on progress. During the year under review 11 branches of the Bank were inspected However, no remarkable change in branch management was noticed after takeover of management by foreign consulting firm.

Kumari Bank Limited

Corporate level inspection was completed during period from 2060-8-1 to 2060-10-14 on the basis of financial statements of 2060 Ashwin. The inspection report is submitted to the board for approval.

Nepal SBI Bank Limited

Corporate level inspection of the bank has been started on 2060-10-13 and completed on 2060-12-27. Inspection report is in the process of submission to the board.

Nepal Credit and Commerce Bank Limited

A special inspection team was assigned to review compliance status of directives given to the bank on 2060-4-9. Following directives were given to the bank as per inspection report of the inspection team.

1. To submit following documents in addition to regular return to Nepal Rastra Bank.

   - Details of all new and additional loans and advances made by the bank.
   - Details of Total loans outstanding, recovery of the month, Interest receivable and Interest suspense.
   - Summary list of assets purchased or taken over by the bank for value above Rs. 1 Million.

2. Regarding Single obligor limit on loan disbursement, existing limit of Rs. 30 Million in Funded, Rs. 60 Million in Non-funded and 50 Million in TR continue to remain valid.
3. To implement written commitments made by Director and Managing Director on 2060-5-4.

Restriction on branch extension and deposit collection was also released and approval was given to process for public issue of Equity share.

The bank was also subject to corporate level inspection during the period from 2060-8-1 to 2060-10-26. The inspection was based on cut off date of 2060 Ashwin end. Follow up of the implementation status of directives given earlier was also made during the inspection. Inspection report is in the process of submission to the board.

Machhapuchhre Bank Limited

Corporate level inspection was completed during period from 2060-5-24 to 2060-6-20 on the basis of financial statements of 2060 Ashad. The inspection report is submitted to the board for approval.

Nepal Bangaladesh Bank Limited

Corporate level inspection was completed during period from 2060-8-1 to 2060-12-17. Inspection report is in the process of submission to the board.

Nabil Bank Limited

Corporate level inspection was completed on 2060-11-17. The inspection report is approved by Policy and Directives Implementation Committee for submission to the board.

Lumbini Bank Limited

Corporate level inspection of the bank was completed during 2060-5-15 to 2060-7-17. The inspection report is submitted to the board for approval.

2.3 Off-site Supervision:

Offsite supervisory activities during the year were focused on the following areas:

In the course of giving clearance to commercial banks to publish their annual accounts seven banks were instructed to make additional loan loss provision, two banks were given directives regards compliance as to minimum capital fund requirements, three banks were issued directives for non compliance of single obligor limits, five banks were instructed to publish their accounts in the statutory format prescribed by NRB some annexure of the financial statements submitted for approval were not in prescribed format, six banks were instructed to improve their credit management practices and three banks were instructed to improve their reconciliation system. One bank was also issued instruction on providing loan to Promoter shareholder against the provisions of Bank and Financial Institutions Ordinance, 2061. Banks are instructed to publish these directives in their annual reports.

Bank-wise details of instructions and directives issued in course of clearance of annual accounts are given hereunder:

Periodical Analysis

This was primary function of offsite supervision. This involved verification and analysis of weekly, monthly and quarterly returns received from commercial banks. Financial ratios and trend was analyzed alone with other indicators in the areas of capital, assets quality, liquidity, earnings and sensitivity to market risk. Department has prepared quarterly offsite report from second quarter of the year under review for commercial banks except for two public sector commercial banks. These two public sector banks are still defaulting in submission of periodical returns. Quarterly compliance report was also prepared as part of abovementioned reports. Capital adequacy, loan classification and provisioning, ceiling on investment in share and debentures and other regulatory requirement as well as financial conditions of the commercial banks are regularly monitored through these reports.

These reports were used as early warning signal and basis for recommendations of onsite inspection as well as indication of high-risk area or problem area.

Appraisal and Approval of Financial Statements

Annual Offsite Supervision Report of all the commercial banks was prepared and approval was given to publish financial statements with instruction to publish following directives in a separate leaflet of the annual report.

Nabil Bank Limited

- Submit Recovery and status report of loans written off on quarterly basis.
- In respect of dividends unclaimed and unpaid for more than five years, take necessary steps as per clause 3 of Section 82 of Bank and Financial Institutions Ordinance 2061

Kumari Bank Limited

- Transfer 10% of paid up capital to Capital adjustment fund before declaring dividends.

- Appoint coordinator of audit committee and inform Nepal Rastra Bank.
- Update credit policy in respect of Loan recovery procedures.

Bank of Kathmandu

- Make additional provision of Rs 9 lacs and accordingly make adjustments in employee's bonus.
- Provide for 100 per cent loan loss provision within next quarter in respect of two parties whose business is not in operation.
- Publish amended annexure 24 showing calculation of risk weighted assets showing claims made on bank but not accepted by bank in other contingent liabilities under 100 per cent risk weight category instead of showing it as performance bond under 50 per cent risk weight category.
- Make necessary disclosure in annexure 27 regards effect of showing income from foreign exchange operation as net of expenses while previous year income is shown in gross figures.
- Annexure of capital fund to be amended to include provisions on pass loans only under supplementary capital instead of showing provisions on pass loans as well as rescheduled & restructured loans.

Laxmi Bank Limited

- Strengthen internal audit Department by appointing requisite manpower.
- Bank to prepare its investment policy and submit a copy to NRB.
- Shortcomings in credit risk management such as some imperfect documentation to be mitigated by developing machinery to monitor credit risk.
- Internal auditor to certify investment portfolio as per investment policy and copy of it to be submitted to NRB.
- Staff loan to be shown under Other Assets in schedule 13 instead of showing it in schedule 11 under loans and advances.

- Publish schedule 8 and 10 as per format prescribed by NRB directives.

Everest Bank Limited

- In respect of Loans in excess of Single obligor limits either create capital charge for the same or bring them within limit by Paush 2061.
- Hold Board meetings on regular basis as per Bank and Financial Institutions Ordinance 2061.
- Prepare system security manual for the software used in bank .
- Provide for 100 per cent provision for Supreme Pipe and allied industries whose loan seems insecure within Kartik 2061 and inform Nepal Rastra Bank.

Standard Chartered Bank Nepal Limited

- In respect of dividends unclaimed and unpaid for more than five years, take necessary steps as per clause 3 of Section 82 of Bank and Financial Institutions Ordinance 2061.

Lumbini Bank Limited

- In respect of Loans in excess of Single obligor limits either create capital charge for the same or bring them within limit by Paush 2061.
- Explain cause of non-compliance of directive issued by Nepal Rastra Bank in FY 2060/61 to start the process of recovery of Loans given to the promoters (Amatya group) and to the parties in which promoters have financial interest by the end of Ashadh 2061.
- Also bank is hereby instructed to take necessary steps for recovery of such loans along with interest within 2061 Kartik and if recovery is not made in aforesaid period inform NRB after commencing recovery procedures.
- Take necessary steps either for adjustment of Rs3.76crore spent on purchase of fixed assets but shown as advances for past few years,

under appropriate accounting head or for recovery of the same from the concerned person.

- Recover loan given to one of the parties by Kartik 2061 and if recovery is not made in aforesaid period inform NRB after commencing recovery procedures.
- Provide for additional loan loss provision of Rs 2.56 crores for loan given to Suma Enterprises in Ashad 2061and accordingly also reverse excess Employees bonus of Rs 2.56crores by end of Kartik 2061. On such adjustment its Profit before taxes comes to only Rs 1.45crores.
- Publish schedule 8 and 10 A as per format prescribed by NRB directives.

Nepal Investment Bank Limited

- Provide 100 per cent provision on the loan given to Shivalaya Metal Pvt. Ltd since borrower is not in contact and loan is insecure by the end of Poush 2061.
- Borrower's family details and Black list details from Credit Information Bureau should be compulsorily taken before giving loans.
- Credit Policy Guidelines should be continuously updated according to the volume of business and with the passage of time.

Machhapuchhre Bank Limited

- New loans or renewal of existing loans should be done on the basis of feasibility study, credit appraisal, financial analysis etc.
- In case of working capital loans Stocks and Book debts being primary security their details should be taken on regular basis in accordance with terms of approval of working capital loans.

Nepal SBI Bank Limited

- Single Obligor limit is exceeded from time to time while sanctioning loans. Board of directors of Bank is required to give Special attention to its credit management and also towards regularizing such loans by bringing them within limit by six months.

- Attention of Board of directors of Bank is invited towards increase in Amounts pending in the Agency reconciliation in comparison to past years. Also bank is required to constitute special task force to make necessary adjustments for such pending items.
- As per NRB directive supplementary capital should not include provision on restructured and rescheduled loans as provision for pass loan until the payment of interest and capital is regular for two years. Thus by excluding above revised total capital fund comes to Rs 67.14 crores and total capital fund/Risk weight assets ratio comes to 10.25 only which is less than the prescribed limit
- Since total capital fund to Risk weighted asserts ratio is less than prescribed level, bank is required to raise capital fund up to prescribed level within the prescribed time period and submit capital plan within 35 days.

Nepal Industrial and Commercial Bank Limited

- Loan facilities to be provided only after due management decision and written approval.
- Facility of Letter of credit to be provided only after due renewal of C.F.A. and extension of time period.
- Internal audit function to be strengthened according to the volume of business of the bank.
- Necessary legal action to be taken for recovery of bad loans.
- Arrangements should be made for regular physical verification of the fixed assets of the bank.

Nepal Credit and Commerce Bank Limited

- Credit facilities to be provided only after fixing the limits and obtaining all necessary procedural documents.
- Attention of the Board is invited towards need for improving credit management as wide practice of giving temporary overdraft and non recovery of the expired loans is observed.

- Letter of Credit and Guarantees opened in foreign currency should be shown using exchange rate prevailing as at end of Ashadh 2061.
- Amounts pending in the inter bank reconciliation and other agency accounts to be adjusted under appropriate headings.
- Attention of the board is invited to the fact that bank has not adjusted the amount pending in Notional account of Interest Earned but not collected despite instructions issued last year to do so.
- Bank is instructed to make arrangements for insurance of excess cash held in its vault.
- In respect of Letter of credit of US$1.72lacs bank is instructed to determine whether payment of the above amount is required or not and if it is not required document in respect of the above Letter of credit to be returned with adequate reasons or take steps to accept the liability.
- In respect of Loan facility given to some borrowers exceeding the Single Obligor Limit bank is required to bring such loan within limit within prescribed period or create capital charge for the same. Board attention is invited towards failure of Bank to do either of above in spite of instruction issued.
- Bank is instructed to provide 100% provision on loan given to Necon Air Limited whose business is not in operation and accordingly make additional provision of Rs23927849/- resulting in loss to the bank hence bank is instructed to reverse whole amount provided for employee's bonus.
- Provision on the non-banking assets shown under non-operating expenses instead of showing under the head of provision for loss in the Profit and loss account. Bank is instructed to publish the annual report after necessary adjustment.
- As per NRB directive supplementary capital should not include provision on restructured and rescheduled loans. Thus by excluding above revised total capital fund comes to Rs22.32 crores and total capital fund/Risk weight assets ratio comes to 3.42per cent only.

Sidhartha Bank Limited

- Annexure 8, 10A and 12 of balance sheet is not in the prescribed statutory format hence bank is instructed to publish above annexure after necessary adjustments.
- In annexure 13 amount of Accrued interest on loans is shown under other heading and mistake was found in annexure 24 also hence bank is instructed make necessary rectification before publishing.
- Loan to be provided only after obtaining all necessary procedural documents and after making valuation.
- Bank is instructed to make additional loan loss provision of Rs 5, 94, 64,698/- resulting in loss to the bank hence bank is instructed to reverse whole amount provided for employee's bonus.
- Management's attention is invited towards need for improving its credit management as instances of loan exceeding limits and inadequate follow-up of the security of working capital loans were found.

Himalayan Bank Limited

- Provision on the non-banking assets shown under office operating expenses instead of showing under the head of provision for loss in the Profit and loss account. Bank is instructed to publish the annual report after necessary adjustment.
- Annexure 8, 10A and 28 of balance sheet is not in the prescribed statutory format hence bank is instructed to publish above annexure after necessary adjustments.
- As per NRB directive supplementary capital should not include provision on restructured and rescheduled loans as provision for pass loan until the payment of interest and capital is regular for two years. Thus by excluding above revised total capital fund comes to Rs179.06crores and total capital fund/Risk weight assets ratio comes to 10.62 per cent only which is less than the prescribed limit.

- Since capital fund of the bank is not adequate bank is instructed to submit its capital plan within 35 days and is prohibited from distributing dividends till minimum capital requirements are met
- Since Bank has given additional loan to promoter shareholder holding more than 1% shareholding against Bank and Financial Institutions Ordinance, bank is instructed to recover above loan and take necessary action against such shareholder.
- Since very old items are pending in the agency and inter-branch reconciliation attention of board is invited towards need for adjusting such items under appropriate account head.
- Bank is required to give explanation for not obtaining the personal net wealth of the personal guarantors against the NRB directives.
- Since widespread practice of inadequate documentation, flow of working capital loan without proper analysis of requirement, providing loan without limits or exceeding limits was found to be existing bank is required and improvements in such areas by making necessary adjustments in credit policy.

Nepal Bangladesh Bank Limited

- Coding and regular physical verification of fixed assets at the branch levels should be done.
- Bank is instructed to bring loan in excess of Single Obligor limit within limit by prescribed time
- Bank was instructed in previous year also to bring loan given to National Hydro Power Company within prescribed limit but loan outstanding was found to have increased this year. Bank is instructed to give explanation in this regard and on creating capital charge for the loan in excess of the limit Risk Weight Assets comes to Rs 1325.80crores and Capital fund to Risk Weight Assets ratio comes only to 4.65 per cent.
- As per NRB directive supplementary capital should not include provision on restructured and rescheduled loans as provision for pass loan until the payment of interest and capital is regular for two years. Thus by excluding above revised total capital fund comes to Rs74.38 crores and total capital fund/Risk weight assets ratio comes to 5.61 per cent only which is less than the prescribed limit.

- Bank is instructed to make additional provision of Rs11.60 lacs and accordingly make adjustments in the employee's bonus and other related headings.

Liquidity

A modification in the software was made with help of IT Department to receive online data from commercial banks on liquidity calculation as per amended directives on compulsory liquidity maintenance. During the year 2003-04, three commercial banks were fined Rs. 15,61,286.05 due to non-maintenance of compulsory cash balance as per directives of Nepal Rastra Bank.

Priority sector and Deprived Sector Lending

Commercial banks are required to lend specified percentage of total loan to deprived sector and priority sector as per Nepal Rastra Bank Directives. Himalayan Bank Limited, Laxmi Bank Limited, Lumbini Bank Limited, Nepal Credit and Commerce Bank Limited and Everest Bank Limited were penalised Rs. 935,365.63 due to non-Compliance to directives on priority sector and deprived sector lending during financial year 2003-04

2.4 Major Enforcement Actions:

Various reports of onsite inspection, offsite supervision and special supervision are under implementation process for sixteen commercial banks. Follow up of the previous years reports and specific directives are also in progress. Major enforcement activities are summarized as under.

Laxmi Bank Limited

Inspection report together with the direction was given regarding office of the bank being located at rented house owned by chairman of the bank, which was against the provisions of Company Act and Commercial Bank Act. Satisfactory reply in respect of directives given was received along with evidence of transfer of ownership of the property by the chairman.

Kumari Bank Limited

A letter dated 2060-9-18 was issued directing Board of the Director of Kumari Bank Limited to deposit amount of expenses without bill and receipt (Rs. 15031705) within 35 days, which was converted in to promoters share capital, as decided by 880th Board of Director's meeting held on 2060-9-8. Legal case is pending in this regard.

NIC Bank Limited

Onsite inspection of the bank was completed on the basis of financial statements of 2059 Chaitra end. Inspection report was forwarded to the bank on 2060-9-18 for implementation. Reply of inspection report was received on 2061-1-2. Enforcement of the directives given is in the progress.

Everest Bank Limited

Onsite inspection of the bank was completed on during year 2059-60 and inspection report was forwarded to the bank on 2060-6-5. Reply of inspection report was received on 2060-11-22.

Siddhartha Bank Limited

Onsite inspection of the bank was completed on during year 2059-60 and inspection report was forwarded to the bank on 2060-6-5. Reply of inspection report was received on 2060-9-4. Bank was given additional directives on 2060-11-27 after review of the reply from the bank.

Machhapuchhre Bank Limited

Onsite inspection of the bank was completed on the basis of financial statements of 2060 Ashad end. Inspection report was forwarded to the bank on 2060-11-13 for implementation. Reply of inspection report was received and further direction was given on 2061-3-29 due to unsatisfactory implementation of the direction given.

Investment Bank Limited

Onsite inspection of the bank was completed on the basis of financial statements of 2059 Poush end. Inspection report was forwarded to the bank on 2061-2-18 for implementation.

Bank of Kathmandu Limited

Onsite inspection of the bank was completed on the basis of financial statements of 2059 Chaitra end and inspection report was forwarded to the bank on 2060-10-20. Reply of inspection report was received on 2061-1-10.

Himalayan Bank Limited

Onsite inspection of the bank was completed on the basis of financial statements of 2058 Poush end and inspection report was forwarded to the bank on 2060-4-13. Reply of inspection report was received on 2060-2-23 and follow up action of the report was discontinued due to satisfactory implementation status of the report.

Nepal SBI Bank Limited

Bank was again directed vide letter dated 2060-5-16 to implement all the direction given during the On-site report of 2058. Reply was received from bank on 2060-8-26 in this regard. Review of the implementation status is under consideration during successive on site inspection.

2.5 Preparation for Basel-II implementation:

The Basel Committee on Banking Supervision has issued new capital accord (Basel–II), which shall be applicable to internationally active banks all over the world with effect from end of 2006.The commercial banks so far has shown positive attitude towards the implementation of Basel–II .

Accord implementation Group (AIG) which was formed under "New Capital Accord Implementation Preparatory Core Committee" has invited views of commercial banks regarding implementation of new accord and is in the stage of drafting, Nepal Rastra Bank's Concept

Paper on New Capital Accord'. According to the program this draft paper shall be forwarded to all the commercial banks for comments and recommendations. A form is also developed so that commercial banks classify their exposures as per the new approach, which shall be reviewed by the "Accord Implementation Group"

There is no doubt that the new accord though complex carries a lot of virtues and will be a milestone in improving banks internal mechanism and supervisory process. It will be beneficial to the commercial banks, as it requires review and measurement of risk, which ultimately have effect of risk management approach to comply with the accord standards.

2.6 Capacity building:

One-day interaction program with external auditors of the commercial banks was also conducted. For the first time one day interaction program with Securities Board and Office of Company Registrar was organized with active participation of the Department.

Onsite Supervision Manual to inspect, supervise and monitor commercial banks in line with the international standards was endorsed. The manual covers areas of capital adequacy, loan portfolio management, treasury operation, management information system and internal control system and information technology. Two interaction program of one day each were conducted on the On-site Inspection Manual among the supervision staffs.

Bank Supervision Department has prepared "Offsite Supervision Manual" which was approved for adoption by Nepal Rastra Bank and was implemented with effect from 15th January 2004.

3 Performance Trends in the Commercial Banks

3.1 Overview:

During the year 2003/04, 17 commercial banks were operating with total registered branches of 375. Out of 375 branches, 233 branches belong to two public sector banks. Two public sector commercial banks' share in total (gross) asset, gross loan and advances and deposit was 42.01 Percent, 33.87 Percent and 37.06 Percent respectively. Negative net worth of these two public sector commercial banks distorted the capital adequacy ratio of the whole commercial banks showing Capital Fund to Risk Weighted Ratio at an average of negative 8.92 Percent for the year under review. However, the capital adequacy of commercial banks excluding the public sector was 11.62 Percent. Due to such characteristic of two public sector banks, performance of these banks was discussed separately wherever considered necessary.

Analysis and consolidation of the financial data was based on the audited and published annual reports of all commercial banks. The performance of the banking industry was less than satisfactory. The salient features of the review for the year ended Ashad 2061 are given below:

- Total asset of the all commercial banks was Rs. 267936 million as at mid July 2004 which was grown by 13.44 Percent from the last year.
- Two public sector banks accounted for 42.01 Percent of the total (gross) assets of the all commercial banks.
- Total capital fund to RWA of the public sector banks was negative35.01 Percent as at Ashad end 2061 as compared to negative37.83 Percent during the previous year. This indicates that there is some improvement in these banks during this financial year.
- Investment in Government Securities and NRB Bond exhibited growth of 9.21 Percent (P.Y.36.03 Percent growth).
- Total loan was grown by 13.55 Percent and non-performing loans (NPL) declined by 9.85 Percent Percent whereas Net NPL declined by 37.53 Percent.

- Ratio of gross NPL to Gross loan and Advances of the commercial banks declined marginally to 22.77 Percent from highest record of 30.41 Percent in year 2001-02. However, NPL of private commercial banks was 5.74 Percent. Two public sector banks occupied 83.33 Percent NPL in the total NPL of the commercial banks.
- Interest income represented major source of income for all the commercial banks, accounting for almost two-third (68.23 Percent) of total income.
- Aggregate Credit to Deposit ratio of the commercial banks was 61.48 Percent.
- Two public sector banks have registered net profit of Rs1750.49 million during the year against the loss of 5090.30 million in previous year. In aggregate there was improvement in net profits by 211.76 Percent from previous year. Major portion of such profits is result of extraordinary gains like excess provision written back, profit on sale of assets etc.,

Analysis was based on certain adjustments, which are briefly described hereunder.

- Loans and advances are shown at gross and loan loss provision shown in liabilities side for convenience.
- Other assets include debit balance branch adjustment account and other liabilities include credit balance of branch adjustment account.
- Figures were regrouped or reclassified wherever considered necessary. For example additional loan loss provision shown in other liabilities was adjusted in total loan loss provision.

3.2 Balance Sheet Structure:

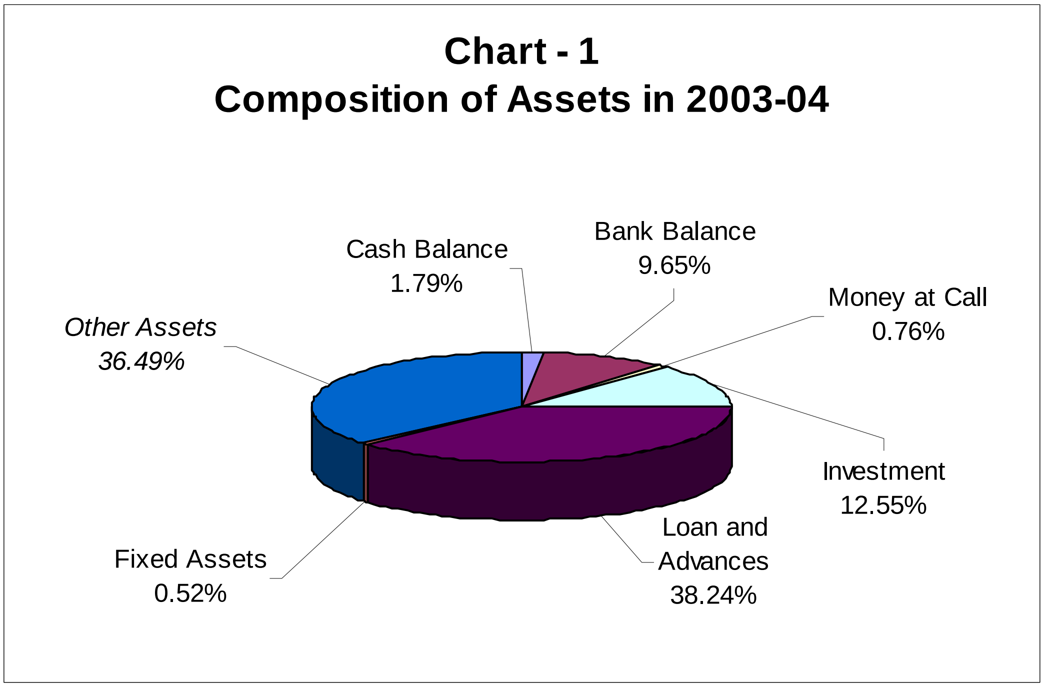
Total Assets growth rate of the commercial bank was 13.44 Percent (previous year 7.95 Percent). As in the earlier years commercial banks continued to hold most of their funds in loans and advances (47.42 Percent) followed by investments (21.86 Percent) and other assets (17.87 Percent). Cash balance, bank balance and money at call represented 1.66 Percent, 8.11 Percent and 2.15 Percent respectively.

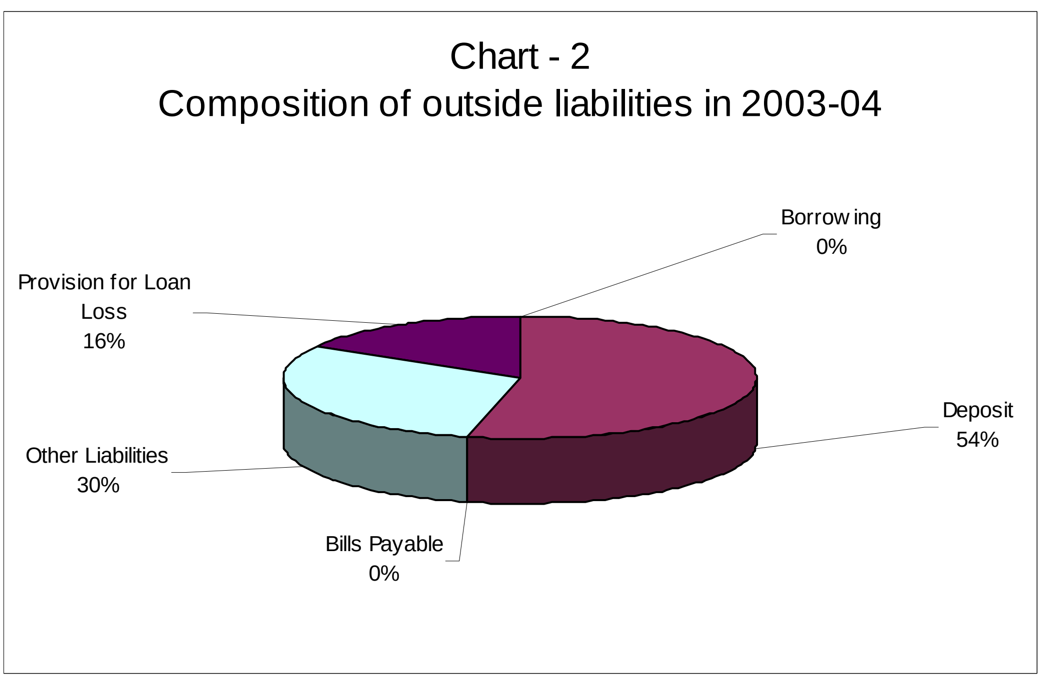
Banks invested only one Percent in fixed assets. Total assets composition was very much similar during previous year except two Percent above in bank balance and two Percent below in investments compared to year under review. Similarly, composition of major components of the liabilities remained largely the same. Pertinent and alarming negative growth of 293 Percent, -67.02 Percent and -16.89 Percent was noticed in reserve and surplus during the year 2001-02 and 2002-03 respectively resulting from serious losses incurred by the two public sector banks. However, some improvement was seen in the Reserve and Surplus during the year. There was positive growth of 8.70 Percent as compared to previous year. Commercial banks sourced 77.14 Percent of their funds from the deposit and 18.20 Percent from other liabilities. The balance sheet structure of public sector as well as private sector commercial banks is shown in the table 1 below.

Rs. Million

	Public Sector			**Private Sector**			**Commercial Banks**			Share of public sector (in %)
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04	
Liabilities										
Share Capital	1553	1553	1553	4997	6225	6798	6550	7777	8351	18.59
General Reserve	-28558	-33775	-32005	2275	3053	3956	-26283	-30722	-28049	114.11
Borrowing	369	214	80	2816	2980	3302	3185	3194	3382	2.36
Deposit	73258	74416	76602	92241	106876	130077	165499	181292	206678	37.06
Bills Payable	140	158	56	304	430	641	444	588	697	8.02
Other Liabilities	37767	40002	42933	4190	5021	5829	41956	45023	48762	88.05
Provision for Loan Loss	23962	25091	23330	3487	3950	4784	27449	29041	28115	82.98
Total	108491	107659	112549	110310	128536	155388	218801	236194	267937	42.01
Assets										
Cash Balance	2515	2436	2017	2473	2386	2438	4988	4822	4455	45.28
Bank Balance	8638	5895	10863	7835	9276	10868	16474	15171	21730	49.99
Money at Call	1544	822	852	3070	3164	4915	4613	3985	5767	14.77
Investment	11311	17074	14122	34156	38000	44459	45467	55074	58580	24.11
Loan and Advances	46290	44741	43043	56835	67163	84022	103125	111904	127065	33.87
Fixed Assets	542	617	587	1374	1574	1865	1916	2190	2452	23.93
Other Assets	37650	36074	41064	4566	6973	6821	42217	43047	47886	85.76
Total	108491	107659	112549	110310	128536	155388	218801	236194	267937	42.01

Charts 1 to 6 show the composition of assets and liabilities to outside parties of public sector banks, private sector banks and all commercial banks.





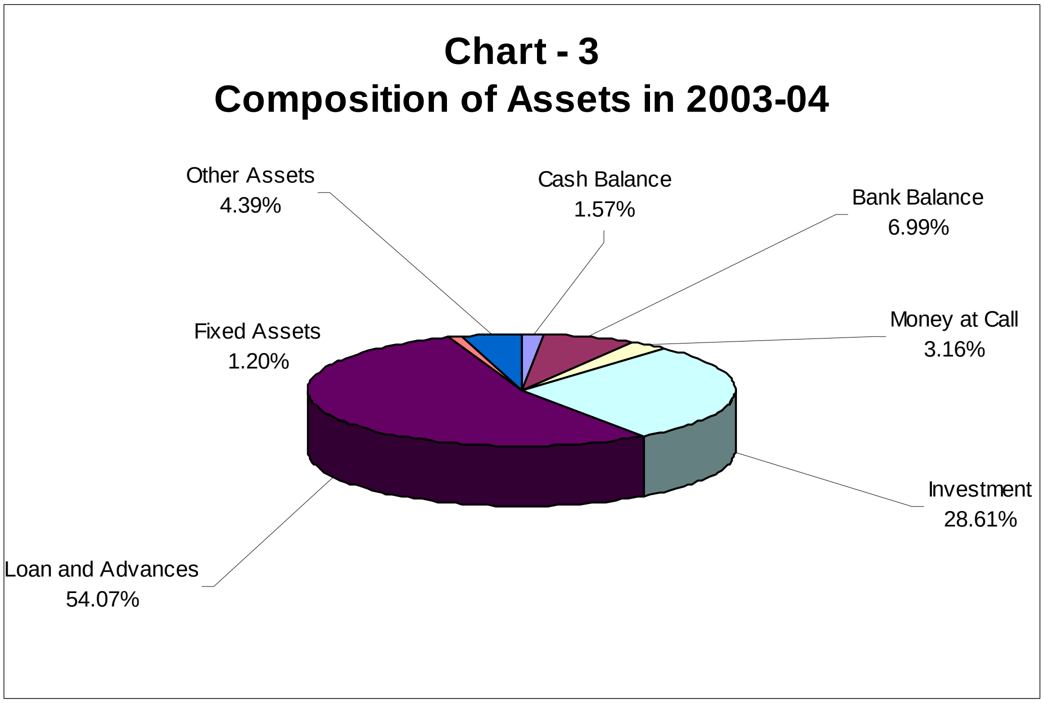


Chart - 3
Composition of Assets in 2003-04
Other Assets
4.39%
Cash Balance
1.57%
Bank Balance
6.99%
Money at Call
3.16%
Fixed Assets
1.20%
Investment
28.61%
Loan and Advances
54.07%

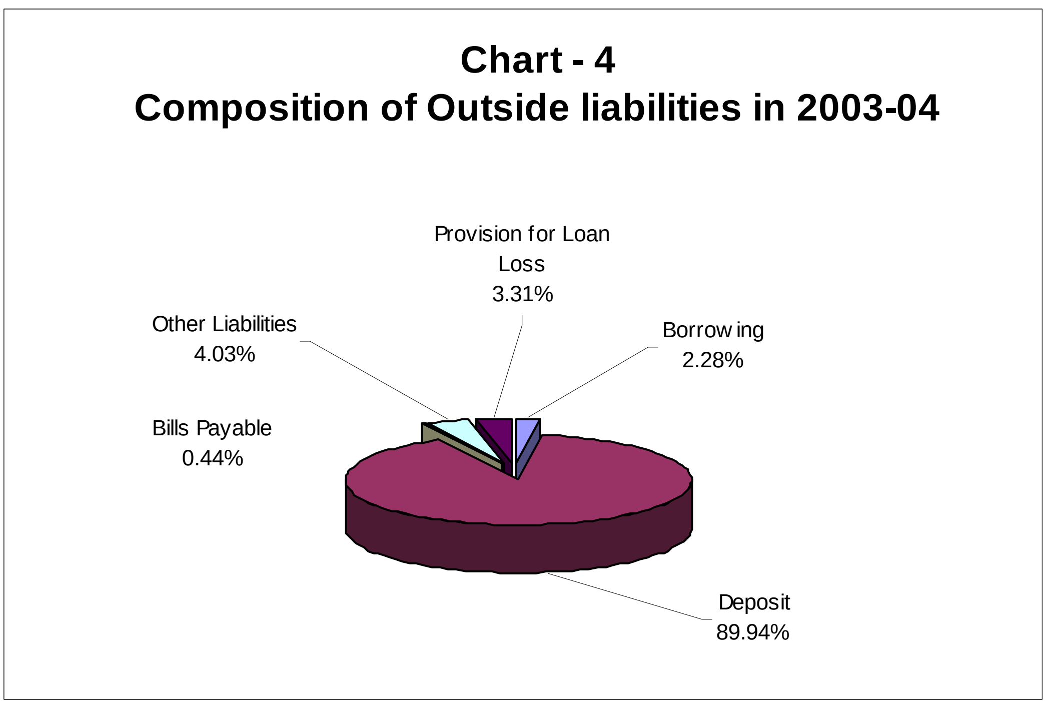


Chart - 4
Composition of Outside liabilities in 2003-04
Provision for Loan
Loss
3.31%
Other Liabilities
4.03%
Borrow ing
2.28%
Bills Payable
0.44%
Deposit
89.94%

Chart - 5
Composition of aggregate assets in 2003-04

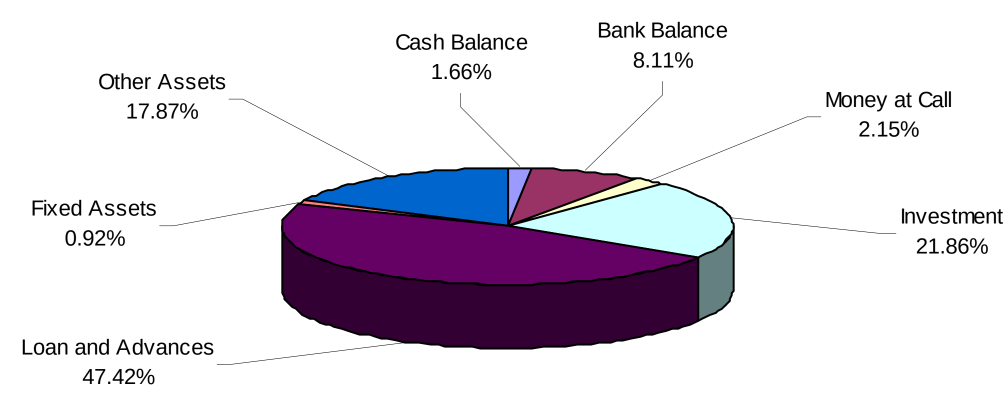
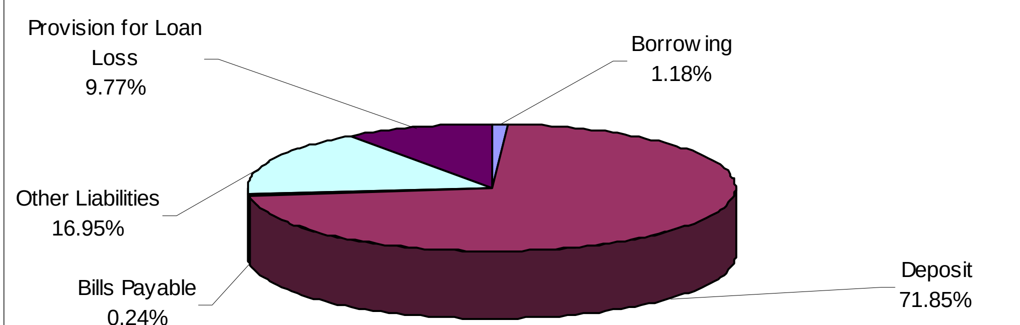


Chart - 6
Composition of Outside Liabilities 2003-04



3.3 Capital Adequacy:

Aggregate Capital fund as well as that of public sector banks remained negative even though there was some improvement in capital adequacy. Though, average capital adequacy ratio of 11.62 Percent private sector banks is marginally above the minimum statutory requirement, more number of banks failed to meet minimum requirement during the year.

Negative total capital fund of Rs. 29816 million relating to two public sector banks converted the total capital base of the commercial bank into negative 8.92 Percent. Table given below clearly shows the fact.

Table 2: Capital Fund to Risk Weighted Assets ratio

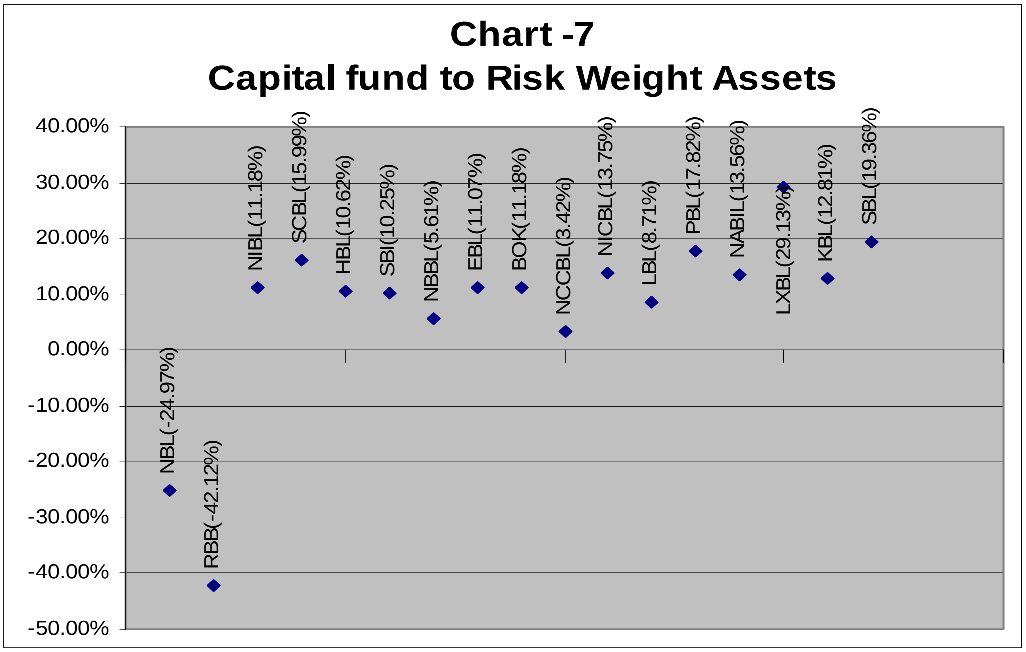
(In percentage)

Year	2001-02	2002-03	2003-04
Public Sector	-24.55%	-37.83%	-35.01%
Private Sector	13.82%	11.95%	11.62%
Commercial banks	-7.25%	-11.74%	-8.92%

Total capital fund was increased by 15.90 Percent compared to previous year's capital fund base of negative Rs.20510 million due to improvement in performance of the public sector banks during the year. Rate of decrease in capital fund during year 2002-03 was 80.22 Percent. Decline in the capital adequacy ratio of the private sector banks was due to higher growth in exposures in high-risk category, which resulted in growth of risk weighted assets by 18.21 Percent, without commensurate growth in the total capital fund.

In addition to capital adequacy requirement NRB has directed all commercial banks to increase paid up capital up to minimum of 1 billion by mid July 2009 as a part of strengthening the capital base.

Following Chart discloses the non-compliance status of the seven commercial banks in respect of capital adequacy requirement.



3.4 Assets Quality:

Assets composition

Assets composition of the commercial banks remained largely same in last three financial years. Marginal movement was observed in switch over of investment in to bank balance during the year. However, bank balance, money at call and investment together remained nearly one third of total assets during last three year. As it can be seen from the table given below major part of total assets was held in form of loans and advances and investment which falls under high-risk category of assets.

Assets Composition	2001-02	2002-03	2003-04
Cash Balance	2.28%	2.04%	1.66%
Bank Balance	7.53%	6.42%	8.11%
Money at Call	2.11%	1.69%	2.15%
Investment	20.78%	23.32%	21.86%
Loan and Advances	47.13%	47.38%	47.42%
Fixed Assets	0.88%	0.93%	0.92%
Other Assets	19.29%	18.23%	17.87%
Total	100.00%	100.00%	100.00%

Cash and bank balance

It was observed in case of two public sector banks and two private commercial banks that bank balances remained unreconciled and where the balances were reconciled, ledger balance differed largely with bank balance certificate and large unidentified items remained in the reconciliation statements. Bank balance of two public sector banks alone represented 38.85 Percent of total balance. Thus quality of bank balance may be considered affected than normally assumed in such circumstances.

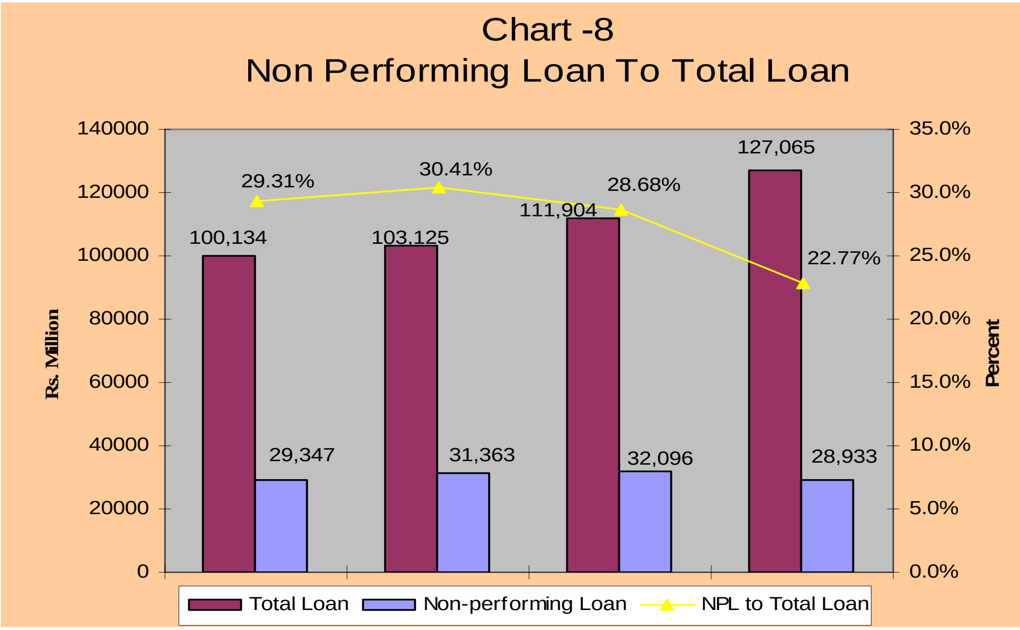
Investment

Investment in HMG/N and NRB Bond is 73.33 Percent, in shares and debentures 0.86 Percent and others represent 25.81 Percent of total Investment of commercial banks. Major part of other investment is represented by investment in foreign banks. Investment and placement in foreign banks by the private sector banks represented 85 Percent of investment other than HMG/N and NRB bond. Question of quality of foreign placement is dependent on the quality of the foreign bank in which investment was made. Nothing as such matter of raising concern about quality of foreign investment has come to our notice during the year under review except for our concern about huge placement by Himalayan bank in Habib Bank of Pakistan.

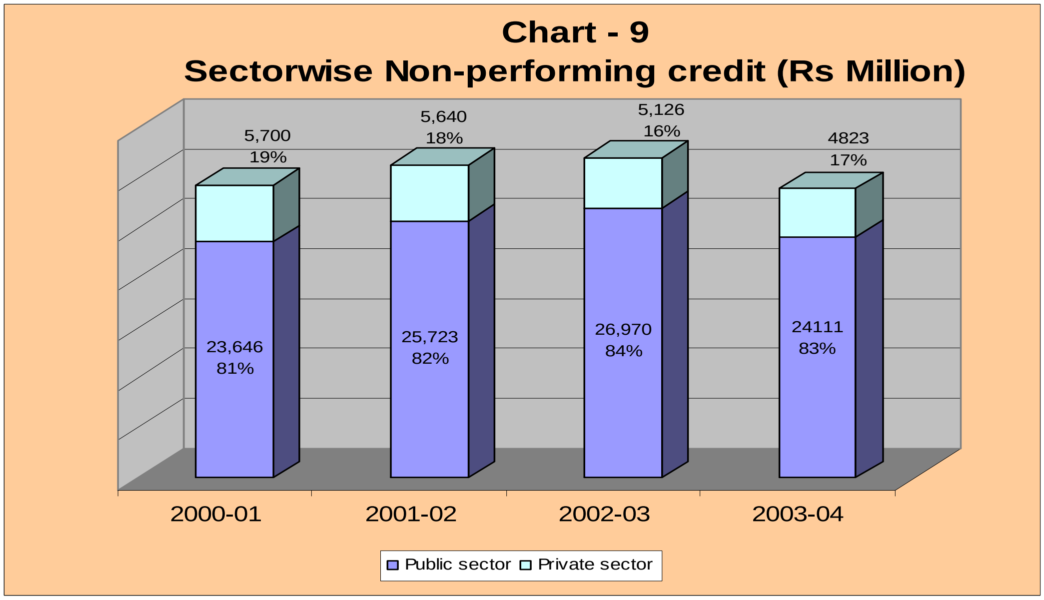
Loans and advances

Total loans and advances of all commercial banks stood at Rs.127065 million with the increase of 13.55 Percent from the previous year. It is conservative methodology to measure quality of assets by measuring level of non-performing loans and advances only. Real quality of credit is measured by comparing total credit net of provision to non-performing credit net of provision made there of. Reason behind this logic is that provision is already made charging from profit, which would have become capital had the charge not made, and risk of credit exposure to the extent of provision made is hedged.

Following chart depicts figures and ratio of Total loan and NPL.



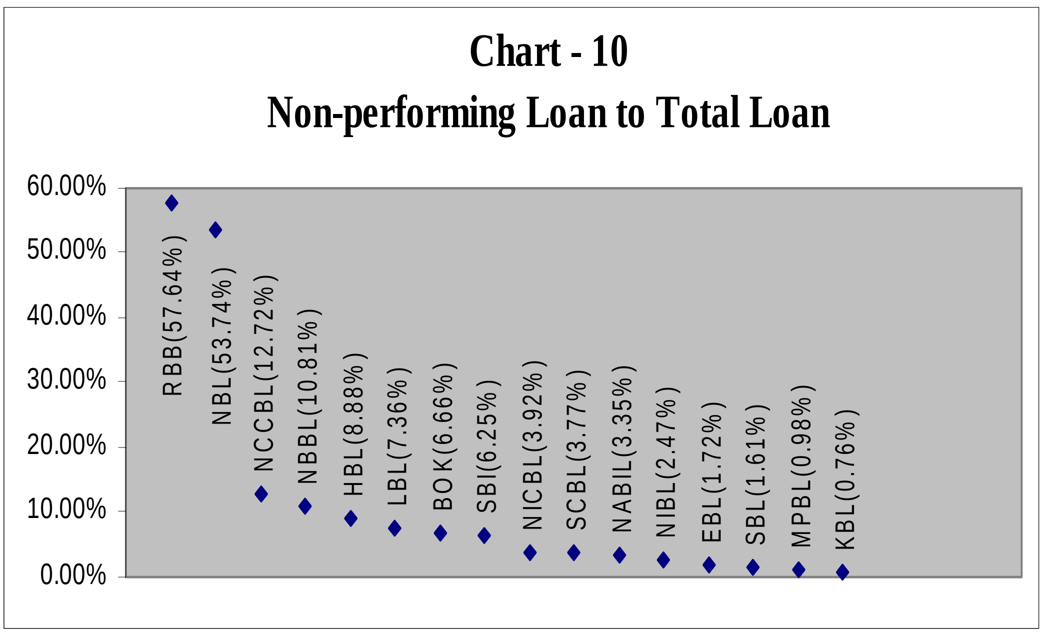
This high degradation in the quality of credit in the commercial banks is contributed by public sector. Chart given below shows the sector wise share of NPL.

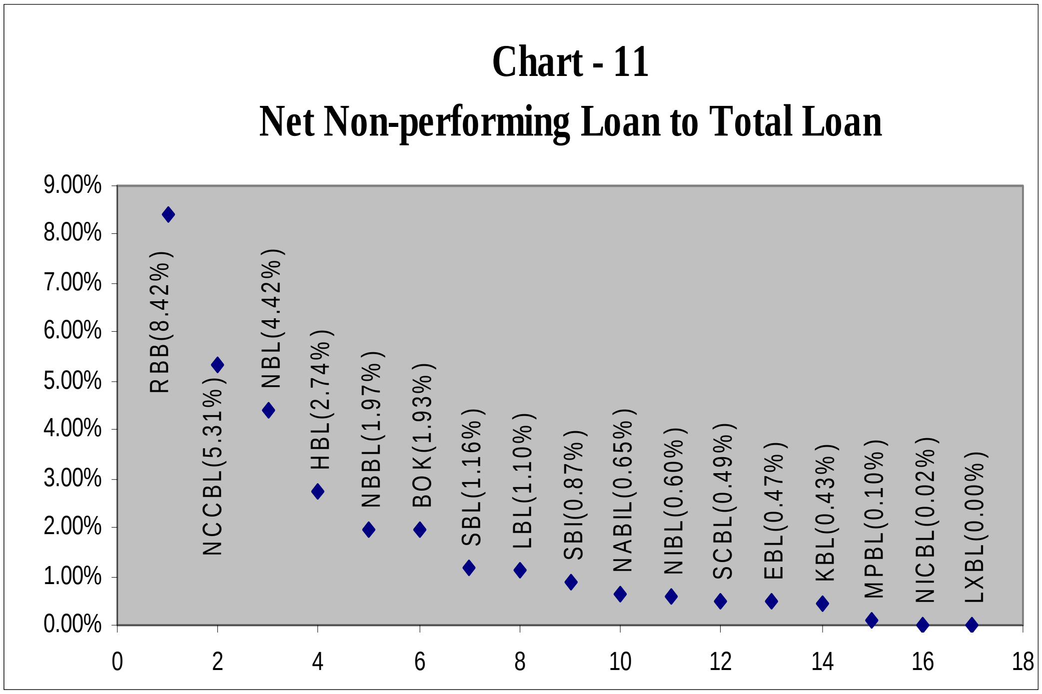


Despite the marginal improvement in the NPL percentage compared to the year 2001-02, high increase in composition of loss loan indicates deteriorating conditions of credit quality in the commercial banks. Commercial banks managed to reduce component of the substandard loan and doubtful loan but this reduction was not mainly by the way recovery rather restructuring and rescheduling credit several time was used by all commercial banks with high NPL bands.

Year	2000-01	2001-02	2002-03	2003-04
Pass Loan to total loan	70.69%	69.59%	71.32%	77.23%
NPL to total loan	29.31%	30.41%	28.68%	22.77%
Substandard loan to total loan	11.03%	6.46%	3.72%	1.45%
Doubtful loan to total loan	13.78%	10.86%	7.99%	3.21%
Loss loan to total loan	4.49%	13.09%	16.97%	18.12%

Charts 10 and 11 given below are self-explanatory about quality of credit and provisioning practices of commercial banks. Chart 11 clearly shows that provisioning practice of two private commercial banks were worse than two public sector banks.





Total loan loss provision was 22.13 Percent of total loan with the decline of 3.19 Percent from the previous year due to write back of excess provision by two public sector banks. See figures given below.

Year	2000-01	2001-02	2002-03	2003-04
Loan Loss Provision to total loan	18.55%	26.62%	25.95%	22.13%
Growth in Loan loss provision	95.36%	47.79%	5.80%	-3.19%
Loan Loss Provision Rs million	18572	27449	29041	28115

Other Assets

Accrued interest receivable on loan and advances covered 70.24 Percent of other assets and 97.7 Percent of this accrued interest receivable is represented by interest suspense balance in liabilities side. International Accounting Standard requires Assets to be disclosed net of provision. Branch adjustment account outstanding in liabilities side represent 6.67 Percent of other assets which is also considered contra balance included in other assets. Other items such as drafts without notice, expenses not written off and other assets, that are either not realizable or in the nature of contra items, constitute about 12 Percent. Thus, almost 83 Percent of other assets are in such nature either these needs to be setoff with corresponding contra items or provision amount or of not realizable nature. This raises major supervisory concern over bogus other assets (20 Percent of total assets) depicted in published financial statements of the commercial banks.

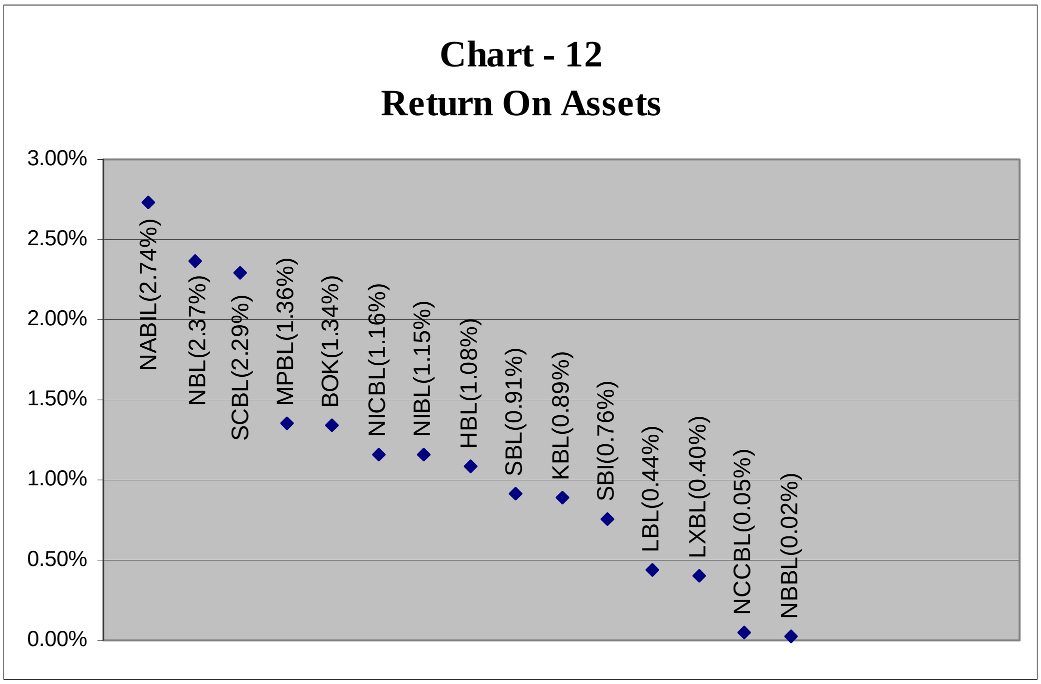
3.5 Earning/Profitability:

Aggregate performance of commercial banks has improved with net profit of Rs 3,707million during the year after continuous losses during last three years. This improvement in performance was mainly due to the improvement in earning of two public sector banks which is mainly attributed to the extraordinary incomes like excess provision write back and profit on sale of assets etc.

But in Previous three financial years aggregate performance was very dismal with losses of Rs 7845 million, Rs 9429 million and Rs 3317 million respectively mainly due to increased provision for loan losses resulting from the deterioration in quality of the credit portfolio of two public sector banks. This is more clearly depicted by the table given below.

Profitability	Public Sector			Private Sector		
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04
Interest Income	3271729	4244369	4060922	6816476	7615219	8808736
Interest Expenses	4060286	3689031	2520378	3610342	3569706	3941787
Net Interest Income	-788557	555338	1540544	3206134	4045513	4866949
Non Interest Income	717347	537139	629274	1467400	1586188	1812559
Non Interest Expenses	2387753	5261568	3283940	1730108	2238345	2445878
Net Non Interest Income	-1670406	-4724429	-2654666	-262708	-652157	-633319
Non operating Income	276374	685793	3055982	472114	412327	495805
Non Operating Expenses	7956960	1607028	191368	2704875	2032604	2772448
Net Non Operating Income	-7680586	-921235	2864614	-2232761	-1620277	-2276643
Net Profit	-10139549	-5090326	1750492	710665	1773079	1956987

Chart 12 illustrates profitability of the individual commercial banks in terms of return on total assets. Total assets were net of interest suspense account balance and branch adjustment account balance included under other liabilities.



3.6 Liquidity:

Deposit, borrowing and cash generated from operation formed major source of liquid funds for commercial banks. Commercial banks are required to maintain cash reserve of specified Percentage of time and demand deposit. This is only statutory requirement and does not measure the actual liquidity position of the banks.

Average credit to deposit ratio (C/D ratio) stands at 61.48 Percent which is the slightly decrement from previous year. This level of C/D ratio is considered sound as per the international standard. However, some private commercial banks were having CD ratio higher than the average. Figures given below in the table shows liquid assets such as cash balance, bank balance and other cash equivalent were decreasing over the years. Similar trend was observed in private sector and public sector average ratios. Decrease in the interest rate of deposit and credit indicate increased liquidity in the market though the ratios are marginally decreasing. See table for detail.

Liquidity Ratios of Commercial Banks	2003-04	2002-03	2001-02	2000-01
Total Loan to Total Deposit	61.48%	61.73%	62.31%	60.50%
Cash and Equivalents to Total Assets	31.28%	32.77%	30.48%	28.13%
Cash and Equivalents to Total Deposit	36.29%	28.68%	26.36%	23.74%
NRB Balance to Total Deposit	8.93%	6.51%	7.01%	6.19%

However, solvencies of two public sector banks are under question due to huge negative net worth. Total assets net of provision for loan, interest suspense and branch adjustment account balance was short by Rs5769 million, and Rs15264 million to deposit liability for Nepal Bank Limited and Rastriya Banijya Bank respectively.

Rs. Million

Bank	**NBL**	**RBB**
Adjusted Total Assets	29966	25602
Networth	-9085	-21438
Total deposit	35735	40867
Excess depositors claim	5769	15264

It was also observed in three commercial banks top 50 depositors constituted major part of depositor. In such case, withdrawal of deposit by few depositors may cause liquidity problem. Seemingly and from our onsite inspection, no liquidity management plan and policy was found to be in place.

Following charts throws lights on deposit structure, growth and credit to deposit ratio.

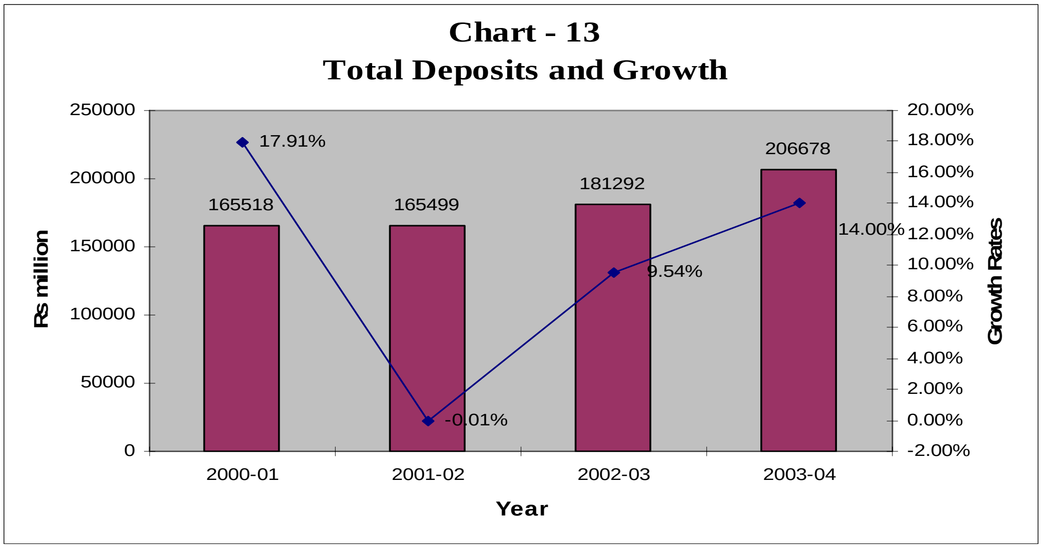


Chart - 13
Total Deposits and Growth
250000
200000
150000
100000
50000
0
Rs million
17.91%
165518
165499
181292
206678
14.00%
9.54%
-0.01%
20.00%
18.00%
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
-2.00%
Growth Rates
2000-01
2001-02
2002-03
2003-04
Year

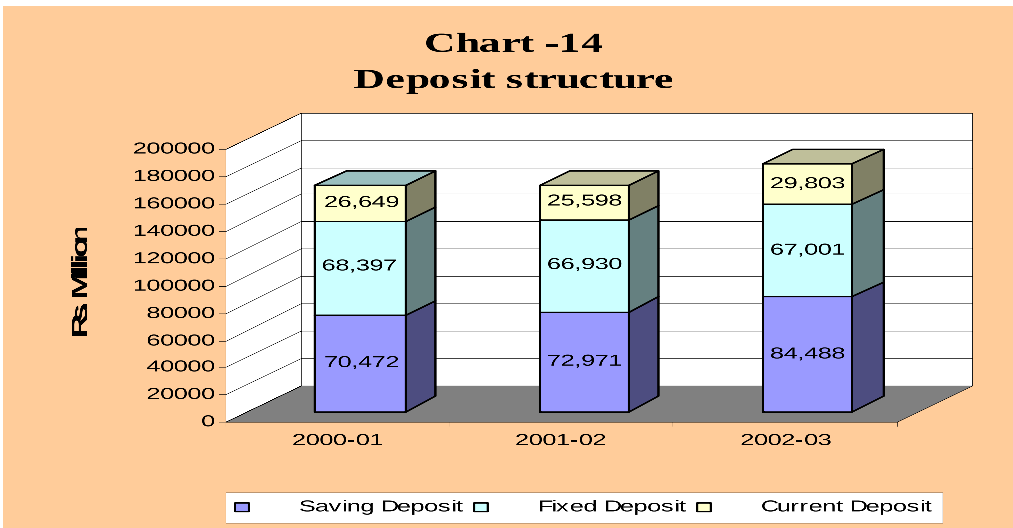


Chart -14
Deposit structure
200000
180000
160000
140000
120000
100000
80000
60000
40000
20000
0
Rs Million
26,649
68,397
70,472
25,598
66,930
72,971
29,803
67,001
84,488
2000-01
2001-02
2002-03
Saving Deposit
Fixed Deposit
Current Deposit

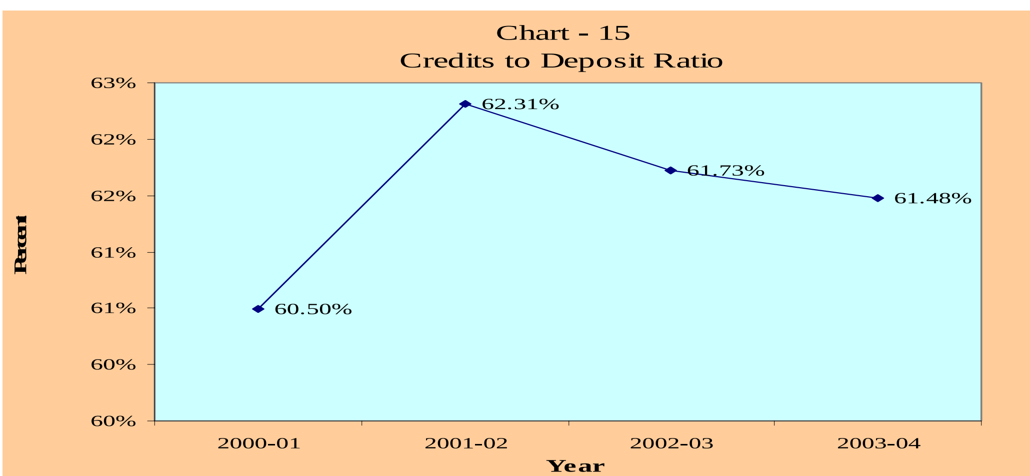


Chart - 15
Credits to Deposit Ratio
63%
62%
62%
61%
61%
60%
60%
Percent
62.31%
61.73%
61.48%
60.50%
2000-01
2001-02
2002-03
2003-04
Year

4 Current Issues in Banking Supervision

4.1 Poor Corporate Governance and Insider Abuse:

It has been observed in many commercial banks that code of ethics were not signed by the directors and lending to the shareholders and directors of the bank continued despite several directives given by Nepal Rastra Bank not to do so. Strong need was felt and accordingly directives on corporate governance were issued on mid July 2001. However attitude of such banks were nonetheless unaltered and they continued transaction of insider abuse and use of fund for personal benefit.

Management failure is the ultimate result of the poor corporate governance. Now time has come to take Strong action against the banks with poor corporate culture to prevent failure of such banks.

4.2 Emergence of Electronic banking in Nepal- The need for a regulatory framework:

Electronic banking may be defined as a means by which banking business is transacted through automated processes and electronic devices such as personal computers, telephones, fax machines, Internet, card payment and other electronic channels. The increased competition, increase in volume of transactions and banking products, increased number of customers and wide number of branches resulted in computerization for quick services, speedy access even at remote locations.

In view of introduction of electronic banking in commercial banks of Nepal and maximum use of IT in the banking sector it is imperative to establish regulatory framework to ensure safety of depositor's money. The risk associated with e-banking includes all the inherent banking risks.

4.3 L/C scams and forgeries in commercial banks:

Several incidences of Foreign Exchange violation through forged letter of credit transactions were traced in recent few years. Nepal Rastra Bank referred such cases to Commission for Investigation of Abuse of Authority and remained undecided for many years.

NRB has no legal authority to punish the individuals and entity not licensed by it. Even if NRB is aware of involvement of any organization or individual in money laundering activities, it can only refer it to other concerned agencies and it has no legal jurisdiction over it. There should be coordinated supervisory relationships between various regulating authorities so that economic crimes are punished and prevented.

4.4 Need for Income audit of commercial banks:

It has been practice of Nepal Rastra Bank to supervise commercial banks on the basis of financial statements of the period falling between the financial years. However, commercial banks are able to avoid additional provisional requirement at the year-end and any directives given by NRB to make additional provision practically fall after the close of a particular financial year. Thus, to plug the under provisioning practices and to direct banks to provide for possible loan loss in the books of account of the period to which it relates, income statement audit (inspections) needs to be carried out. It is expected that necessary steps shall be taken in the time to come.

4.5 Compliance with International Financial Reporting Framework (IFRS):

Financial Sector Reform Program (FSRP) required Nepal Rastra Bank to comply with the IFRS and issue prudential regulations in line with international standard. As a part of FSRP two public sector commercial banks were also required to comply with the IFRS. There is need to ensure compliance of IFRS uniformly in all the commercial banks. It is to be ensured that IFRS is complied with while making recognition of items of financial statements, and disclosure requirements except for the areas already covered by local accounting standards requirements, which are similar to that of IAS. Thus there is need to issue regulation in this regard to ensure compliance with the

IFRS requirements. Statutory formats of the financial statements prescribed for the commercial banks also needs to be revised incorporating disclosure requirements specified in IAS 30 and other applicable IAS.

4.6 Other issues and Challenges:

Increased number of commercial banks alone with development banks and other financial institutions added to the competition in banking business. As a result of this banks are extending credits and services in all possible urban areas without strong base for human resource policy, IT infrastructure and internal control system in place. As a result, decrease in the quality of portfolio, incompatibility of the reporting system and chance of fraud and forgery increases.

However it should not be and cannot be ignored that there exists few commercial banks with good corporate governance and practices as well as complying with almost regulatory requirements. But other commercial banks do not take this as an example, rather they also point to other commercial banks reluctant comply with regulations. We, supervisors are to be aware and active in regulatory activities as well, so that implementation is practical and effective.

Annexure – 1

Financial statements of Commercial Banks

Financial statements of Nepal Bank Limited

for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	380,383	380,383	380,383	380,383
Reserves and Surplus	(6,734,898)	(9,934,258)	(10,211,515)	(9,394,908)
Deposit	35,618,590	34,264,847	35,014,000	35,735,045
Borrowing	211,171	213,264	52,010	-
Bills Payable	87,431	120,145	141,311	31,427
Other Liabilities	12,029,066	14,515,463	14,440,302	17,409,934
Total Liabilites	**41,591,743**	**39,559,844**	**39,816,491**	**44,161,881**
Assets				
Cash Balance	1,782,946	1,665,104	1,416,545	1,010,231
Bank Balance	4,483,850	4,962,013	3,178,624	4,850,838
Money At call	1,649,468	1,543,599	81,540	751,995
Investment	6,776,326	7,151,381	12,447,699	11,004,820
Loan and Advances	11,918,937	8,638,438	7,971,097	8,881,824
Fixed Assets	146,938	139,641	137,795	195,047
Other Assets	14,833,278	15,459,668	14,583,191	17,467,126
Total Assets	**41,591,743**	**39,559,844**	**39,816,491**	**44,161,881**
Expenses				
Interest Expenses	1,834,965	1,713,203	1,585,600	1,025,533
Staff Expenses	871,448	1,227,851	1,541,829	1,848,846
Office Expenses	158,624	158,492	225,923	299,060
Exchange loss	-	-	-	-
Non operating expenses	-	-	-	-
Bad debts written off	-	-	-	-
Loan loss Provision	2,192,591	2,114,436	16,290	-
Provision for Staff Bonus	-	-	-	78,932
Provision for NBA	-	-	-	18,522
Provision for Income Tax	-	-	-	-
Total	**5,057,628**	**5,213,982**	**3,369,642**	**3,270,893**
Income				
Interest Income	2,383,195	1,526,989	2,200,314	1,825,041
Commission and Discount	234,183	241,007	280,137	231,916
Exchange Income	133,982	183,620	42,661	71,815
Non operating Income	120,591	124,759	131,818	645,528
Other Income	7,768	66,311	462,981	1,206,984
Total	**2,879,719**	**2,142,686**	**3,117,911**	**3,981,284**
Net Profit/(Loss)	**(2,177,909)**	**(3,071,296)**	**(251,731)**	**710,391**

Financial statements of Rastriya Banijya Bank
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	1,172,300	1,172,300	1,172,300	1,172,300
Reserves and Surplus	(11,550,356)	(18,623,655)	(23,563,206)	(22,610,203)
Deposit	40,773,660	38,993,290	39,402,273	40,866,767
Borrowing	146,926	156,167	161,950	79,966
Bills Payable	24,453	19,784	16,421	24,486
Other Liabilities	22,664,019	23,251,338	25,561,913	25,523,004
Total Liabilites	**53,231,002**	**44,969,224**	**42,751,651**	**45,056,320**
Assets				
Cash Balance	921,094	850,186	1,019,318	1,007,240
Bank Balance	4,167,783	3,676,460	2,716,731	6,011,850
Money At call	-	-	740,000	100,000
Investment	5,656,931	4,159,474	4,626,218	3,117,026
Loan and Advances	19,798,277	13,689,748	11,679,489	10,831,084
Fixed Assets	397,096	402,563	479,022	391,803
Other Assets	22,289,821	22,190,793	21,490,873	23,597,317
Total Assets	**53,231,002**	**44,969,224**	**42,751,651**	**45,056,320**
Expenses				
Interest Expenses	2,571,375	2,347,083	2,103,431	1,494,845
Staff Expenses	1,385,300	758,690	3,248,985	905,805
Office Expenses	324,802	242,720	244,831	230,229
Exchange loss	17,076	-	-	-
Non operating expenses	15	19	91	-
Bad debts written off	-	-	-	-
Loan loss Provision	5,915,719	5,842,505	1,590,647	10,706
Provision for Staff Bonus	-	-	-	83,208
Provision for NBA	-	-	-	-
Provision for Income Tax	-	-	-	-
Total	**10,214,287**	**9,191,017**	**7,187,985**	**2,724,793**
Income				
Interest Income	2,833,517	1,744,740	2,044,055	2,235,881
Commission and Discount	157,590	214,520	211,484	309,803
Exchange Income	89,107	78,200	2,857	15,740
Non operating Income	14,268	7,114	6,760	147,086
Other Income	36,555	78,190	84,234	1,056,384
Total	**3,131,037**	**2,122,764**	**2,349,390**	**3,764,894**
Net Profit/(Loss)	**(7,083,250)**	**(7,068,253)**	**(4,838,595)**	**1,040,101**

Financial statements of Nabil Bank Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	491,654	491,654	491,654	491,654
Reserves and Surplus	571,192	654,773	822,532	990,028
Deposit	15,839,008	15,506,428	13,447,661	14,119,033
Borrowing	-	417,298	961,461	229,660
Bills Payable	69,697	67,753	108,944	173,499
Other Liabilities	799,100	491,346	730,373	741,612
Total Liabilites	**17,770,651**	**17,629,252**	**16,562,625**	**16,745,486**
Assets				
Cash Balance	208,483	318,159	187,777	286,886
Bank Balance	604,423	733,661	956,991	683,600
Money At call	522,550	31,368	670,204	918,733
Investment	7,704,309	8,199,515	6,031,176	5,835,948
Loan and Advances	7,732,637	7,437,895	7,755,950	8,189,993
Fixed Assets	248,666	237,639	251,915	338,126
Other Assets	749,583	671,015	708,612	492,200
Total Assets	**17,770,651**	**17,629,252**	**16,562,625**	**16,745,486**
Expenses				
Interest Expenses	578,364	462,079	317,348	282,948
Staff Expenses	147,356	147,439	210,583	180,840
Office Expenses	122,795	134,317	166,200	150,759
Exchange loss	-	-	-	-
Non operating expenses	-	50	-	-
Bad debts written off	-	441,525	51,574	81,821
Loan loss Provision	165,767	-	-	1,052
Provision for Staff Bonus	52,597	44,116	66,364	71,941
Provision for NBA	-	-	-	-
Provision for Income Tax	181,995	137,950	199,145	201,763
Total	**1,248,874**	**1,367,476**	**1,011,214**	**971,124**
Income				
Interest Income	1,266,704	1,120,184	1,017,872	1,001,617
Commission and Discount	97,144	114,337	144,406	135,958
Exchange Income	159,514	154,219	144,075	157,324
Non operating Income	1,909	-	86,946	92,781
Other Income	14,979	250,374	34,151	38,755
Total	**1,540,250**	**1,639,114**	**1,427,450**	**1,426,435**
Net Profit/(Loss)	**291,376**	**271,638**	**416,236**	**455,311**

Financial statements of Nepal Investment Bank Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	169,985	169,984	295,293	295,293
Reserves and Surplus	299,108	353,485	343,250	433,755
Deposit	4,256,210	4,174,763	7,922,767	11,524,679
Borrowing	120,000	98,500	6,829	361,500
Bills Payable	5,182	6,823	31,634	57,836
Other Liabilities	166,684	170,335	414,477	582,433
Total Liabilites	**5,017,169**	**4,973,890**	**9,014,250**	**13,255,496**
Assets				
Cash Balance	71,497	61,523	200,971	315,383
Bank Balance	375,196	277,401	725,566	911,540
Money At call	-	-	40,000	310,000
Investment	1,970,278	1,822,162	1,705,241	3,862,483
Loan and Advances	2,318,830	2,564,424	5,772,141	7,130,125
Fixed Assets	33,974	35,883	191,116	249,788
Other Assets	247,394	212,497	379,215	476,177
Total Assets	**5,017,169**	**4,973,890**	**9,014,250**	**13,255,496**
Expenses				
Interest Expenses	163,426	130,436	189,214	326,202
Staff Expenses	33,988	41,720	61,288	89,749
Office Expenses	80,177	84,648	108,039	149,479
Exchange loss	-	-	-	-
Non operating expenses	25	-	-	-
Bad debts written off	-	-	-	-
Loan loss Provision	45,282	75,188	30,335	78,767
Provision for Staff Bonus	10,428	8,679	18,906	25,719
Provision for NBA	-	-	-	12,325
Provision for Income Tax	37,440	21,010	53,332	78,802
Total	**370,766**	**361,681**	**461,114**	**761,043**
Income				
Interest Income	349,755	326,224	459,510	731,403
Commission and Discount	16,204	16,198	40,812	55,747
Exchange Income	49,835	42,856	50,834	87,980
Non operating Income	-	3,104	488	1,768
Other Income	11,380	30,404	26,288	36,816
Total	**427,174**	**418,786**	**577,932**	**913,714**
Net Profit/(Loss)	**56,408**	**57,105**	**116,818**	**152,671**

Financial statements of Standard Chartered Bank Nepal Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	339,549	339,549	339,549	374,640
Reserves and Surplus	772,474	895,930	1,029,359	1,121,099
Deposit	15,430,051	15,835,748	18,755,634	21,161,442
Borrowing	1,666,713	684,724	79,164	78,283
Bills Payable	35,208	51,400	54,842	59,024
Other Liabilities	838,946	635,754	741,955	847,571
Total Liabilites	**19,082,941**	**18,443,105**	**21,000,503**	**23,642,059**
Assets				
Cash Balance	187,660	257,845	198,755	187,705
Bank Balance	773,392	567,420	1,313,550	1,835,459
Money At call	2,612,005	2,061,964	1,657,910	2,218,599
Investment	9,559,176	9,275,885	10,357,679	11,360,328
Loan and Advances	5,407,093	5,364,006	5,695,824	6,410,242
Fixed Assets	121,807	101,066	191,711	136,234
Other Assets	421,808	814,919	1,585,074	1,493,492
Total Assets	**19,082,941**	**18,443,105**	**21,000,503**	**23,642,059**
Expenses				
Interest Expenses	474,401	299,860	255,154	275,809
Staff Expenses	102,121	126,510	128,328	134,685
Office Expenses	224,847	190,942	311,013	279,693
Exchange loss	-	-	-	-
Non operating expenses	-	18,362	15,530	10,756
Bad debts written off	872	509	-	-
Loan loss Provision	100,451	75,049	2,340	23,516
Provision for Staff Bonus	85,478	72,145	76,084	85,955
Provision for NBA	-	-	-	-
Provision for Income Tax	243,428	184,231	208,222	235,793
Total	**1,231,598**	**967,608**	**996,671**	**1,046,207**
Income				
Interest Income	1,227,219	1,013,636	1,001,360	1,042,175
Commission and Discount	187,279	163,463	215,201	198,947
Exchange Income	214,861	228,100	232,522	273,050
Non operating Income	344	-	-	-
Other Income	32,726	41,616	54,520	69,835
Total	**1,662,429**	**1,446,815**	**1,503,603**	**1,584,007**
Net Profit/(Loss)	**430,831**	**479,207**	**506,932**	**537,800**

Financial statements of Himalayan Bank Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	300,000	390,000	480,429	536,250
Reserves and Surplus	420,591	468,115	582,704	782,271
Deposit	17,636,848	18,619,375	21,007,379	22,010,333
Borrowing	79,527	534,012	645,840	659,006
Bills Payable	25,919	55,576	46,727	64,382
Other Liabilities	407,919	605,356	592,144	709,783
Total Liabilites	**18,870,804**	**20,672,434**	**23,355,223**	**24,762,025**
Assets				
Cash Balance	149,959	462,777	397,189	274,235
Bank Balance	1,285,216	801,896	1,582,019	1,726,949
Money At call	4,057,655	352,350	150,100	368,900
Investment	4,083,160	9,157,106	10,175,435	9,292,103
Loan and Advances	8,537,666	8,913,724	10,001,850	11,951,869
Fixed Assets	201,679	318,844	229,871	299,643
Other Assets	555,469	665,737	818,759	848,326
Total Assets	**18,870,804**	**20,672,434**	**23,355,223**	**24,762,025**
Expenses				
Interest Expenses	734,518	578,133	554,128	491,543
Staff Expenses	85,575	101,538	120,146	152,509
Office Expenses	141,116	155,786	177,132	211,047
Exchange loss	-	-	-	-
Non operating expenses	-	-	-	-
Bad debts written off	-	-	-	-
Loan loss Provision	134,320	166,506	202,873	186,226
Provision for Staff Bonus	48,336	38,783	40,003	46,730
Provision for NBA	-	-	-	10,988
Provision for Income Tax	154,323	114,023	147,896	157,522
Total	**1,298,188**	**1,154,769**	**1,242,178**	**1,256,565**
Income				
Interest Income	1,326,378	1,148,998	1,201,234	1,245,895
Commission and Discount	96,065	101,704	102,561	123,929
Exchange Income	119,261	104,601	109,599	112,420
Non operating Income	2,303	2,451	10,760	3,299
Other Income	31,220	32,038	30,154	34,076
Total	**1,575,227**	**1,389,792**	**1,454,308**	**1,519,619**
Net Profit/(Loss)	**277,039**	**235,023**	**212,130**	**263,054**

Financial statements of Nepal Bangladesh Bank Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	238,163	357,252	359,925	359,925
Reserves and Surplus	356,959	269,251	324,008	296,653
Deposit	8,600,813	9,534,219	10,580,648	12,807,376
Borrowing	-	287,500	68,319	67,225
Bills Payable	41,554	42,729	63,929	150,924
Other Liabilities	420,723	611,282	535,783	575,870
Total Liabilites	**9,658,212**	**11,102,233**	**11,932,612**	**14,257,973**
Assets				
Cash Balance	242,812	364,618	309,790	352,153
Bank Balance	756,159	1,394,687	589,723	1,084,320
Money At call	397,633	100,000	100,000	-
Investment	691,085	1,008,642	2,168,923	2,699,166
Loan and Advances	7,074,912	7,632,418	7,247,978	8,648,744
Fixed Assets	91,699	91,509	80,734	191,178
Other Assets	403,912	510,359	1,435,464	1,282,412
Total Assets	**9,658,212**	**11,102,233**	**11,932,612**	**14,257,973**
Expenses				
Interest Expenses	515,848	552,743	597,881	625,362
Staff Expenses	50,746	61,362	69,897	76,624
Office Expenses	67,446	77,198	101,404	113,762
Exchange loss	-	-	-	-
Non operating expenses	-	4,149	-	-
Bad debts written off	-	23	-	-
Loan loss Provision	130,483	269,346	261,875	282,484
Provision for Staff Bonus	31,548	11,198	21,277	11,071
Provision for NBA	-	-	-	118,249
Provision for Income Tax	85,180	35,000	120,000	97,000
Total	**881,251**	**1,011,019**	**1,172,334**	**1,324,552**
Income				
Interest Income	810,051	850,525	1,013,712	1,095,501
Commission and Discount	123,911	108,840	109,046	105,058
Exchange Income	102,097	69,706	56,300	56,160
Non operating Income	5,856	-	-	7,324
Other Income	38,089	47,732	64,771	63,152
Total	**1,080,004**	**1,076,803**	**1,243,829**	**1,327,195**
Net Profit/(Loss)	**198,753**	**65,784**	**71,495**	**2,643**

Financial statements of Nepal SBI Bank Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	143,935	424,893	425,157	426,876
Reserves and Surplus	94,610	135,454	144,695	199,761
Deposit	6,612,290	5,572,470	6,522,817	7,198,327
Borrowing	126,906	558,792	65,826	117,178
Bills Payable	88	88	-	-
Other Liabilities	95,829	329,444	407,832	498,264
Total Liabilites	**7,073,658**	**7,021,141**	**7,566,327**	**8,440,406**
Assets				
Cash Balance	148,518	166,621	269,659	161,222
Bank Balance	1,774,230	1,453,341	1,063,875	703,205
Money At call	390,000	-	-	-
Investment	522,932	599,056	1,207,275	1,907,521
Loan and Advances	3,945,565	4,299,250	4,468,719	5,143,662
Fixed Assets	68,280	65,588	71,034	62,350
Other Assets	224,133	437,285	485,765	462,446
Total Assets	**7,073,658**	**7,021,141**	**7,566,327**	**8,440,406**
Expenses				
Interest Expenses	271,798	288,580	291,820	255,919
Staff Expenses	24,959	26,648	33,731	32,510
Office Expenses	59,544	60,750	77,365	82,180
Exchange loss	-	-	-	-
Non operating expenses	-	1,652	2,093	570
Bad debts written off	-	-	-	-
Loan loss Provision	94,633	67,551	84,173	109,560
Provision for Staff Bonus	5,590	6,319	7,673	12,170
Provision for NBA	-	-	-	9,165
Provision for Income Tax	37,823	16,029	20,305	48,680
Total	**494,347**	**467,529**	**517,160**	**550,754**
Income				
Interest Income	444,559	399,631	469,740	493,598
Commission and Discount	30,624	36,579	29,962	30,667
Exchange Income	28,269	42,535	18,510	30,616
Non operating Income	-	-	-	-
Other Income	3,385	29,627	47,696	56,725
Total	**506,837**	**508,372**	**565,908**	**611,606**
Net Profit/(Loss)	**12,490**	**40,843**	**48,748**	**60,852**

Financial statements of Everest Bank Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	220,859	399,319	455,000	455,000
Reserves and Surplus	98,535	131,591	157,825	225,319
Deposit	4,574,509	5,466,609	6,694,964	8,063,902
Borrowing	80,000	81,767	-	-
Bills Payable	11,625	2,129	22,101	22,027
Other Liabilities	154,251	535,483	722,319	842,323
Total Liabilites	**5,139,779**	**6,616,898**	**8,052,209**	**9,608,571**
Assets				
Cash Balance	108,103	177,211	136,659	128,757
Bank Balance	716,130	425,274	1,002,910	503,047
Money At call	240,080	86,130	-	187,445
Investment	901,722	1,693,037	1,653,978	2,535,658
Loan and Advances	2,936,589	3,948,478	4,908,461	5,884,124
Fixed Assets	55,146	93,383	109,591	118,374
Other Assets	182,009	193,385	240,610	251,166
Total Assets	**5,139,779**	**6,616,898**	**8,052,209**	**9,608,571**
Expenses				
Interest Expenses	236,708	257,051	307,639	316,366
Staff Expenses	24,629	32,187	37,368	48,530
Office Expenses	57,278	79,030	93,585	101,571
Exchange loss	-	-	-	-
Non operating expenses	-	-	-	-
Bad debts written off	-	-	-	-
Loan loss Provision	33,502	34,729	45,746	81,780
Provision for Staff Bonus	11,340	14,154	15,099	23,457
Provision for NBA	-	-	-	2,237
Provision for Income Tax	32,351	38,433	41,714	67,551
Total	**395,808**	**455,584**	**541,151**	**641,492**
Income				
Interest Income	385,016	443,821	520,173	657,249
Commission and Discount	30,557	36,773	61,504	74,331
Exchange Income	37,096	45,414	32,208	27,794
Non operating Income	1,395	1,141	1,249	1,867
Other Income	11,449	13,783	20,198	23,818
Total	**465,513**	**540,932**	**635,332**	**785,059**
Net Profit/(Loss)	**69,705**	**85,348**	**94,181**	**143,567**

Financial statements of Bank of Kathmandu Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	233,650	463,581	463,581	463,581
Reserves and Surplus	93,523	56,604	115,552	187,164
Deposit	5,713,492	5,723,290	6,170,712	7,741,644
Borrowing	100,000	-	498,236	912,150
Bills Payable	9,943	12,565	35,144	38,709
Other Liabilities	51,326	100,606	161,592	153,095
Total Liabilites	**6,201,934**	**6,356,646**	**7,444,817**	**9,496,343**
Assets				
Cash Balance	171,167	193,069	157,400	139,220
Bank Balance	953,061	490,577	535,311	643,662
Money At call	291,998	127,387	30,350	272,321
Investment	419,816	667,459	1,816,149	2,477,409
Loan and Advances	4,127,047	4,613,697	4,542,700	5,646,698
Fixed Assets	102,014	94,219	93,642	83,625
Other Assets	136,831	170,238	269,265	233,408
Total Assets	**6,201,934**	**6,356,646**	**7,444,817**	**9,496,343**
Expenses				
Interest Expenses	310,484	285,006	276,705	286,297
Staff Expenses	30,171	50,155	51,682	47,726
Office Expenses	66,701	78,981	89,547	85,829
Exchange loss	-	-	-	-
Non operating expenses	1,156	-	-	-
Bad debts written off	-	-	-	-
Loan loss Provision	62,694	127,490	82,612	88,774
Provision for Staff Bonus	10,373	2,985	13,571	20,516
Provision for NBA	-	-	-	12,489
Provision for Income Tax	28,007	17,594	40,014	57,172
Total	**509,586**	**562,211**	**554,131**	**598,803**
Income				
Interest Income	465,030	473,297	496,809	567,096
Commission and Discount	46,222	47,872	60,746	77,708
Exchange Income	63,058	48,646	67,444	64,046
Non operating Income	-	930	23	15,460
Other Income	626	740	11,237	1,966
Total	**574,936**	**571,485**	**636,259**	**726,276**
Net Profit/(Loss)	**65,350**	**9,274**	**82,128**	**127,473**

Financial statements of Nepal Credit and Commerce Bank Limited for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	350,000	350,000	490,000	595,000
Reserves and Surplus	(95,799)	(492,976)	(411,176)	(407,767)
Deposit	3,772,788	3,708,972	4,294,098	5,987,701
Borrowing	-	-	19,747	13,500
Bills Payable	5,390	8,568	21,613	16,568
Other Liabilities	351,503	520,621	418,323	455,786
Total Liabilites	**4,383,882**	**4,095,185**	**4,832,605**	**6,660,788**
Assets				
Cash Balance	113,078	167,540	236,403	209,687
Bank Balance	345,519	378,555	433,863	760,698
Money At call	469,790	263,723	113,019	54,448
Investment	313,662	283,227	411,832	573,984
Loan and Advances	2,686,590	2,320,272	2,997,258	4,271,634
Fixed Assets	93,699	109,537	114,098	122,025
Other Assets	361,544	572,331	526,132	668,312
Total Assets	**4,383,882**	**4,095,185**	**4,832,605**	**6,660,788**
Expenses				
Interest Expenses	261,011	275,859	255,911	314,272
Staff Expenses	12,301	17,708	23,088	33,470
Office Expenses	52,912	40,881	52,548	67,525
Exchange loss	-	-	-	-
Non operating expenses	-	-	-	-
Bad debts written off	-	27,047	-	-
Loan loss Provision	39,372	387,524	37,431	81,055
Provision for Staff Bonus	4,370	-	9,474	672
Provision for NBA	-	-	-	43,536
Provision for Income Tax	18,599	-	3,470	2,637
Total	**388,565**	**749,019**	**381,922**	**543,167**
Income				
Interest Income	345,888	307,707	437,180	486,826
Commission and Discount	25,878	14,819	17,034	33,679
Exchange Income	32,267	19,909	477	1,233
Non operating Income	-	39	-	750
Other Income	5,263	9,368	9,031	24,088
Total	**409,296**	**351,842**	**463,722**	**546,576**
Net Profit/(Loss)	**20,731**	**(397,177)**	**81,800**	**3,409**

Financial statements of Lumbini Bank Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	350,000	350,000	350,000	350,000
Reserves and Surplus	(63,318)	(161,291)	(72,151)	(53,512)
Deposit	2,097,492	2,646,106	2,959,745	3,777,605
Borrowing	-	121,472	90,000	164,719
Bills Payable	7	7,675	10,684	4,574
Other Liabilities	65,023	97,688	101,890	120,818
Total Liabilites	**2,449,204**	**3,061,650**	**3,440,168**	**4,364,204**
Assets				
Cash Balance	63,773	98,616	83,853	114,709
Bank Balance	237,902	433,771	249,712	416,423
Money At call	-	-	50,000	30,000
Investment	248,868	269,871	382,750	558,187
Loan and Advances	1,735,951	2,085,332	2,441,639	2,980,398
Fixed Assets	36,330	36,526	37,240	40,079
Other Assets	126,380	137,534	194,974	224,408
Total Assets	**2,449,204**	**3,061,650**	**3,440,168**	**4,364,204**
Expenses				
Interest Expenses	118,804	170,499	186,484	197,322
Staff Expenses	20,188	24,169	29,470	36,396
Office Expenses	28,971	37,861	41,181	48,022
Exchange loss	-	-	-	-
Non operating expenses	217	2	-	1,175
Bad debts written off	-	-	-	-
Loan loss Provision	41,407	150,781	(20,239)	61,630
Provision for Staff Bonus	-	-	9,904	4,489
Provision for NBA	-	-	-	11,745
Provision for Income Tax	-	-	-	21,764
Total	**209,587**	**383,312**	**246,800**	**382,543**
Income				
Interest Income	157,430	266,378	308,680	361,240
Commission and Discount	5,358	8,260	13,034	14,382
Exchange Income	4,090	4,997	6,560	18,503
Non operating Income	-	-	-	-
Other Income	6,574	5,704	7,665	7,058
Total	**173,452**	**285,339**	**335,939**	**401,183**
Net Profit/(Loss)	**(36,135)**	**(97,973)**	**89,139**	**18,640**

Financial statements of Nepal Industrial and Commercial Bank Limited for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	499,730	499,890	499,955	499,960
Reserves and Surplus	19,385	26,206	52,146	120,438
Deposit	3,575,838	3,165,311	3,144,320	5,146,483
Borrowing	-	-	274,750	60,018
Bills Payable	31,506	37,357	24,354	32,921
Other Liabilities	88,961	39,889	41,994	70,247
Total Liabilites	**4,215,420**	**3,768,653**	**4,037,519**	**5,930,067**
Assets				
Cash Balance	127,107	139,856	95,742	79,042
Bank Balance	412,344	419,673	222,316	240,263
Money At call	352,029	46,810	29,900	129,663
Investment	567,078	753,812	1,153,262	1,760,724
Loan and Advances	2,585,419	2,278,994	2,419,522	3,561,139
Fixed Assets	45,470	54,758	50,214	43,285
Other Assets	125,973	74,750	66,563	115,951
Total Assets	**4,215,420**	**3,768,653**	**4,037,519**	**5,930,067**
Expenses				
Interest Expenses	180,459	197,094	142,606	183,582
Staff Expenses	21,253	26,990	33,827	35,226
Office Expenses	49,917	46,226	50,706	47,445
Exchange loss	-	-	26	-
Non operating expenses	3	1	82	-
Bad debts written off	-	-	-	-
Loan loss Provision	13,525	57,516	53,481	38,615
Provision for Staff Bonus	7,903	943	4,704	10,755
Provision for NBA	-	-	-	4,289
Provision for Income Tax	22,851	1,665	16,394	28,535
Total	**295,911**	**330,435**	**301,826**	**348,447**
Income				
Interest Income	294,219	297,764	291,143	363,037
Commission and Discount	26,300	18,564	21,966	27,236
Exchange Income	23,669	18,831	12,183	20,832
Non operating Income	-	2,096	-	40
Other Income	-	-	2,476	5,561
Total	**344,188**	**337,255**	**327,768**	**416,706**
Net Profit/(Loss)	**48,277**	**6,820**	**25,942**	**68,259**

Financial statements of Machhapuchhre Bank Limited for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	84,000	136,200	544,174	550,000
Reserves and Surplus	(15,278)	(56,656)	(42,469)	4,222
Deposit	700,080	994,817	1,778,788	2,754,632
Borrowing	-	-	90,000	102,167
Bills Payable	198	2,466	3,957	5,136
Other Liabilities	12,536	27,550	25,407	32,477
Total Liabilites	**781,536**	**1,104,377**	**2,399,857**	**3,448,634**
Assets				
Cash Balance	21,618	31,538	45,642	65,256
Bank Balance	89,904	194,591	156,083	345,488
Money At call	40,000	-	220,000	150,000
Investment	55,018	117,484	398,356	274,407
Loan and Advances	493,362	655,061	1,464,166	2,493,108
Fixed Assets	53,507	57,080	59,225	62,413
Other Assets	28,127	48,623	56,385	57,962
Total Assets	**781,536**	**1,104,377**	**2,399,857**	**3,448,634**
Expenses				
Interest Expenses	24,126	64,480	76,156	113,579
Staff Expenses	7,630	11,808	17,435	19,872
Office Expenses	13,672	23,181	34,079	42,358
Exchange loss	-	-	-	-
Non operating expenses	16	-	-	2
Bad debts written off	-	-	-	-
Loan loss Provision	5,166	20,067	6,466	15,980
Provision for Staff Bonus	-	-	1,701	5,188
Provision for NBA	-	-	-	-
Provision for Income Tax	-	-	-	-
Total	**50,610**	**119,536**	**135,837**	**196,979**
Income				
Interest Income	31,174	70,089	139,040	215,207
Commission and Discount	2,751	3,113	5,654	14,840
Exchange Income	1,011	3,718	5,946	12,621
Non operating Income	-	1	-	-
Other Income	248	267	505	1,001
Total	**35,184**	**77,188**	**151,145**	**243,669**
Net Profit/(Loss)	**(15,426)**	**(42,348)**	**15,308**	**46,690**

Financial statements of Kumari Bank Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	-	350,000	350,000	500,000
Reserves and Surplus	-	(1,441)	11,033	33,403
Deposit	-	1,179,894	2,513,144	4,807,936
Borrowing	-	31,991	-	-
Bills Payable	-	8,838	4,129	14,637
Other Liabilities	-	23,478	107,869	138,199
Total Liabilites	**-**	**1,592,760**	**2,986,175**	**5,494,175**
Assets				
Cash Balance	-	30,276	40,800	68,472
Bank Balance	-	98,878	250,905	617,006
Money At call	-	-	-	-
Investment	-	255,000	423,155	983,504
Loan and Advances	-	1,111,559	2,105,737	3,649,008
Fixed Assets	-	51,896	40,425	57,152
Other Assets	-	45,151	125,153	119,033
Total Assets	**-**	**1,592,760**	**2,986,175**	**5,494,175**
Expenses				
Interest Expenses	-	48,168	92,945	163,903
Staff Expenses	-	15,326	23,254	28,576
Office Expenses	-	31,423	45,504	56,441
Exchange loss	-	-	-	-
Non operating expenses	-	-	-	-
Bad debts written off	-	-	-	-
Loan loss Provision	-	12,388	16,805	17,126
Provision for Staff Bonus	-	226	2,373	7,680
Provision for NBA	-	-	-	-
Provision for Income Tax	-	696	8,879	20,437
Total	**-**	**108,227**	**189,760**	**294,163**
Income				
Interest Income	-	96,355	185,090	310,216
Commission and Discount	-	3,441	9,413	16,446
Exchange Income	-	9,152	7,144	14,414
Non operating Income	-	-	4	-
Other Income	-	616	582	1,773
Total	**-**	**109,564**	**202,233**	**342,849**
Net Profit/(Loss)	**-**	**1,337**	**12,473**	**48,686**

Financial statements of Laxmi Bank Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	350,000	275,000	330,000	549,789
Reserves and Surplus	(2,778)	(4,217)	(3,183)	7,266
Deposit	316,099	112,597	691,810	1,684,159
Borrowing	-	-	70,000	317,005
Bills Payable	1,009	162	2,150	283
Other Liabilities	1,106	727	5,769	26,988
Total Liabilites	**665,436**	**384,269**	**1,096,546**	**2,585,490**
Assets				
Cash Balance	18,775	2,968	16,054	36,977
Bank Balance	153,442	165,690	137,555	342,490
Money At call	140,000	-	-	100,000
Investment	19,757	54,027	110,914	295,107
Loan and Advances	263,077	122,880	768,184	1,733,420
Fixed Assets	46,748	26,258	30,944	32,633
Other Assets	23,637	12,446	32,895	44,863
Total Assets	**665,436**	**384,269**	**1,096,546**	**2,585,490**
Expenses				
Interest Expenses	1,316	354	20,096	63,177
Staff Expenses	2,925	2,877	14,394	19,198
Office Expenses	4,024	2,447	17,322	35,730
Exchange loss	-	-	-	-
Non operating expenses	-	-	-	55
Bad debts written off	-	-	-	-
Loan loss Provision	2,657	1,241	6,518	9,750
Provision for Staff Bonus	-	-	115	1,454
Provision for NBA	-	-	-	-
Provision for Income Tax	-	-	-	2,634
Total	**10,922**	**6,919**	**58,445**	**131,998**
Income				
Interest Income	6,385	1,867	49,787	124,046
Commission and Discount	514	231	4,262	11,299
Exchange Income	894	522	4,534	6,076
Non operating Income	193	-	405	-
Other Income	-	83	491	1,026
Total	**7,986**	**2,703**	**59,479**	**142,447**
Net Profit/(Loss)	**(2,936)**	**(4,216)**	**1,034**	**10,449**

Financial statements of Siddhartha Bank Limited
for FY 2000-2001 to 2003-04

Rs. In '000

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Capital and Liabilities				
Capital	-	-	350,000	350,000
Reserves and Surplus	-	-	(1,284)	16,198
Deposit	-	-	391,678	1,291,314
Borrowing	-	-	110,000	220,000
Bills Payable	-	-	-	962
Other Liabilities	-	-	13,341	33,565
Total Liabilites	**-**	**-**	**863,735**	**1,912,039**
Assets				
Cash Balance	-	-	9,439	18,214
Bank Balance	-	-	55,648	53,632
Money At call	-	-	102,073	174,830
Investment	-	-	3,775	42,050
Loan and Advances	-	-	622,735	1,543,768
Fixed Assets	-	-	21,819	28,409
Other Assets	-	-	48,246	51,136
Total Assets	**-**	**-**	**863,735**	**1,912,039**
Expenses				
Interest Expenses	-	-	5,619	45,506
Staff Expenses	-	-	8,040	16,458
Office Expenses	-	-	10,163	21,668
Exchange loss	-	-	-	-
Non operating expenses	-	-	-	-
Bad debts written off	-	-	-	-
Loan loss Provision	-	-	6,290	17,769
Provision for Staff Bonus	-	-	-	2,836
Provision for NBA	-	-	-	-
Provision for Income Tax	-	-	-	8,039
Total	**-**	**-**	**30,112**	**112,276**
Income				
Interest Income	-	-	23,889	113,630
Commission and Discount	-	-	2,163	7,034
Exchange Income	-	-	88	2,229
Non operating Income	-	-	-	-
Other Income	-	-	2,687	6,866
Total	**-**	**-**	**28,827**	**129,759**
Net Profit/(Loss)	**-**	**-**	**(1,285)**	**17,483**

Annexure – 2

Financial Indicator of Commercial Bank

Financial Indicator of Nepal Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	-17.51%	-27.03%	-29.75%	-25.91%
Capital Fund to Risk Weighted Assets	0.00%	-19.67%	-28.25%	-24.97%
Non-Performing Loan to Total Loan	50.80%	56.27%	60.47%	53.74%
Net Profit To Gross Profit	-14833.87%	320.98%	106.92%	87.94%
Interest Income to Loan and Advance	11.67%	7.93%	12.13%	10.17%
Interest Expenses to Deposit & Borrowing	5.12%	4.97%	4.52%	2.87%
Net Interest Income (Rs. in million)	548	-186	615	800
Return on Assets	-5.24%	-7.76%	-0.63%	1.61%
Credit to Deposit	57.33%	56.19%	51.79%	50.20%
Liquid Assets to Total Assets	35.19%	38.58%	42.27%	38.96%
Liquid Assets to Total Deposit	41.09%	44.55%	48.07%	48.15%

Financial Indicator of Rastriya Banijya Bank

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	-17.03%	-35.30%	-45.52%	-43.27%
Capital Fund to Risk Weighted Assets	0.00%	-28.02%	-44.28%	-42.12%
Non-Performing Loan to Total Loan	48.49%	55.07%	60.15%	57.64%
Net Profit To Gross Profit	606.69%	576.65%	148.97%	91.72%
Interest Income to Loan and Advance	10.35%	6.45%	7.68%	8.91%
Interest Expenses to Deposit & Borrowing	6.28%	6.00%	5.32%	3.65%
Net Interest Income (Rs. in million)	262	-602	-59	741
Return on Assets	-13.31%	-15.72%	-11.32%	2.31%
Credit to Deposit	67.14%	69.34%	67.53%	61.43%
Liquid Assets to Total Assets	20.03%	19.16%	20.15%	22.28%
Liquid Assets to Total Deposit	26.15%	22.09%	21.86%	24.56%

Financial Indicator of Nabil Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	6.50%	10.53%	11.45%	12.12%
Capital Fund to Risk Weighted Assets	10.46%	13.86%	13.05%	13.56%
Non-Performing Loan to Total Loan	16.01%	7.14%	5.54%	3.35%
Net Profit To Gross Profit	42.12%	30.34%	56.76%	56.08%
Interest Income to Loan and Advance	15.22%	14.36%	12.55%	11.72%
Interest Expenses to Deposit & Borrowing	3.65%	2.90%	2.20%	1.97%
Net Interest Income (Rs. in million)	688	658	701	719
Return on Assets	1.64%	1.54%	2.51%	2.72%
Credit to Deposit	52.56%	50.31%	60.34%	60.55%
Liquid Assets to Total Assets	22.89%	29.52%	32.63%	33.21%
Liquid Assets to Total Deposit	25.69%	33.56%	40.18%	39.39%

Financial Indicator of Nepal Investment Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	13.10%	15.47%	7.88%	7.22%
Capital Fund to Risk Weighted Assets	0.00%	17.21%	8.85%	11.18%
Non-Performing Loan to Total Loan	8.29%	4.80%	1.98%	2.47%
Net Profit To Gross Profit	37.72%	35.25%	53.25%	43.84%
Interest Income to Loan and Advance	14.40%	12.02%	7.76%	9.97%
Interest Expenses to Deposit & Borrowing	3.73%	3.05%	2.39%	2.74%
Net Interest Income (Rs. in million)	186	196	270	405
Return on Assets	1.12%	1.15%	1.30%	1.15%
Credit to Deposit	57.07%	65.00%	74.74%	63.68%
Liquid Assets to Total Assets	14.88%	11.33%	15.16%	26.69%
Liquid Assets to Total Deposit	17.54%	13.49%	17.25%	30.70%

Financial Indicator of Standard Chartered Bank Nepal Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	11.61%	13.92%	12.31%	14.14%
Capital Fund to Risk Weighted Assets	0.00%	17.39%	14.21%	15.99%
Non-Performing Loan to Total Loan	5.23%	4.84%	4.13%	3.77%
Net Profit To Gross Profit	50.03%	59.08%	63.88%	60.90%
Interest Income to Loan and Advance	21.60%	17.80%	16.69%	15.57%
Interest Expenses to Deposit & Borrowing	2.77%	1.82%	1.35%	1.30%
Net Interest Income (Rs. in million)	753	714	746	766
Return on Assets	2.26%	2.60%	2.41%	2.27%
Credit to Deposit	36.82%	35.97%	31.99%	31.63%
Liquid Assets to Total Assets	43.93%	47.02%	47.11%	51.56%
Liquid Assets to Total Deposit	54.34%	54.76%	52.75%	57.60%

Financial Indicator of Himalayan Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	4.67%	6.99%	7.14%	7.66%
Capital Fund to Risk Weighted Assets	0.00%	12.33%	11.03%	10.62%
Non-Performing Loan to Total Loan	15.17%	8.35%	10.08%	8.88%
Net Profit To Gross Profit	45.12%	42.40%	35.18%	39.59%
Interest Income to Loan and Advance	14.71%	12.02%	11.08%	9.64%
Interest Expenses to Deposit & Borrowing	4.15%	3.02%	2.56%	2.17%
Net Interest Income (Rs. in million)	592	571	647	754
Return on Assets	1.47%	1.14%	0.91%	1.06%
Credit to Deposit	51.12%	51.33%	51.62%	58.70%
Liquid Assets to Total Assets	40.89%	22.57%	26.24%	23.43%
Liquid Assets to Total Deposit	43.76%	25.05%	29.17%	26.36%

Financial Indicator of Nepal Bangladesh Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	5.94%	5.75%	6.22%	4.65%
Capital Fund to Risk Weighted Assets	0.00%	9.92%	8.11%	5.61%
Non-Performing Loan to Total Loan	8.34%	15.77%	12.73%	10.81%
Net Profit To Gross Profit	44.57%	17.25%	15.06%	0.52%
Interest Income to Loan and Advance	11.01%	10.52%	12.73%	11.36%
Interest Expenses to Deposit & Borrowing	6.00%	5.63%	5.61%	4.86%
Net Interest Income (Rs. in million)	294	298	416	470
Return on Assets	2.06%	0.59%	0.60%	0.02%
Credit to Deposit	85.56%	84.79%	75.25%	75.31%
Liquid Assets to Total Assets	17.18%	24.77%	25.48%	28.16%
Liquid Assets to Total Deposit	19.29%	28.85%	28.73%	31.35%

Financial Indicator of Nepal SBI Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	4.45%	10.83%	11.34%	9.47%
Capital Fund to Risk Weighted Assets	0.00%	13.92%	13.78%	10.25%
Non-Performing Loan to Total Loan	11.54%	6.32%	8.90%	6.25%
Net Profit To Gross Profit	8.30%	31.24%	30.30%	25.31%
Interest Income to Loan and Advance	10.61%	8.72%	9.79%	8.92%
Interest Expenses to Deposit & Borrowing	4.03%	4.71%	4.43%	3.50%
Net Interest Income (Rs. in million)	173	111	178	238
Return on Assets	0.18%	0.58%	0.64%	0.72%
Credit to Deposit	63.34%	82.27%	73.52%	76.85%
Liquid Assets to Total Assets	37.85%	30.24%	33.34%	32.63%
Liquid Assets to Total Deposit	40.49%	38.10%	38.68%	38.26%

Financial Indicator of Everest Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	8.68%	12.11%	10.48%	9.58%
Capital Fund to Risk Weighted Assets	0.00%	14.30%	12.33%	11.07%
Non-Performing Loan to Total Loan	3.93%	1.05%	2.20%	1.72%
Net Profit To Gross Profit	47.45%	49.43%	47.87%	45.06%
Interest Income to Loan and Advance	12.84%	10.97%	10.30%	10.78%
Interest Expenses to Deposit & Borrowing	5.09%	4.63%	4.60%	3.92%
Net Interest Income (Rs. in million)	148	187	213	341
Return on Assets	1.36%	1.29%	1.17%	1.49%
Credit to Deposit	65.57%	73.98%	75.42%	75.59%
Liquid Assets to Total Assets	36.72%	33.66%	34.01%	34.20%
Liquid Assets to Total Deposit	41.26%	40.75%	40.91%	40.75%

Financial Indicator of Bank of Kathmandu Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	5.64%	9.91%	10.44%	10.14%
Capital Fund to Risk Weighted Assets	0.00%	13.99%	12.05%	11.18%
Non-Performing Loan to Total Loan	7.59%	8.11%	8.67%	6.66%
Net Profit To Gross Profit	39.27%	5.89%	37.62%	41.60%
Interest Income to Loan and Advance	10.85%	9.68%	10.23%	9.44%
Interest Expenses to Deposit & Borrowing	5.34%	4.98%	4.15%	3.31%
Net Interest Income (Rs. in million)	155	188	220	281
Return on Assets	1.05%	0.15%	1.10%	1.34%
Credit to Deposit	75.01%	85.44%	78.69%	77.61%
Liquid Assets to Total Assets	27.69%	21.30%	30.00%	36.09%
Liquid Assets to Total Deposit	30.05%	23.65%	36.20%	44.27%

Financial Indicator of Nepal Credit and Commerce Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	6.20%	-4.07%	1.90%	2.85%
Capital Fund to Risk Weighted Assets	0.00%	2.33%	6.51%	3.42%
Non-Performing Loan to Total Loan	18.93%	40.11%	20.63%	12.72%
Net Profit To Gross Profit	24.96%	-2283.41%	61.89%	2.60%
Interest Income to Loan and Advance	11.97%	10.69%	12.87%	10.32%
Interest Expenses to Deposit & Borrowing	6.92%	7.44%	5.93%	5.24%
Net Interest Income (Rs. in million)	85	32	181	173
Return on Assets	0.47%	-9.70%	1.69%	0.05%
Credit to Deposit	76.59%	77.60%	79.09%	78.78%
Liquid Assets to Total Assets	25.69%	24.65%	22.73%	23.07%
Liquid Assets to Total Deposit	29.85%	27.22%	25.58%	25.67%

Financial Indicator of Lumbini Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	13.47%	6.45%	8.68%	7.54%
Capital Fund to Risk Weighted Assets	0.00%	12.89%	11.37%	8.71%
Non-Performing Loan to Total Loan	15.54%	19.32%	11.70%	7.36%
Net Profit To Gross Profit	-685.41%	-185.53%	113.11%	15.76%
Interest Income to Loan and Advance	8.81%	11.66%	11.77%	11.21%
Interest Expenses to Deposit & Borrowing	5.66%	6.16%	6.11%	5.01%
Net Interest Income (Rs. in million)	39	96	122	164
Return on Assets	-1.48%	-3.20%	2.59%	0.43%
Credit to Deposit	85.16%	86.37%	88.60%	85.31%
Liquid Assets to Total Assets	20.84%	20.66%	19.14%	22.78%
Liquid Assets to Total Deposit	24.34%	23.90%	22.25%	26.32%

Financial Indicator of Nepal Industrial and Commercial Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	16.29%	18.54%	17.44%	12.92%
Capital Fund to Risk Weighted Assets	17.36%	20.90%	18.87%	13.75%
Non-Performing Loan to Total Loan	5.06%	8.16%	6.66%	3.92%
Net Profit To Gross Profit	52.16%	10.19%	25.81%	45.37%
Interest Income to Loan and Advance	11.24%	12.57%	11.36%	9.70%
Interest Expenses to Deposit & Borrowing	5.05%	6.23%	4.17%	3.53%
Net Interest Income (Rs. in million)	114	101	149	179
Return on Assets	1.15%	0.18%	0.64%	1.15%
Credit to Deposit	73.21%	74.84%	81.51%	72.73%
Liquid Assets to Total Assets	33.28%	34.14%	35.25%	28.40%
Liquid Assets to Total Deposit	39.23%	40.65%	45.26%	32.73%

Financial Indicator of Machhapuchhre Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	10.59%	8.00%	23.98%	17.01%
Capital Fund to Risk Weighted Assets	0.00%	10.68%	24.75%	17.82%
Non-Performing Loan to Total Loan	0.91%	10.45%	2.08%	0.98%
Net Profit To Gross Profit	150.35%	190.06%	65.21%	68.81%
Interest Income to Loan and Advance	6.25%	10.30%	9.29%	8.47%
Interest Expenses to Deposit & Borrowing	3.45%	6.48%	4.08%	3.98%
Net Interest Income (Rs. in million)	7	6	63	102
Return on Assets	-1.97%	-3.83%	0.64%	1.35%
Credit to Deposit	71.21%	68.38%	84.09%	92.24%
Liquid Assets to Total Assets	25.47%	24.95%	20.88%	18.33%
Liquid Assets to Total Deposit	28.43%	27.70%	28.17%	22.95%

Financial Indicator of Kumari Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	83.58%	25.60%	14.22%	28.21%
Capital Fund to Risk Weighted Assets	0.00%	26.79%	15.46%	29.13%
Non-Performing Loan to Total Loan	0.00%	1.27%	1.70%	0.00%
Net Profit To Gross Profit	1052.33%	9.13%	30.77%	51.83%
Interest Income to Loan and Advance	2.40%	8.55%	8.66%	8.39%
Interest Expenses to Deposit & Borrowing	0.42%	3.97%	3.70%	3.16%
Net Interest Income (Rs. in million)	5	48	92	61
Return on Assets	-0.44%	0.08%	0.42%	0.89%
Credit to Deposit	84.07%	95.48%	85.06%	76.91%
Liquid Assets to Total Assets	49.89%	15.44%	17.66%	23.43%
Liquid Assets to Total Deposit	105.02%	20.84%	20.98%	26.77%

Financial Indicator of Laxmi Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	0.00%	133.19%	37.60%	11.90%
Capital Fund to Risk Weighted Assets	0.00%	133.80%	38.56%	12.81%
Non-Performing Loan to Total Loan	0.00%	0.00%	0.00%	0.76%
Net Profit To Gross Profit	0.00%	141.71%	13.49%	43.02%
Interest Income to Loan and Advance	0.00%	1.50%	6.42%	7.08%
Interest Expenses to Deposit & Borrowing	0.00%	0.31%	2.64%	3.41%
Net Interest Income (Rs. in million)	0	2	30	146
Return on Assets	0.00%	-1.10%	0.09%	0.40%
Credit to Deposit	0.00%	110.23%	112.16%	103.96%
Liquid Assets to Total Assets	0.00%	43.89%	22.75%	29.53%
Liquid Assets to Total Deposit	0.00%	149.79%	36.07%	45.33%

Financial Indicator of Siddhartha Bank Limited

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
Core Capital to Risk Weighted Assets	0.00%	0.00%	41.11%	18.50%
Capital Fund to Risk Weighted Assets	0.00%	0.00%	41.85%	19.36%
Non-Performing Loan to Total Loan	0.00%	0.00%	0.00%	1.61%
Net Profit To Gross Profit	0.00%	0.00%	-25.67%	37.90%
Interest Income to Loan and Advance	0.00%	0.00%	3.80%	7.25%
Interest Expenses to Deposit & Borrowing	0.00%	0.00%	1.12%	3.01%
Net Interest Income (Rs. in million)	0	0	18	68
Return on Assets	0.00%	0.00%	-0.15%	0.91%
Credit to Deposit	0.00%	0.00%	160.60%	121.41%
Liquid Assets to Total Assets	0.00%	0.00%	19.79%	15.10%
Liquid Assets to Total Deposit	0.00%	0.00%	43.64%	22.36%