Annual Bank Supervision Report 2006

Bank Supervision Department
Nepal Rastra Bank

Baluwatar Kathmandu, Nepal

July, 2007

NEPAL RASTR A BANK

BANKING SUPERVISION ANNUAL REPORT 2006

The Banking Supervision Annual Report is a publication of the Bank Supervision Department of the Nepal Rastra Bank, the Central Bank of Nepal. The publication reviews policy and operational issues affecting the banking sector and its regulators/supervisors, with the main objective of disseminating information on supervisory activities related to commercial banks and other current supervisory issues.

Any enquiry regarding the publication should be directed to:

Executive Director of Bank Supervision Department,
Nepal Rastra Bank,
Central Office,
P.O.Box No.73
Baluwatar, Kathmandu, Nepal
Telephone: 00-977-14417497
Facsimile: 00-977-14412306
E-mail: bsd@nrb.org.np

PREFACE

The key objective of the Annual Banking Supervision Report 2006 is to disclose the supervisory activities of Bank Supervision Department for the Year 2005/06. This report, at the same time, also sheds light on the overview and performance of the banking industry of Nepal during the year. This edition of the Banking Supervision Annual Report catalogues the supervisory activities of the Bank Supervision Department of Nepal Rastra Bank.

Safety and soundness of the financial system remains one of the key objectives of Nepal Rastra Bank. This objective calls for attempts to strengthen banks, re-focus and reposition them to meet the global challenges and play a pivotal role in supporting the growth of the Nepalese economy.

The year, 2006, witnessed increased activities by banks towards meeting the stipulated minimum capital base announced by the NRB. On its part, the NRB recorded a success in its supervisory efforts, particularly in the banking sector reform.

In recognition of the narrow scope and the largely reactive nature of the current compliance-based approach to the supervision of banks, the NRB is taking steps to gradually migrate towards risk-based supervision, which is more robust and better suited to the changing financial landscape. To flag-off the process, the NRB is planning to direct all banks to develop their internal risk management processes.

The threat of money laundering to global financial systems once again came to the fore during the year 2005. To underscore the need in checking this threat, banks were required in 2006 to adhere strictly to the provisions of the “Know Your Customer”, guidelines for banks and other financial institutions issued in July 2005. Said guidelines is intended to serve as a further guidance to banks and other financial institutions in Nepal on the procedures necessary for the in-depth knowledge of their customers.

The most significant issue of regulatory concern in our banking system today remains corporate governance. With the profound changes in the banking industry, the time has never been more favorable to demand banks to be more transparent, accountable and build a culture of ethics and professionalism.

The larger size and the increasing complexity of operations have seen banks interested in insurance and capital market activities. This means that they will have operators in multiple regulatory jurisdictions. The NRB, in collaboration with other regulatory authorities in the financial industry, has initiated a consolidated approach in policy formulation. High Level co-ordination Committee comprising regulatory authorities from company registrar, insurance board, securities board has had several discussions on policy formulation. NRB intensified efforts towards the formation of a consolidated supervision regime that will harmonize the processes and co-ordinate supervisory responsibilities across jurisdictions.

The bank supervision report, prepared and made public for the fifth consecutive year, is an important achievement in shaping our regulation and supervision paradigm. The report contributes not only in enhancing the policy of adequate transparency NRB has adopted but also facilitates comparative analysis of compliance status of the commercial banks. I hope, this report will be well received by all stakeholders.

Ravindra Prasad Pandey
Executive Director
Bank Supervision Department

Table of Contents

List of Tables

List of Figures

Chapter 1
Overview of the Nepalese Banking and Financial System

1.1 Introduction

Sustainable economic growth requires intermediary channels for efficient allocation of funds. Through intermediary channels such as financial institutions and financial markets, funds should be efficiently channeled from depositors and investors to borrowers in need of funding to, for example, expand their business or buy a house. The role played by financial institutions and financial markets in this process is referred to as the function of financial intermediation.

To perform this function stably, financial institutions as important financial intermediary channels need to maintain sound business operations. Financial institutions need to better satisfy various financial demands of customers and enhance profitability by continually improving the ways in which they manage risks and their business operations.

The growth of financial sector in Nepal is much better compared to the other sectors in the country. The decade long conflict has had its toll on every sector including the financial sector. Despite the conflict and political insurgency, financial sector continued growing.

Nepalese Financial sector is comprised of organized and unorganized sector. The Nepalese organized financial sector is composed of banking sector and non-banking sector. Besides commercial banks, there are sizeable numbers of development banks, finance companies, micro-credit development banks, co-operative, NGOs and postal saving offices that undertake limited banking and financial services. Non-bank financial sector comprises Funds, Trusts and thrifts like, Employee Provident Fund, Citizen Investment Trusts, and Mutual fund.

1.2 Overview of the Financial Market

Nepal has a reasonably diversified financial sector, as evidenced by the number and variety of institutions that play an active role in this sector, relative to Nepal's small and underdeveloped economic base. Over the past 20 years, Nepal's financial sector has become deeper and the number and type of financial intermediation has grown rapidly. Within this period, the Nepalese financial sector has grown significantly both in terms of business volume and size of assets and market.

The financial sector was not opened up for private sector till the early 1980s in Nepal. At the beginning of the 1980s when financial sector was not liberalized, there were only two government-controlled commercial banks - Rastriya Banijya Bank and Nepal Bank Limited and two development banks performing banking activities in Nepal. The economic reforms initiated by the Government more than one and half decade ago have changed the landscape of several sectors of the Nepalese economy. As a result of this policy, large number of banks and financial institutions mushroomed across the country.

The Nepalese Financial market is comprised of organized and non-organized sector. The Nepalese organized financial sector is composed of banking sector and non-banking sector. Besides commercial banks, there are development banks, finance companies, micro-credit institutions, co-operatives and NGOs; there are other institutions that perform near-bank services like postal savings, Employee Provident Fund, Mutual Fund, and Citizen Investment Trust, insurance companies and Nepal Stock Exchange etc. Similarly, brokers, security dealers, market makers and moneychangers are other players of financial markets.

However, NRB's regulatory and supervisory regime is limited to the commercial banks, Development banks, Finance companies, Micro-credit development banks, saving and credit co-operatives and non-government organizations of which license for operation is provided by Nepal Rastra Bank. The following table depicts the types and number of financial institution licensed by NRB by mid-July 2006.

Table 1: Number of Licensed Financial Institutions

S.N.	Type of financial Institutions	Class	Number
1	Commercial Banks	A	18
2	Development Banks	B	29
3	Finance Companies	C	70
4	Micro Credit Development Banks	D	11
5	Saving and Credit Co-operatives	Non-classified	19
6	Non-Government Organizations	Non-classified	47
	Total		**194**

Source: Banking and Financial Statistics (Mid-July 2006, No.47)

Nepal Rastra Bank (NRB), the central bank of Nepal, established in April 26, 1956, under the NRB Act 2012 is the sole authority for licensing and supervising banks and financial institutions in Nepal. Replacing NRB Act 2012, The NRB Act 2058 has empowered Nepal Rastra Bank to conduct the supervision of financial institutions and has provided more autonomy, authority and accountability to the core central banking function, which undoubtedly includes the supervision function as well.

Nepal Rastra Bank has been given various rights and powers including rights of granting license to banks and financial institutions, their monitoring, inspection & supervision and also taking over the management if it appears that transactions of the bank are detrimental to the interest of depositors. It has authority even to cancel license incase of material non-compliance of various prudential norms and relevant laws and regulations. The following table depicts total assets of licensed institutions and the share of various types of financial institutions.

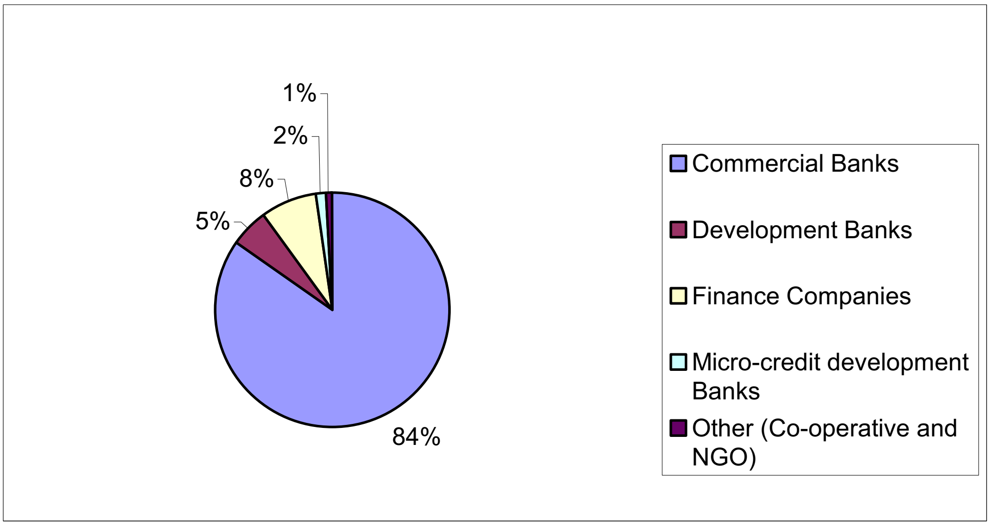
Table 2: Share out of Total Financial Assets

Bank and Financial Institutions	Total Assets (million Rupees)	Share
Commercial Banks	428691.55	84.7
Development Banks	26622.40	5.26
Finance Companies	38870.75	7.68
Micro-credit development Banks	8199.30	1.62
Other (Co-operative and NGO)	3745.34	0.74
Total	**506129.34**	**100**

Source: Banking and Financial Statistics (Mid-July 2006, No.47)

Though Nepalese financial sector is reasonably diversified with institutional arrangement of varied nature of financial institutions, commercial banks are the major players in this system and they occupy substantial share in the structure of financial sector. The following table depicts the share of commercial banks out of total financial assets.

Figure 1 Share of Financial Assets



The commercial banks are supervised by the Bank Supervision Department while the rest of these institutions are supervised by Financial Institution Supervision Department.

1.3 The Banking Sector

Like most of the developing countries, Nepal has a special characteristic of bank dominated financial sector. As the domestic capital and stock markets are in the initial stage of development, the banking sector largely dominates the entire financial sector.

The banking sector is an important part of the national economy. Banks take deposits, support the payment system and provide the largest source of funds on the market. Therefore, safe and sound banking is of crucial importance for the financial stability and sustainable development.

The first conventional bank in Nepal was the Nepal Bank Limited, established in 1937 A.D. followed by Rastriya Banijya Bank in 1966 A.D. These two banks are the pioneers of the Nepalese Banking industry. These banks have the largest network and they have their operations even in remote areas of the country. Rastriya Banijya Bank is fully owned by the Government while the Government has controlling stake in Nepal Bank Limited. As the financial market was barred for private investors till the mid 1980s, these two banks were the only players in the banking industry. The economic liberalization policy adopted in the mid 1980s brought about a surge in the banking industry. A large number of banks were established and the number continues to grow even today.

Table 3: List of Commercial Banks in Nepal (Mid July 2006)

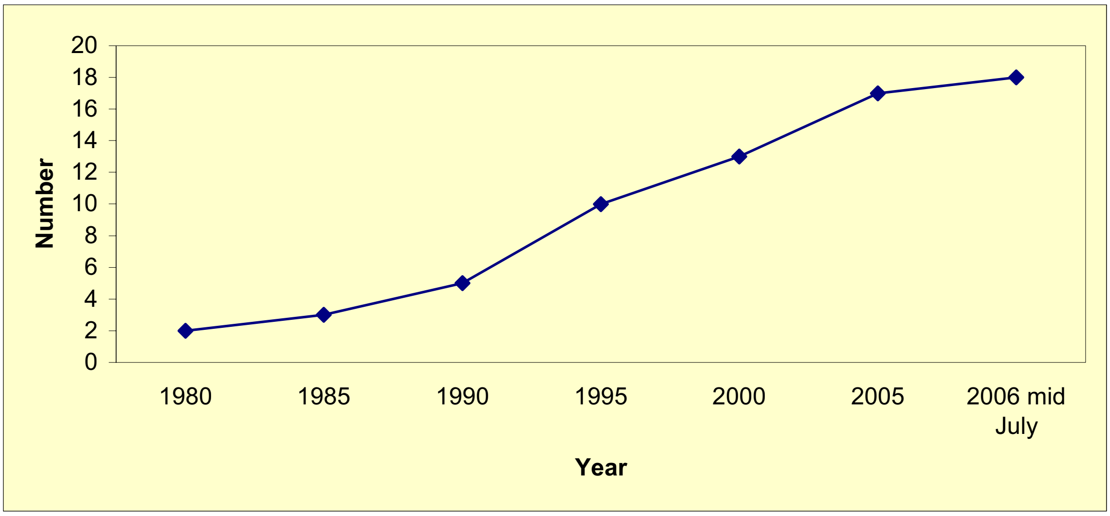
S.N.	**Name**	Operation Date (A.D.)	Head Office
1	Nepal Bank Limited (NBL)	1937/11/15	Kathmandu
2	Rastriya Banijya Bank (RBB)	1966/01/23	Kathmandu
3	NABIL Bank Limited (NABIL)	1984/07/16	Kathmandu
4	Nepal Investment Bank Limited (NIBL)	1986/02/27	Kathmandu
5	Standard Chartered Bank Nepal Ltd. (SCBN)	1987/01/30	Kathmandu
6	Himalayan Bank Limited (HBL)	1993/01/18	Kathmandu
7	Nepal SBI Bank Limited (NSBI)	1993/07/07	Kathmandu
8	Nepal Bangladesh Bank Limited (NBBL)	1993/06/05	Kathmandu
9	Everest Bank Limited (EBL)	1994/10/18	Kathmandu
10	Bank of Kathmandu Limited (BOK)	1995/03/12	Kathmandu
11	Nepal Credit and Commerce Bank Ltd. (NCCBL)	1996/10/14	Siddharthanagar
12	Lumbini Bank Limited (LBL)	1998/07/17	Narayangadh
13	Nepal Industrial & Commercial Bank Ltd. (NIC)	1998/07/21	Biratnagar
14	Machhapuchhre Bank Limited (MPBL)	2000/10/03	Pokhara
15	Kumari Bank Limited (KBL)	2001/04/03	Kathmandu
16	Laxmi Bank Limited (LXBL)	2002/04/03	Birgunj
17	Siddhartha Bank Limited (SBL)	2002/12/24	Kathmandu
18	Agriculture Development Bank*	2006/03/16	Kathmandu

* *There were 18 commercial banks in Nepal in F/Y 2005/06. The ADB/N, established in 1967, has been upgraded by Nepal Rastra Bank as "A" class licensed institution on 16th March 2006. The financial activities of ADBN are divided in commercial banking and development banking. The transaction of commercial banking has been consolidated with commercial banks. (Source: Banking and Financial Statistics (Mid-July 2006, No.47)*

1.4 Growth of number of Commercial Banks

There is a significant growth in the number of banks in Nepal in the last two decades. At the beginning of the 1980s when the financial sector was not liberalized, there were only two commercial banks. During 1980s, there were only few banks. After the liberalization in the 1990s, financial sector has made a progress both in term of the number of banks and financial institutions and their branches.

Figure 2 Numbers of Commercial Banks



1.5 Ownership and Control

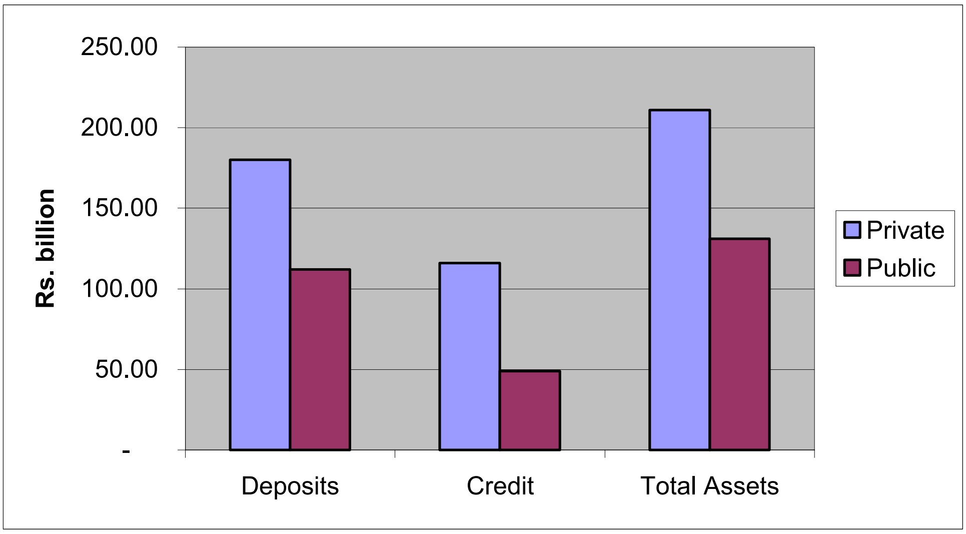
The banks in Nepal have very unique characteristics. From an ownership standpoint, the commercial banks in Nepal can be broadly classified into two categories: Public banks and Private banks. The banks, which are owned or controlled by the government, are labeled as Public banks while the banks that are owned or controlled by the private sector are categorized as Private Banks. The Private Banks can be further regrouped into the Local Private banks and Joint-Venture Banks. The banks with the local private investment are Local Private Banks whilst the banks with the Investment of Foreign Institutions along with the local investment are Joint-Venture Banks.

In Nepal, we have 3 Public Banks and 15 Private Banks. The financial health of the public banks was very poor and thus a reform program was initiated in these two banks under the Financial Sector Reform Project with the aid of the World Bank. Likewise, 3 of the private banks are placed under close monitoring and surveillance because of their poor financial position and serious lapses in corporate governance.

1.6 Scope of operations: Public vs. Private

It has only been a couple of decades since the private banks came into existence in Nepal. But, their number has far out grown the number of public banks and is still in growing trend. Though the public banks in Nepal are far outweighed by the number of private banks, these three banks are still the largest banks in all aspects from deposit and credit mobilization to the number of branches in operation.

Figure 3 Concentrations in the Banking Industry (Mid July 2006)



1.7 Access of Banking Services and Branch Network

As of mid July 2006, there were 18 commercial banks including 3 public banks. 437 branches, of which 390 belonged to 17 commercial banks and 47, belonged to ADBN.

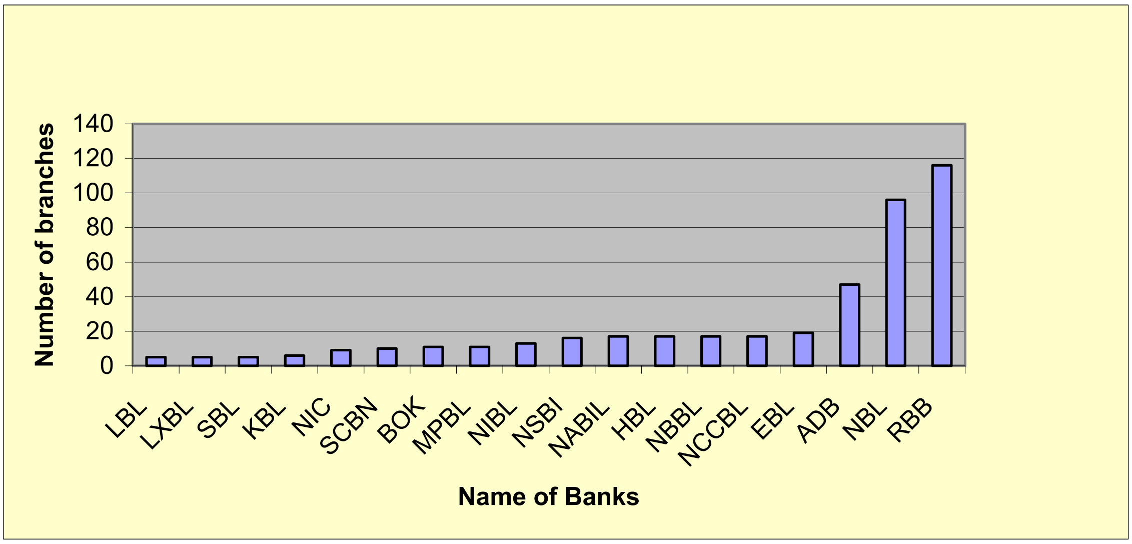
Table 4: Branches of Commercial Banks (Mid July 2006)

Name of Banks	Number of branches
Nepal Bank Limited (NBL)	96
Rastriya Banijya Bank (RBB)	116
NABIL Bank Limited (NABIL)	17
Nepal Investment Bank Limited (NIBL)	13
Standard Chartered Bank Nepal Ltd. (SCBN)	10
Himalayan Bank Limited (HBL)	17
Nepal SBI Bank Limited (NSBI)	16
Nepal Bangladesh Bank Limited (NBBL)	17
Everest Bank Limited (EBL)	19
Bank of Kathmandu Limited (BOK)	11
Nepal Credit and Commerce Bank Ltd. (NCCBL)	17
Lumbini Bank Limited (LBL)	5
Nepal Industrial & Commercial Bank Ltd. (NIC)	9
Machhapuchhre Bank Limited (MPBL)	11
Kumari Bank Limited (KBL)	6
Laxmi Bank Limited (LXBL)	5
Siddhartha Bank Limited (SBL)	5
Agriculture Development Bank*	47
Total	437

* ADB branches performing commercial banking activities only (Source: Banking and Financial Statistics (Mid-July 2006, No.47)

The banks with the largest number of branches are public banks: Rastriya Banijya Bank, Nepal Bank Limited and ADB/N with 114, 106 and 47 branches respectively. The branches outreach would be more than this. But these banks had to close down some of their branches in the rural parts of country because of political insurgency and the law and order situation of the country. But, the number of branches of the private banks is on the rise, as their proposed branches tend to be at urban and semi-urban cities, where the situation is a lot better.

Figure 4 Number of Bank Branches on (Mid July 2006)



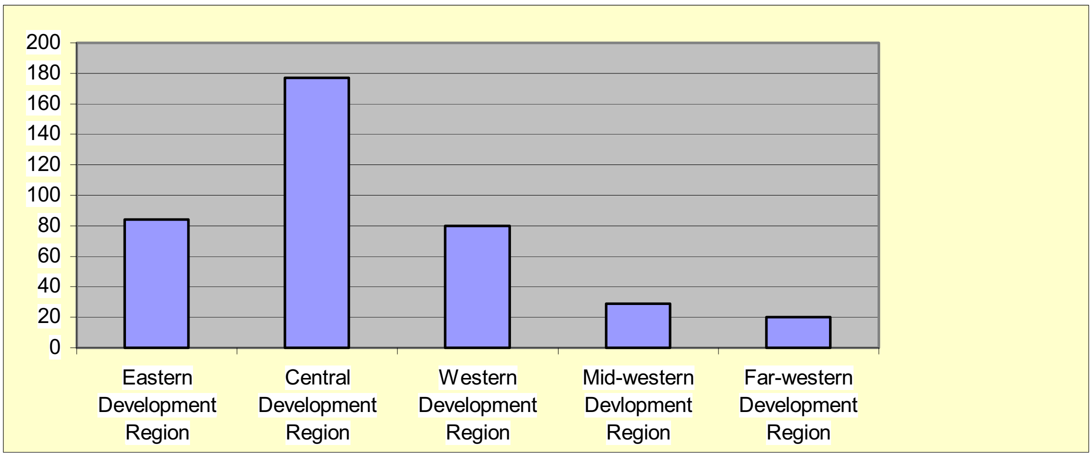
Kathmandu, the capital, is the major economic hub of Nepal. Thus, most banks are looking to increase their number of branches in Kathmandu. Nepal Rastra Bank has continued to adopt a policy targeted towards extending the banking services to the maximum number of people. In this regard, banks willing to open a branch in Kathmandu have to open one branch outside Kathmandu. Still, large concentration of the branches is seen in Kathmandu. There are 89 bank branches in Kathmandu district itself out of a total of 437. In respect of the concentration of bank branches, other major centers include Birgunj, Biratnagar, Pokhara, Bhairahawa and Butwal.

Table 5: Region wise distribution of Branches (Mid July 2006)

S. N.	Development Region	Number of bank branches
1	Eastern Development Region	84
2	Central Development Region	177
3	Western Development Region	80
4	Mid-western Development Region	29
5	Far-western Development Region	20

Central region has the largest concentration of branches with some of the major economic centers like Kathmandu, Lalitpur and Birgunj followed by the Eastern and the Western region. The Mid-Western and Far-Western regions of Nepal have a total of 45 bank branches out of which 36 are from the two public banks. The regional distribution of the branches seemed to be much skewed.

Figure 5 Number of Bank Branches (Region wise)



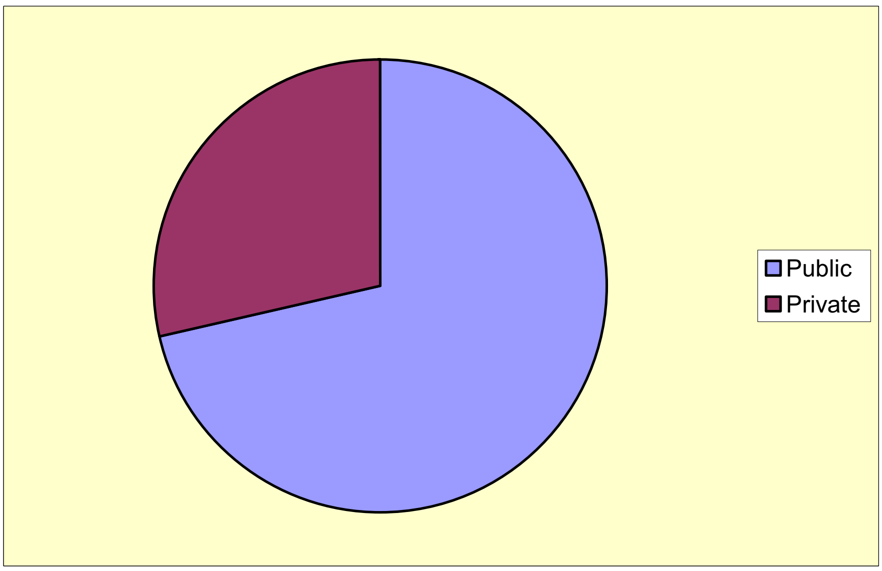
Source: Banking and Financial Statistics (Mid-July 2006, No.47)

1.8 Employment in the Banking Industry

As on Mid July 2006, the total number of employees in the banking industry is close to 14,000. The three public banks, whose system, generate the majority of the employment and processes are still based largely on the manual system. Though, these banks have reduced their staff size almost in half since Mid July 2001, under the various phases of Voluntary Retirement Schemes initiated under the reform process, they still have a sizable force. During 2005/06, the number of employees in the three public sector banks was 11235 whereas the private sector banks had 2527 employees.

However, the private banks, meanwhile, are steadily increasing their number of staff in direct alignment with the proliferation in the business. As a large part of their system and procedure are automated, the number of staffs employed by these banks is relatively small. Due to inclusion of ADB in the public sector commercial bank, the share of public banks seems to be bigger. However, if we analyze trends, the total number of employees in the public bank is decreasing every year.

Figure 6 Employments: Private Vs Public (Mid July 2006)



1.9 Brief Review of the Banking Legislation

The underlying philosophy governing bank supervision is that banks should be free to allocate credit according to market forces and should be entitled to set terms and conditions for their operations in an environment of competition. However, strict supervisory rules should be set for bank behavior in order to protect depositors and other creditors and the financial system as a whole. Pursuant to this, the objective of bank supervision in Nepal is to promote and maintain the safety, soundness, and integrity of the Nepalese banking and financial system and of each institution within the system; while promoting confidence in the financial system through the implementation of policies and standards that are in keeping with international best practices for supervision and regulation.

Nepal Rastra Bank is committed to strengthen and ensure the stability and soundness of the banking system. To this end, a number of circulars and directives have been issued to banking institutions. Further the operational contact that the Department maintains through its on-site examinations, off-site surveillance & analysis and in the regulatory policy formulations with the banking institutions makes for the achievement of the department's supervisory objectives.

In performing the above role, the Bank, through the Banking Supervision Department strives to ensure compliance with the BAFIA by banking institutions under its jurisdiction. In order to achieve the role of protecting the interests of depositors, the department has crafted a number of prudential requirements to be complied with by banking institutions. The prudential requirements advised on banking institutions are designed to limit risk taking to levels that are manageable and that do not place the individual banking institution and the banking system at risk.

In addition other prevailing laws, the main legislative framework for supervision function includes:

- Nepal Rastra Bank Act 2002
- Bank and Financial Institutions Act, 2006 (Umbrella Act)
- Company Act 2006
- Supervision By-laws 2002
- Unified Directives to commercial banks and financial institutions

In the year in question, NRB has continued to review the relevant legislations and regulations in 2005/06 in order to put in place up-to-date regulatory framework that meets international standards and resolves the issues of the banking industry. To improve the financial sector legislative framework, some new Acts, namely Bank and Financial Institution Act, 2006; Insolvency Act, 2006; Secured Transaction Act, 2006; Company Act, 2006 have recently been enacted. Money laundering Control and Deposit and Credit Guarantee Acts are expected to be soon materialized, all with the goal of strengthening the financial sector through its healthy development and improved stability. Regulation Department consolidated all separately issued directives and issued unified directive enforceable from the beginning of F/Y 2005/06.

Chapter 2
Supervision Function

2.1 Why are Banks Supervised?

In most of the countries in the world, the business of banking is conducted by private firms, owned and operated for profit making motive. Banking is a special industry and Banks are those financial institutions that offer the widest range of financial service especially credit, savings and payment services.

It is often asked, why banks should be subject to official supervision in a way that other business enterprises are not. For example, other industries are also critical in a modern economy, the telecommunications industry; indeed, a modern banking system could not operate without reliable telecommunications services. Yet telecommunications firms are not supervised for the purpose of maintaining their financial soundness. Why, then, is it that the telecommunications industry can be relied on the function reliably without official interventions designed to promote financial soundness, while the banking industry cannot?

One reason that banks receive special treatment is that bank failures have stronger adverse effects on the economy than do other business failures. Bank failures can disrupt the flow of credit to local communities, interfere with the operation of the payments system and reduce the money supply. These effects can be long-lasting. In addition, they serve as financial intermediaries to allocate funds and risks among individuals and firms by extending loans or buying securities with funds that they receive as deposits

Similarly, banks provide the means of settlement for the bulk of the transactions, which take place within the economy and across countries. Apart from barter transactions and transactions settled in currency, most transactions are settled by way of a cheque drawn on an account at a bank. Even purchases, which, in the first instance, are charged to credit, including credit card, accounts, are ultimately settled in this way.

The major function of banks is to act as financial intermediaries. This is, they act as a repository for the savings of those who spend less than their income, and as a source of borrowed funds for those whose spending exceeds their income. In playing this role, banks facilitate real resource transfers amongst different groups of people, in accordance with their different needs and preference. These needs and preferences depend, for example, on life cycle factors, such as the need to borrow to buy a house, and the need to save for retirement. Also banks play an important role in making savings available to those with productive investment opportunities.

Thirdly, banks are an important source of liquidity for an economy. This is inherent in the payments services provided by the banking system, insofar as deposits held for transactions' purposes must be available for transfer on demand. A substantial proportion of bank deposits are accordingly held in on demand or readily accessible account. Borrowers, on the other hand, generally have a need for longer term funding. Banks, to some extent, can reconcile these competing needs by operating on the basis of an assumption that not all customers holding demand deposits will wish to withdraw or spend them at the same time. Also, in the normal course of business, on any day bank's customers are likely to lodge to their accounts more or less as much as they withdraw.

Similarly, a feature of banks is that typically they have a low ratio of' own' (shareholders') funds to borrowed funds (deposits). This ratio is typically in the 5-10 per cent range, compared with a ratio of at least 40 per cent, and other higher, for non-financial business firms. But the inherent imbalance between 'own' funds and 'borrowed' funds in a bank's overall funding mix presents some potential problems. Because banks' shareholders have only a small amount of their own funds at stake, there is an underlying incentive for banks to tend toward risk taking activities. In fact, shareholders' losses are limited to the amount of their (relatively small) investment and banks' depositors bear any remaining loss. In short, banks shareholders, in the absence of supervisory requirements and constraints, would potentially have access to large profit opportunities, but with limited downside risk to themselves.

Official supervisors have a role in this regard mostly because banks' depositors are generally not well placed to monitor the portfolio behavior of banks nor to enforce compliance with the terms of the notional covenant depositors have with their bank.

This balance, though, can be upset if a bank's customers lose confidence in it. In this event little will be deposited and substantial amounts will be withdrawn, ultimately resulting in the failure of the bank. Clearly, therefore, the role banks play in providing the link between the medium to long term needs of borrowers and the need the economy has for liquid transactions balances, is, as with the payments system, importantly dependent on the public having confidence in banks.

Hence, banking supervision is basically concerned with constraining the risks which banks can take in using other people's money; money which they have borrowed on the basis of a representation that it will be repaid in full together with interest at the rate contracted. To understand why it is necessary to place restrictions on banking firms. It is useful to consider the financial structure of a bank. These all reasons call for an independent supervisory body to conduct a direct assessment of the overall condition of the banking institutions with regular review of the bank's financial position, system and controls, risk management practices and the compliance with the relevant regulatory requirements. Nepal Rastra Bank is the supervisory body for all the licensed institutions that carry banking transaction.

2.2 The Bank Supervision Department (BSD)

Financial institutions' are supervised in most, if not all, countries. However, the nature of the supervision and its detailed application varies greatly from country to country depending upon the character of its industry, size, complexity and their priorities.

The past has shown that although the cost of supervision is high, the cost of poor supervision is even higher. The cost of bank failure to the society as a whole is higher than the private cost (the loss to the shareholders), which is the compelling reason for supervising banks. Some of the major validations behind the supervision are:

- To maintain stability and confidence in the financial system, thereby reducing the risk of loss to depositors and other stakeholders.
- To ensure that banks operate in a safe and sound manner and they hold sufficient capital to support the risks that arise in their business.
- To foster an efficient and competitive banking system that is responsive to the public's need for good quality and an easy access of financial services at a reasonable cost.

After the institution of Nepal Rastra Bank, a Supervision Unit was established in NRB to execute the supervision function. Gradually as the supervisory function started to gain prominence, this unit was converted into "Division" in 2031 B.S., under the Banking Development and Credit Department and later in 2041 B.S. into a separate department named Inspection and Supervision Department. Today, there are two separate departments executing the supervision function of NRB. Bank supervision department is responsible for the inspection and supervision of all the commercial banks while Financial Institution Supervision Department oversees the inspection and supervision of all other Financial Institutions licensed by NRB. Though central bank is criticized for carrying two different tasks together, almost all central banks regulators and supervisors of banks as well as monetary authority. The **Bank Supervision Department** spearheads the supervisory functions of the Central Bank. The work of the Department is divided into four units: **on-site Supervision**, **Off-site Supervision**, **Policy Planning and Analysis Unit** and the **Internal Administration Unit.**

2.3 Methodology used for Supervision

Traditionally, bank supervisors have contained risk with supervisory review and capital requirements. Supervisory review includes on-site examination and off-site surveillance. Although on-site examination is the most effective tool for spotting safety-- and-soundness problems, it is costly and burdensome. On-site examination is costly to supervisors because of the examiner resources required and is burdensome to bankers because of the intrusion into daily operations. Off-- site surveillance reduces the need for unscheduled exams. Off-site surveillance also helps supervisors plan exams by highlighting risk exposures at specific institutions. For example, if pre-exam surveillance reports indicate that a bank has significant exposure to foreign exchange transaction, then supervisors could add market risk related supervisor (specialist) to the on-site examination team.

The cornerstone of supervisory review is thorough, regularly scheduled, on-site examinations. These examinations focus on six components of bank safety and soundness, known together as **CAMELS**: C for capital protection, A for asset quality, M for management competence, E for earnings strength, L for liquidity risk exposure and S for sensitivity to market risk. The banks are awarded a grade of 1 (best) through 5 (worst) on each component. Examiners use these six scores to award a composite CAMELS rating, also expressed on a 1 through 5 scale. The scores are kept confidential to facilitate the flow of information between examiners and bankers.

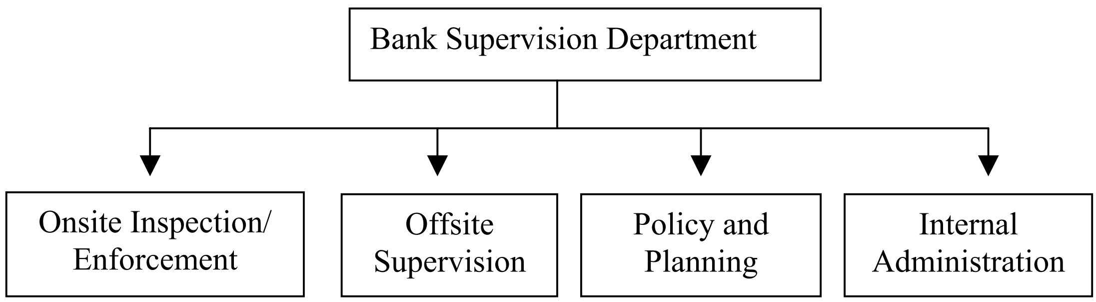
The component of bank's management cannot be assessed only in terms of the returns submitted by the bank. Thus, the off-site supervision cannot make use of the CAMELS rating. So, a separate rating has been devised for the off-site supervision which uses the components of CAMELS except for the "M" representing management, and the rating is, thus, labeled **CAELS**.

2.4 Organization of Bank Supervision Department

After the institution of Nepal Rastra Bank, a Supervision Unit was established in NRB to execute the supervision function. Gradually as the supervisory function started to gain prominence, this unit was converted into "Division" in 2031 B.S., under the Banking Development and Credit Department and later in 2041 B.S. into a separate department named Inspection and Supervision Department. Today, there are two separate departments executing the supervision function of NRB. Bank supervision department is responsible for the inspection and supervision of all the commercial banks while Financial Institution Supervision Department oversees the inspection and supervision of all other Financial Institutions licensed by NRB.

In order to discharge its obligations effectively, Bank supervision Department has divided its function into various divisions and units. The department comprises of on-site inspection/enforcement division, off-site supervision division, policy and planning unit and internal administration unit. Besides these, there are various projects in operation in the department relating to Basel II implementation and monitoring and surveillance of problematic banks.

Organization of Bank Supervision Department



The responsibility of these divisions and units of the Bank Supervision Department are:

2.4.1 Onsite/Enforcement Unit:

This division is responsible to conduct the on-site examination of the banks in accordance with the annual plan of the department. Almost more than two thirds of the department's staff is dedicated to these activities. The objectives of on-site inspection conducted by Bank Supervision Department can be summarized as:

- To determine the commercial banks' financial position and the quality of its portfolios and operations so as to ensure that it is not operating against the interests of the depositors.
- To assess and appraise the competence and capability of the commercial bank's management and staff, as the quality of the institution's management will determine the soundness of its operation.
- To ascertain whether the bank is complying with applicable laws, regulations and monetary measures issued by the NRB.
- To evaluate the adequacy of the bank's records, systems, and internal controls.
- To test the accuracy and validity of the data submitted to the NRB by the Banks.

The on-site aspect of the department's function includes independent on-site assessment of banks' corporate governance, internal control system, reliability of information provided, etc. The departments also conduct spot-checks for quick confirmations/verification to facilitate the detection of frauds, embezzlement, malpractices, abuses of power and undesirable events and practices.

The on-site examinations carried out by the department are grouped into:

A) Maiden or initial examination, which is usually conducted within six months of commencement of operation by a new bank;
B) Routine and corporate level full fledged inspection, which is the regular examination
C) Targeted Inspection, which addresses specific areas of operation of a bank e.g. credit, foreign trade etc.
D) Special inspection, which is carried out as the need may arise

The On-Site Examination Unit conducts periodic examination and special visits in supervised institutions. This Unit also complements the Off-Site in the verification of information provided on the returns submitted to the off-site. On-site examinations are carried out at the banks' premises and involve examination of their business books and assessment of their technical, professional and organizational resources.

Risk management function is gaining in importance in the banking sector. In addition to credit risk, banks are exposed to other risks such as: market risk, liquidity risk, orerational risks and other risks. Their monitoring and supervision, and successful management require advanced specialized knowledge. The On-Site team within its assessment of the banks' management of operational risk performs on-site examination of IT systems in banks, internal control systems, compliance with regulations, in particular supervision of the implementation of the measures of monetary and foreign exchange policy and compliance with laws and other regulations, internal procedures and payment system procedures.

2.4.2 Off-site Supervision Unit:

This division carries out the off-site surveillance of all the commercial banks, operating in Nepal. The core objective of this function is to conduct periodic financial review of the banks in order to identify the potential problems and to gauge the compliance to prevailing laws and statute as well as to support the on-site function of the department. In order to pursue its objectives through systemic development, the Department has devised an off-site supervision manual, which has been put into effect. The supervision manual provides guidelines on the objectives, procedures and prescribed documents of the off-site supervision. The inspection and supervision By-law, 2059 identifies the following key objectives of an off-site supervision of the Bank Supervision Department.

- To obtain regular information in respect of financial condition and health of the commercial banks.
- To identify potential problems of commercial banks in the absence of onsite inspection.
- To help and strengthen the quality of on-site inspection.
- To ascertain the compliance status to the applicable laws, regulations and directives on the basis of financial statements and other documents obtained from the commercial banks.

The off-site aspect reviews and analyses the financial conditions of banks using prudential reports, statutory returns and other relevant information. It also monitors trends and developments for the banking sector as a whole. Industry reports are generated on quarterly basis. The Off-Site Supervision Unit is responsible for supervising banks' operations on the basis of data and reports submitted by banks. On the basis of prudential analysis of different financial indicators by banks, groups of peer banks and the banking system as a whole, the banks are rated in terms of the level of risk involved in their business operations in accordance with the adopted methodology for analysis.

The Off-Site Surveillance Unit monitors, reviews, and analyzes financial institutions' returns and prepares reports based on said returns and serve as **an early warning** device to detect emerging problems before they lead to an opened crisis. The returns are used by the supervisors/examiners for the purpose of determining banks' exposures to risk, the effect on banks' profits, etc. Some basic ratios (the financial soundness indicators) are computed from these returns and are used to analyze such important areas as Capital Adequacy, Assets Quality, Earnings, Liquidity and sensitivity to market risk (CAELS rating).

2.4.3 Policy, Planning and Analysis Unit:

This unit of the department is responsible for the formulation and periodic review the annual plan of the department, in context with the practices of the international supervisory agencies. This unit is also responsible for coordinating the interaction programs, seminars, and workshops in issues relevant to the supervision function, with participation from the external stakeholders, as well.

The supervisory function of Nepal Rastra Bank is in the stage of evolution and thus it is crucial that a relation with international supervisory agencies be maintained. This relationship is likely to bring into the fore new techniques and developments in the field of supervision. The policy and planning unit is entrusted to maintain such relationship and to notify the department of new developments in the international arena, on a periodic basis.

The unit is charged with the research, development and implementation of supervisory policies that are consistent with international best practices, and which effectively addresses the supervisory issues of the Nepalese banking industry. Supervisory policies and guidelines are developed in a consultative framework, where industry participants and the stakeholders are allowed to comment on policy documents before they are finalized.

2.4.4 Internal Administration Unit:

There is a separate internal administration unit within the Bank Supervision Department. The unit is responsible for the personnel related matters like placement within the department, leave records, payment of salaries and other benefits. This unit also issues supervision letters; travel orders and maintains records of all files. This unit also overlooks the supply of office equipments and stationery in the department in liaison with the General Services Department of NRB.

Chapter 3
Emerging Concepts in Banking Supervision

3.1 Background

In the past, the business of bank supervision was focused on validating bank's transactions, particularly the value of loan portfolios, which have been historically the principal source of problems for banks. In the process, supervisors would go through the balance sheet, assuring themselves that a bank's assets and liabilities were essentially as stated and that its reserves and net worth were real. Traditional forms of supervision are important regulatory tools but have some severe limitations. In particular, they are labor intensive and narrow in focus, as they look at many transactions to assess the condition of individual financial institutions at a point in time. They were focused on detecting minor mistakes rather than overall financial soundness and risk management aspect of the banks. Traditional supervision provides a snapshot of an institution’s condition at a point in time. It is transaction-oriented and usually more labor intensive than risk-based supervision, thereby straining the scarce resources of most regulators.

The international banking scene has in recent years witnessed strong trends towards globalization and consolidation of the financial system. Stability of the financial system has become the central challenge to bank regulators and supervisors throughout the world. Supervisory authorities all over the world are gradually moving towards adopting risk-based supervision. There is now a growing stress to adopt a more risk focused comprehensive approach, which is likely to contribute positively in the supervisory function. Though scrutiny of systems and procedures prevailing in supervised bank is an integral part of on-site inspection, there is scope for more focus on the risk profile of the banks. Supervisory bodies in the world are seeking more focused, responsive and tailored approach to supervision.

Nepal Rastra Bank (NRB) has been constantly endeavoring to enhance the sophistication and efficiency levels of its supervisory processes. Nepal Rastra Bank (NRB) is committed to adopt the best supervisory methods and practices. In line with this commitment, NRB has decided to move ahead with the implementation of capital accord in Nepal. However, as the Nepalese banking sector is yet to gain the maturity the advance approaches prescribed for the sophisticated banks in international markets are largely impractical in our context. Thus, the prescribed approaches have been customized and thereby simplified to suit the need of our market condition.

As outlined in monetary policy, NRB would be developing an overall plan for moving towards risk-based supervision (RBS). The RBS will be a regime in which NRB's resources will be directed towards the areas of greater risk to its supervisory objectives.

3.2 Risk Based Supervision

The current supervisory process adopted by the Bank Supervision Department (BSD) is applied uniformly to all supervised institutions i.e., commercial banks. The current approach is largely on-site inspection driven supplemented by off-site monitoring and the supervisory follow-up commences with the detailed findings of annual financial inspection. The process is based on CAMELS/CAELS approach where capital adequacy, asset quality, management aspects, earnings, liquidity and sensitivity to market risk keeping in view the legal requirements of the Acts. The on-site inspections are conducted, to a large extent with reference to the audited balance sheet dates and cut-off dates of financial years. The off-site surveillance plays a supplemental role. While in several external jurisdictions, the supervisory process extensively leverages on the work done by others, such as the internal and external auditors, the use made of these resources in Nepal is rather limited. No legal framework exists for the external auditors to report to the supervisor their adverse findings on issues having supervisory implications.

Risk-based supervision saves regulatory resources and helps to promote a more safe and sound financial system. It saves resources because it focuses regulatory resources on areas of highest risk and usually requires substantially less transaction testing. By getting institutions to manage risks as opposed to correcting symptoms of problems, as is often the case with traditional supervision, supervisors should focus their actions on correcting causes of problems and thereby requiring improvements in management practices and management systems. The risk-based supervision will not be transaction based. It will be systems based inspection by the regulator/supervisor. In this approach, the regulator and supervisor will go into details of the systems and procedures for managing and controlling risks.

Risk-based supervision is an enhancement of top-down supervision. In the top-down approach, problems are identified and defined, and the root causes for the problems are addressed. It focuses examination resources on an overall financial analysis of the financial institution under review, and it documents and tests policies, procedures, systems, and management practices. When problems are disclosed, corrective actions are directed toward correcting the causes of the problems, not just the symptoms. If problems are identified that, in the opinion of the supervisor, significantly impact the safety and soundness of the institution, then bottom-up examination techniques may be necessary to quantify the problems in order to assess the adequacy of capital and liquidity.

3.2.1 Brief Comparison of Traditional Supervision and Risk- Based Supervision

- Traditional supervision **focuses** more on quantifying problems and minimizing risks in individual financial institutions, while risk-based supervision focuses more on the quality of risk-management systems and the recognition of systemic risks to the banking system caused by the economic environment.

- The **results** of traditional supervision and risk-based supervision can vary greatly. Traditional supervision often results in quantifying problems, correcting symptoms of problems, and instructing banks to avoid risks that seem too high. Whereas Risk-based supervision assesses the quality of risk-management practices, addresses causes of problems, and makes recommendations that give banks options on how to minimize the adverse consequences of risk-taking.
- The traditional approach tends to **limit** a bank's ability to serve the economic community's needs by limiting the risks a bank can take, whereas risk-based supervision allows banks to take risks so long as the banks demonstrate the ability to manage and price for risks. Risk-based supervision thereby allows banks to meet more of their economic community's needs.
- Traditional supervision tends to apply a cookie- cutter **approach** to supervision in which all banks are treated alike, often at the lowest common denominator. Risk-based supervision treats banks differently depending on each bank's demonstrated ability to manage risks. It does not penalize well-managed banks by making them operate under standards designed to keep weak, poorly managed banks solvent.

3.2.2 Preparing for Risk Based Supervision

The regulators and supervisors should review and develop systems and procedures for undertaking transactions and the reporting and the controlling systems, properly document systems and procedures and Role of internal and external auditors as the Basel II has stipulated that the internal audit would have to capture in a larger way the application and effectiveness of risk management procedures and risk assessment methodology and critical evaluation of the adequacy and effectiveness of the internal control systems. Though the transaction testing method of internal audit remains an essential and reliable examination aspect of internal auditing, a greater need is normally felt by the Regulator to widen the scope of internal audit and improve the quality of internal auditing. When risk management processes or internal controls are considered inappropriate, additional transaction testing sufficient to fully assess the degree of risk exposure in a function or activity would be performed.

3.2.3 Bank Level Preparations

With the rapid changes occurring in the financial risk profiles of banks and with the evolvement of new financial instruments and markets, the risks faced by banks has multiplied manifold Under a risk-focused on-site examination approach, the degree of transaction testing would be reduced when internal risk management processes are determined to be adequate. In order to comply with Basel II requirement, it would be necessary for banks to carry out a fresh review of their current status of risk management architecture by an expert team and initiate measures to bridge the gaps.

a) Adoption of Risk focused Internal Audit

Internal Audit is an independent activity designed to improve the bank's operations. The internal audit function is a part of the ongoing monitoring of the system of internal control and assists the staff in effective discharge of their responsibilities. The success of internal audit function depends largely on the extent of reliance the bank management would place in guiding the bank's operations. The Internal Audit Department will therefore have to be independent from the internal control process and be given an appropriate standing within the bank to carry out its assignments with objectivity and impartiality. The Internal Audit Department should therefore be provided with appropriate resources and staff to achieve its objectives. The precise scope of work of internal auditing must be determined by each bank but as a minimum, must review and report upon the control environment as a whole, the process by which risks are identified, analysed and managed, the line of controls over key processes, the reliability and integrity of corporate management function, safeguarding of assets and compliance with rules and regulations. To achieve these objectives, banks would have to gradually move towards risk focused auditing, in addition to the system of selective transaction based auditing.

b) Strengthening of MIS and Information Technology

A principal foundation for RBS is the availability of detailed data. Under RBS the monitoring needs of NRB will differ based on the risk profile of a bank and accordingly NRB may require banks to provide information in addition to the data now being furnished in the off-site unit. Consequently, there is a need to devise a policy for backup and storage of various databases on regular intervals. The policy should specify details like frequency of backups, media to be used, off-site storage areas, departments and officials (Data Managers) responsible for these actions.

c) Addressing HRD Issues

A major transitional task towards completion of risk management set up and introduction of risk-based audit will be the reorientation of the staff to meet the required objectives. The potential primary obstacles will be the skill formation of the staff and placement in appropriate positions. Banks may have to create a dedicated risk management team at head office and reorient the Internal Audit Department to undertake risk-based audit. These objectives could be attained through addressing several HRD issues like manpower planning, selection and deployment of staff and extensive training in risk management including asset liability management and risk based audit. The banks will have to adopt a forward looking training arrangement through appropriate course designing and compilation of training materials keeping in view the best international practices and procedures.

d) Setting up of Compliance Unit

Banks are required to take corrective action to remedy or mitigate any significant risks which have been identified in the earlier part of the supervisory cycle and which have been incorporated into the current risk profile. It is therefore necessary for banks to set up a dedicated compliance unit to coordinate various actions of the bank for compliance and for periodical reporting to NRB, and ensure the completion of compliance action within the time period.

3.3 Basel II, Concept and its Implication in Nepal

The Basel Committees on Banking Supervision's (BCBS) recommendations on capital accord are important guiding framework for the regulatory capital requirement to the banking industry all over the world and Nepal is no exception. Realizing the significance of capital for ensuring the safety and soundness of the banks and the banking system, at large, Nepal Rastra Bank (NRB) has developed and enforced capital adequacy requirement based on international practices with appropriate level of customization based on domestic state of market developments. The existing regulatory capital is largely based on the Basel committee's 1988 recommendations.

International Convergence of Capital Measurements and Capital Standards, popularly known as Basel II, was released on June 26, 2004. This framework was updated in November 2005 and a comprehensive version of the framework was issued in June 2006. Basel II was initially intended for the internationally active banks only. The framework allows each national supervisor to consider carefully the benefits of the new Framework in the context of its own domestic banking system and in developing a timetable and approach to implementation. This framework only acts as a guideline for countries like Nepal and its adoption is not mandatory. However, with a view to follow the international best practices and to promote a healthy and sound financial market, Nepal Rastra Bank is also moving towards the adoption of Basel II.

The journey towards adoption of the Basel II is very challenging in various aspects like the availability of resources, the effectiveness of internal control systems and corporate governance and risk management practices adopted by the banks. This will require a lot of effort and determination from the banks and changes will be inevitable in various areas like information system, service delivery process, and development of human resources. In a nutshell, banks will have to change the way they do their business. The adoption of Basel is no less challenging for the supervisors as well. The supervisory agency will require lot of well-versed personnel in areas of risk management and the supervisory procedure and methods will need to be revamped. Despite all these challenges, Nepal Rastra Bank is committed to promote sound and stable banking industry in Nepal and Basel II is the way to go forward.

With a view of adopting the international best practices, NRB has already expressed its intention to adopt the Basel II framework, albeit in a simplified form. In line with the international development and thorough discussion with the stakeholders, evaluation and assessment of impact studies at various phases, this framework has been drafted. This framework provides the guidelines for the implementation of Basel II framework in Nepal. Reminiscent of the International convergence of capital measurements and capital standards, this framework also builds around three mutually reinforcing pillars, viz. minimum capital requirements, supervisory review process and disclosure requirements.

The Core Principles for Effective Banking Supervision, promulgated by the Basle Committee on Banking Supervision, set out the minimum standards that are considered necessary for effective supervision. Several of the principles embrace risk-based supervision and encapsulate the concepts developed at the Office of the Comptroller of the Currency over the past twenty years. However, because the Core Principles is a brief document and covers a variety of topics, it cannot fully explain the key differences between risk-based supervision and traditional regulatory practices or provide a systematic explanation of all the basic elements that would enable a regulatory agency to implement risk-based supervision.

With the progressive deregulation of the financial system as also to address systemic concerns on the safety and soundness of the banking system, the Basel II accord requires putting in place an effective and comprehensive Risk Management System. It is envisaged that banks would set-up proper organizational structure, policies, procedures, and limits for credit, market and operational risk management. The principle emphasizes three major risks – Credit Risk, Market Risk and Operational Risk. The Banks are also required to have an integrated approach to risk management so as to cover extent of risks undertaken by individual business units as well as by the bank as a whole. The banks face various challenges in identifying and measuring risks for all activities and for all locations on a bank wide basis.

The new capital framework attempts to achieve these objectives with three mutually reinforcing pillars. The first pillar aligns minimum capital requirements more closely with banks' actual underlying risks. In concept, the first pillar is similar to the existing capital framework, in that, it provides a measure of capital relative to risk.

The second pillar – supervisory review process – allows supervisors to evaluate a bank's assessment of its own risks and determine whether that assessment seems reasonable. It is not enough for a bank or its supervisors to rely on the calculation of minimum capital under the first pillar. Supervisors should provide an extra set of eyes to verify that the bank understands its risk profile and is sufficiently capitalized against its risks.

The third pillar – market discipline – ensures that the market provides yet another set of eyes. The third pillar is intended to strengthen incentives for prudent risk management. Greater transparency in banks' financial reporting should allow marketplace participants to better reward well-managed banks and penalize poorly managed ones.

Basel II aims to build on a solid foundation of prudent capital regulation, supervision, and market discipline, and to enhance further risk management and financial stability. It is fundamentally about better risk management and corporate governance on the part of banks, as well as improved banking supervision and greater transparency. It is also about increasing the stability of the global financial system, to the benefit not only of banks, but also consumers and businesses.

Some such pre-requisites to apply Basel II are:

(i) Implementation of Basel Core Principles for effective Banking Supervision

(ii) Adoption of the sound practices for the management of Operational Risk

(iii) Formulation and adoption of comprehensive risk management policy

The complexity and sophistication of the Nepalese financial market doesn't warrant advanced approaches like the IRB Approach or the Standardized Approach. In light of the complexity, Nepal Rastra Bank is looking to start with the simplified standardized approach for credit risk, Basic Indicator Approach for Operational Risk and Net Open Exchange Model for the Market Risk.

In order to move forward with the implementation of Basel II, an Accord Implementation Group (AIG) has been set up, which is a working level committee and reports to the "New Capital Accord Implementation Preparatory Committee," a high level committee responsible for overseeing the implementation of Basel II in Nepal. The Accord Implementation Group consists of officers from Bank and Financial Institution Regulation Department, Bank Supervision Department and Financial Institution Supervision Department. Realizing the importance of the involvement of the stakeholders from the preliminary stage itself, members of the commercial and development banks have also been included in the Accord Implementation Group.

The Accord Implementation Group has finished with the explanation of the various discretionary provisions of Basel II and has also completed a Quantitative Impact Study (QIS) of eight banks, based on the assumptions and approach finalized by the group itself. The impact study indicated a reduction in the risk-weighted exposures in the credit risk of the banks. In order to substantiate the findings of the earlier QIS and to rationalize the assumptions, second QIS is envisioned in the near future. At the same time, the group has prepared a draft capital adequacy framework with detailed guidelines on each of the three pillars, based on the proposed approach, which has been circulated for suggestions and recommendations by the stakeholders.

In order to ensure a smooth transition to new approach prescribed by this framework, a parallel run for the whole year from Mid July 2007 (Fiscal Year 2064/065) will be envisioned. Banks shall be required to compute their capital adequacy requirements, based on this framework, on a quarterly basis. The so arrived result should be reported to their respective board of directors as well as to the Nepal Rastra Bank in the prescribed formats. Any shortfall in the capital adequacy requirement in accordance with this framework shall not constitute a default during this review period. However, the failure to submit the returns stipulated in this framework shall constitute non-compliance. All banks within the scope of this framework will be required to adopt the prescribed approaches by Mid July 2008.

3.4 Information Technology in Banking Sector and Supervisory Concern

3.4.1 Background

With the advancement of Information Technology, business organizations are increasing dependent on computerized information system to carryout their operations and to process, maintain and report essential information. The use of Information Technology has revolutionized the banking and financial sector. The manner in which the banks and the financial institutions are offering the financial services is undergoing a radical change. A set of new financial services such as Electronic Banking, Tele-banking, Electronic Funds Transfer, Electronic Money, Smart Cards, Credit Cards etc. are fast gaining ground.

Nepalese banks are becoming aware that, with the rapid changes in the Information Technology and hence in business environment, it is critical for them to provide customers with convenient financial services quickly and reasonably. To achieve the goals, financial institutions have been progressively utilizing IT, which has undergone marvelous advances in recent years. The use of internet and mobile phone has been increasing capitalized by financial institutions in their banking products. The brief overview of use and management of information technology in Nepalese banking sector can be shown as

\3.4.2. Computerized Banking System

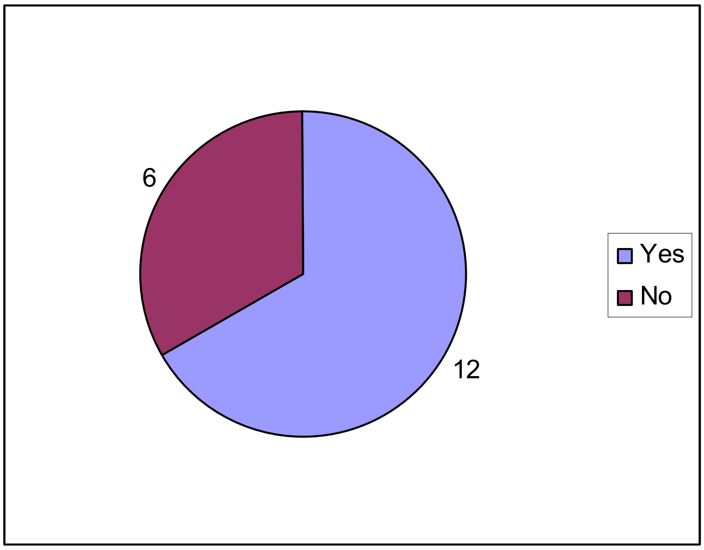
Technological innovation has significantly impacted the financial sector of Nepal. Last few years have seen a truly phenomenal pace of new technology adoption among even the most conservative banking organizations. All banking organization have adopted automated core banking system. By the investment in Information Technology, organizations are not only anticipating reductions in operating costs through efficiencies as the streamlining back-office processing and the elimination of error-prone manual input of data, they see opportunities to serve their current customers and attract new customers by offering new products and services as well as enhancing the convenience and value of existing products and services too. Nepalese banks have started utilizing the recent innovation in information technology such as Internet and mobile communication.

3.4.3. SMS and Internet Banking

Internet banking currently used by Nepalese Banks can be classified into two categories, informational and transactional. The informational website provides banking information including products, services, interest rate, foreign exchange rate, etc. On the other hand, the transactional website is a channel for customer transactions such as money transfers and bill payments as well as inquiries such as balance inquiries and statement download. Most of the banks are using informational website only. Banks which are using transactional websites are limited to intra-bank fund transfer from one account to another account of same customer. They are also providing utility bill payments facility.

SMS banking which is becoming popular these days provides information to customers' cell phone. They are providing balance inquiry, mini statement, transaction information, foreign exchange information etc. About one third of the commercial banks in Nepal have already started the services based on Internet and SMS (Short Message Service).

Figure 7 Internet and SMS Banking



3.4.4 Debit/Credit Card and ATM

All private commercial banks and one public bank have provided debit card to their customers and are provided with facilities to view balance and to withdraw cash from ATM machine. The network of ATM has been expanded to the cities outside the Kathmandu valley such as Pokhara, Biratnagar, Nepalgunj and Jomsom. The shared network of ATM is also connected to a network in India with more than 50,000 machines. Most of the banks have shared ATM network enabling the customers to access their account from machines other than the own bank. A number of Point of Sale (POS) machine enabling customers to purchase commodities in a number of departmental stores.

3.4.5 Business Continuity Planning

Business Continuity Planning includes policies, standards, and procedures for ensuring that specified operations can be maintained or recovered in a timely fashion in the event of a disruption. Business continuity planning is about maintaining, resuming and recovering business operations - not just the recovery of the information system whereas a Disaster Recovery Plan deals with recovering Information Technology (IT) assets after a disastrous interruption. It is essential to minimize the operational, financial, legal, reputation and other material consequences arising from a disruption. Since every organization is always at risk due to natural calamities, sabotage, electricity breakdown, environmental disaster, cyber and hacker activities etc., it is very critical to from BCP by every financial institution.

3.4.6 Information Technology and Security Policy

The use of information technology not only provides key competitive advantage to the organization it can also jeopardize the success and sustainability of the organization if not properly implemented, monitored, controlled, and access. Since business activities require information from IT to meet business objectives, IT must be aligned with and enable the enterprise to take full advantage of its information, thereby maximizing benefits, capitalizing on opportunities and gaining a competitive advantage. To ensure this, the organization should have IT policy accommodating all the critical IT activities.

Similarly, it is vital for each financial institution to have good information security policy for managing risk systematically throughout the organization in line with each situation, under the active involvement of management.

Significant number of commercial banks in Nepal lack Information Technology and Information Security policy, which is impeding the enterprise to take full advantage of its information. Organization may be deviating from maximizing benefits, capitalizing on opportunities and gaining a competitive advantage. Few banks, which possess the policy, also has not separate IT Security Policy.

3.4.7 Outsourcing

Outsourcing means sub contracting IT activities to external organizations that are normally run by the organization itself. The outsourcing function ranges from a help desk; a project completion; maintenance of equipments and full IS function. By the advent of rapid changes in technology and competition, financial institutions tend to reduce costs and to improve their services by outsourcing some technology-related functions to third parties.

Full scope of outsourcing which includes entire IT resources and operations including location, equipment, hardware, software, staff, facilities, communication and other necessities to the third-party service providers has not been practiced by Nepalese commercial banks yet.

Partial outsourcing in which a financial institution may acquire a certain service of a provider, for example, maintenance of computer hardware, formulation of policies and procedures, network communication media etc is in practice in all commercial banks of Nepal.

3.4.8 Supervisory Concern of NRB

Technology has increased the size of data and information being processed resulting significant impact on the control environment in the system. Due to high dependence of IT, continuous watch on Information System should be prime importance for the organization to safeguard information assets and the financial system

The scope of supervision includes Data, Application systems, Technology, Facilities and People. Following are the supervisory areas of NRB:

1. Information Security and Control Measure

The exposure of information system to the open network exposes to the unknown sources globally, and the possibility of fraud, hacking, fishing etc. increases. So the use of information technology is also a risk to the business and hence the concern of supervision. Adequate physical and logical access controls are important since they can protect data, system and resources from unauthorized persons.

a. Physical Security

This is about control for environmental exposure including fire, flood, lightening along with human factor like riot, terrorist, equipment failure etc. Lack of physical security may lead to unauthorized access to equipment and data.

b Logical Security

It comprises data, system and network access control. Lack of adequate logical security may be prone to technical exposure to unauthorized implementation or modification of data and program at the network, platform, and database or application level.

A financial institution needs to have a strong authentication process to prove the identity of the person who logs onto the service before any transaction is allowed. Since transaction via Internet does not require face-to-face contacts, non-repudiation becomes another major issue as the ability to prove that a customer did request a transaction on service. Therefore, security and control measures is always a prime concern of supervision

2. IT Outsourcing

Outsourcing is carried out with a third-party service provider residing domestically or abroad. Since financial institutions' data including customer and transaction data are processed by other parties, a financial institution must ensure its data integrity, security and confidentiality to prevent data leakage and mishandling. Moreover, though operated elsewhere system reliability and availability still fall under the financial institutions' responsibilities. All of these issues can in fact impact the institution's reputation, image and credibility.

3. Policy Perspective

To reap the benefit of information technology and return on investment, IT should be aliened with the organization and it must have comprehensive IT policy and procedures in place. To ensure sound development of the financial services sector, while reaping the benefits from the remarkable advancement of the IT revolution, organization should implement information technology with proper policy. Financial institution should have strategic plan and policy comprising every IT activities including security, contingency, outsourcing, human resource etc. It is ultimately the responsibility of management and board to ensure IT resources are utilized in full extent.

4. System Availability

This includes the financial institutions readability for being able to run the business without any disruption in case of all kinds of disaster. The inability of organization to start the business activity smoothly in case of disruption may result in loss of not only the reputation of the organization but in the confidence of customers in electronic delivery channel. To ensure the system availability, organization must have periodically tested business continuity plan.

5. Data integrity

To ensure reliability and completeness of system functionality and to verify that data is processed in an accurate and timely manner, it is critical for financial institutions to have sound application control in place. In this regard, they should have control built in the procedure and programmed in the system to ensure the integrity of input, process and output. Data and system integrity can reflect the effectiveness of system development, acquisition and change control procedure.

The control can be either technical or manual, or both. Segregation of duties is an example of manual control, which should be maintained especially for critical functions or processes to prevent fraud. Additionally, controls should be embedded in the system to ensure integrity of input, processing and output. Finally, a financial institution should provide alternative resources for backup and recovery, and ensure that they can be available during an event of a disruption.

Chapter 4
Supervisory Activities of 2005/06

4.1 Annual Bank Supervision Action Plan 2005/06

In line with the guidelines issued by Corporate Planning Department, the Policy, Planning and Analysis unit in the bank supervision department formulated a bank supervision annual plan for the year 2005/06 in accordance with the provisions of the Inspection and Supervision By-law. The plan and program had come into effect after the Governor's approval on 2062/04/09. The activities of the department were defined in accordance with the responsibility of the various divisions and units. In order to develop professionalism and accountability, the annual action plan was much more detailed and specific.

As per the broad plans approved by the Governor, a more detailed program with the inspection dates, period of inspection, report preparation and submission dates of on-site examination were determined in advance in the department level. Similarly, the dates of submission of reports of off-site supervision and the enforcement activities were also specified.

The Department used complementing tools of off-site surveillance and on-site inspections. The Department continued to monitor the financial soundness of commercial banks as well as their compliance with the relevant statutory and regulatory provisions through analysis of regular financial and compliance returns submitted by those institutions to BSD. It is the Bank's policy to examine each licensed bank at least once in every year. In recognition of the need to harmonize and enhance the quality of supervision, the off-site surveillance function has been strengthened.

Nepal Rastra Bank has adopted a policy of on-site full scope examination of all commercial banks once a year. In accordance with this strategy, the full scope corporate level examination of all commercial banks was envisioned in the annual supervision action. However, special and targeted inspection was not incorporated in the Annual Plan as they are supposed to be carried out as and when necessary.

Table 6: Annual Action Plan of Bank Supervision Department for F.Y.2005/06

S. N.	Work Plan
1	**On-site Inspection**
1.1	Corporate level inspection of all commercial banks.
1.2	Preparation of Inspection Reports
1.3	Special Inspection of commercial banks branches as and when deemed required.
2	**Off-site Supervision**
2.1	Preparation of quarterly consolidated offsite supervision report incorporating financial analysis and compliance to prevailing directives and regulations, within the specified timeframe.
2.2	Preparation of annual offsite supervision reports of all commercial banks.
2.3	Annual clearance of all Commercial Bank
3	**Enforcement**
3.1	Enforcing the directions given by Nepal Rastra Bank during on-site examination or off-site supervision
3.2	Monitoring implementation status of directions given by Nepal Rastra Bank during on-site examination or off-site supervision
3.3	Preparation of quarterly enforcement reports reflecting implementation status of each bank within the specified deadline.
4	**Policy, planning Unit**
4.1	Publication of annual report of Bank Supervision Department.
4.2	Coordinate various interaction Programs, seminar, workshops,and trainings etc.
4.3	Preparation of Annual Bank Supervision Action Plan for 2005/06

The Bank Supervision Department was able to achieve all activities premeditated in the Annual Supervision Action Plan of 2005/06. However, the annual accounts of Rastriya Banijya Bank could not be cleared, because of the failure of the bank to submit the required documents in time.

4.2 Corporate Level On-site Inspection programs

There were corporate level on-site examinations in 17 banks during the year 2005/06. The workload of the on-site examination was distributed in three respective quarters.

Table 7: Distribution of corporate level on-site examination in 2005/06

Quarters	First	Second	Third
Banks	• Nepal Bank limited • Rastriya Banijya Bank • Nepal Bangladesh Bank • Nepal Credit and Commercial Bank • Lumbini Bank • Himalayan Bank Limited	• Nepal SBI Bank • Machhapuchhre Bank • Nepal Industrial & Commercial Bank • Nepal Investment Bank • Bank of Kathmandu • Siddhartha Bank	• NABIL Bank • Kumari Bank • Standard Chartered Bank • Everest Bank • Laxmi Bank Ltd.
No. of Bank	6	6	5

During the on-site examination of these banks, several forms of discrepancies were identified in terms of compliance with NRB directives, BAFIA and other relevant Acts and statutes. Similarly, lapses were observed in the areas of corporate governance and risk management practices. Bank Supervision Department has issued both specific and general directions to the bank in order to resolve the shortcomings observed in the inspection reports, in accordance with the authority bestowed on the department, by the prevailing statute. The major shortcomings and lapses observed, in the banks, during the on-site examination of 2005/06 are as follows:

Nepal Industrial and Commercial Bank Limited:

1. Despite instruction given in the previous year's inspection, the bank had not updated credit policy guidelines including various circulars issued in time to time.
2. The deposits concentrated in particular depositors/sectors.
3. The bank could not ensure independency in the Internal Audit and it was not separated from treasury back office. The Chief of Internal Audit and Treasury back office being the same official.
4. IT policy was lacking some major policies including Internet policy, anti-virus policy and encryption policy.
5. The business head (Chief of Board Credit Management Committee- BCMC) was acting as the co-coordinator of Audit Committee that resulted adversely the Audit Committee's effectiveness and independency, which should be duly represented by non-executive board members.

Rastriya Banijya Bank (RBB)

1. Overall MIS system needed to be strengthened to cover all branch networks ensuring timely update of balances of branches and all types of credit including micro-credits extended in the priority sector.
2. A mechanism was lacking to timely reconcile various accounts including Nostro Accounts, inter-branch accounts and inter-bank accounts.
3. Credit files were not properly manage which could not ensure mitigation of operational risks and thereby credit risks.
4. Some Loans were found rescheduled and restructured not complying with the norms of NRB Directives.
5. An overall co-ordination among various business units was lacking resulting delays in decision and repetition of jobs.
6. Treasury Dealers were not assigned dealing limit.

Himalayan Bank Limited (HBL)

1. Bank had entered into a business sharing agreement with other banks. As per the agreement, HBL sold loan (Rs. 904 million outstanding on 15 July 2005) on the basis of irrevocable condition stating if the borrowers filed to pay their loan within 90 days, HBL will act as an agent to recover such loan and settle outstanding if any, on behalf of the buying banks. The condition had created a contingent liability for HBL. However, the bank had not recorded the outstanding of such loan as "Repurchase Agreement" out of its Balance Sheet.
2. Some loans were adversely classified into the upper bucket and interest was recognized as income. That could not reflect the true picture of NPA and profitability and thereby Capital Fund.
3. In some cases, personal net worth was not sought even when additional security was not provided.
4. The Bank had not prepared IT policy.
5. The Letter of Credit transactions of the bank were not audited and reported to NRB every six months, as required by circular issued by NRB.

Siddhartha Bank Limited (SBL)

1. Necessary policy in smooth credit functioning like Credit Recovery policy, Loan write-off policy and loan documentation manual were not formulated.
2. Credit Policy was lacking some important areas like types of collateral required for various loans, methods and process of Valuation of collateral, Empanelling of Valuators, required qualification of valuators etc.
3. Various Credit Products were not accompanied by the product manual and procedures in case of, for example, Home loan, Education Loan, Hire Purchase loan etc.
4. The bank had not formulated IT Policy as well as System documentation on Network, Network Topology, and Hardware Configuration.
5. The Coordinator of internal Audit Department was not assigned job responsibility that defined dimension, authority and reporting line. Similarly, Audit Manual was not prepared.
6. The bank has not clearly demarcated the front office and back office operations in the treasury indicating lapses in the internal control system

Bank of Kathmandu Limited (BOK)

1. Some loans were found adversely classified into the upper bucket and interest was recognized as income. That could not reflect the true picture of NPA and profitability and thereby Capital Fund.
2. During inspection, the renewal of most of the sample Credit files was made effective without borrowers application.

3. The Terms of Reference of Credit Committee was not made; internal audit department carried Compliance function and central account functions. Similarly, Internal Audit Manual was not prepared.

4. IT policy was not formulated; System documentation on Network, Network Topology, and Hardware Configuration was not prepared. Disaster Recovery Site was not set up.

Nepal Bank Limited (NBL)

1. Poor MIS system resulted delayed submission of returns to NRB, Overall MIS system needed to be strengthened to cover all branch networks ensuring timely update of balances of branches.

2. Credit files were not properly managed to ensure mitigation of operational risks and thereby credit risks.

3. The bank issued various credit circulars in time to time but was lacking a consolidated Credit Policy.

4. Some Loans were found rescheduled and restructured not complying with the norms of NRB Directives.

5. An overall co-ordination among various business units was lacking resulting delays in decision and repetition of jobs.

6. Despite NRB's instruction, Chief Executive Officer was an active member of audit committee. Furthermore, internal audit report was submitted to the CEO.

7. The IT policy was not approved by the BOD.

Machhapuchhre Bank Limited (MBL)

1. Heavy concentration of deposits, C/D ratio being more than 92%, total liquid assets to deposit Ratio being only 21.74% etc showed the bank's poor liquidity management.

2. System documentation on Network, Network Topology, and Hardware Configuration was not prepared. Disaster Recovery Site was not set up.

Everest Bank Limited (EBL)

1. Lack of comprehensive credit policy that defines various acceptable parameters like borrower's debt-equity ratio.

2. System documentation on Network, Network Topology, and Hardware Configuration was not prepared. Disaster Recovery Site was not set up.

3. Bank did not formulate long-term strategic plans.

Nepal SBI Bank Limited (NSBL)

1. Credit Marketing, credit appraisal, credit inspection, loan documentation etc. were performed by the same unit which adversely affects the proper internal control.
2. Some loans were adversely classified. Bank's NPA of 6.54% as reported by the management goes up to 7.3% after adjustment of some loans adversely classified by the bank.
3. Some credits were found extended without obtaining credit information from Credit Information Company (CIC).
4. Some returns submitted to NRB were not accurate while checked.

Kumari Bank Limited (KBL)

1. The bank has adversely classified loans and advances and subsequently there was a shortfall in the provision by Rs.9.33 million.
2. The non-executive chairman of the board seemed to be involved in the day-to-day operations like approval of credits and human resource matters.
3. Non-existence of IT policy, lack of software inventory, lack of logistic support and physical facility for Disaster Recovery Site.

Lumbini Bank Limited (LBL)

1. The bank's financial position as on 2062 Ashadh was poor. After adjustment of additional loan loss provision of Rs. 211 million and reversing capitalized interest of Rs. 37.10 million, the banks primary capital reduces to Rs.14.2 million and total Capital fund to Rs. 28.30 million. Similarly, the ratio of NPL goes to 19.31% from the management's calculation of 14.68%
2. Borrowers like Amatya group; Arati Strips, Harati Group, Alliance Power, Mittal Group, Suma Enterprises and Everest Paper mills were enjoying credit facility beyond the single obligor limit.
3. Bank had not properly analyzed borrowers and projects before granting credit facility. Poor inspection and follow up and lack of proper documentation before disbursement resulted increased non-performing loans
4. Lack of comprehensive credit policy that defines various acceptable parameters like borrower's debt-equity ratio.
5. Non-existence of Asset Liability Management policy and Non-banking Assets management policy. Lack of various manuals on banking operations, treasury operation, loan administration, security documentation etc
6. The Letter of Credit transactions of the bank were not audited and reported to NRB every six months, as required by circular issued by NRB.
7. Bank did not formulate long-term strategic plans.

8. System documentation on Network, Network Topology, and Hardware Configuration was not prepared. Disaster Recovery Site was not set up.
9. 51.80% of total deposit was concentrated on only 4 big institutional depositors.

<u>Nepal Credit and Commerce Bank Limited (NCCBL)</u>

1. Bank's promoter NB group and related firms were enjoying credit facility excessively beyond the single obligor limit. Though the transaction with the group was not satisfactory, the bank was enhancing additional facilities to them, despite NRB's clear instruction not to provide additional facility to that group. At the end of f/y 2005/06, NB Group was enjoying 14.30% of total loan.
2. The bank, as in the previous year, purchased cheques to settle outstanding interest of the loans and recorded interest income. However, most of the cheques did not settle in time.
3. The bank was enhancing credit against financial guarantee issued on behalf of NB group by the banks and financial institution under the influence of that group.
4. Most of the consortium financing was not supported by the decision of meeting among member banks. In some instances, loans were provided beyond the limit decided by the consortium team. Consequently, consortium financing was not supported by proper documentation. In most of the consortium financing, the lead bank was Nepal Bangladesh Bank, where the influence of NB group existed.
5. Restructuring and rescheduling of loan was not supported by authorized limit.
6. Despite Nepal Rastra Bank's directive, the bank was holding investment in shares of Nepal bank limited and Nepal Srilanka Merchant Bank.
7. Asset liability management committee was not functioning properly in the absence of ALCO policy.
8. Deposit concentration was relatively high; top 50 depositors occupy 53% of deposits.
9. Treasury was not functioning properly; front office and back office not segregated, no treasury operational manual was prepared, dealing limit was not fixed, resulting poor internal control system.
10. Various NRB directives and bank specific instructions were not implemented.

Nepal Bangladesh Bank Limited (NBBL)

1. The bank's financial position as on 2062 Ashadh was poor. After adjustment of additional loan loss provision and reversing capitalized interest, the bank's total Capital fund seemed to be negative by 2.92%. Bank had adversely classified loans of Rs. 152 crore and less provision of Rs. 118. 13 crore.
2. Bank had further extended loans to various parties (Kshemadevi Trading, Saugat Trading Concern and Manaslu Investment) that are related to NB Group, without adequate analysis and evaluation.
3. Bank was not able to ensure smooth credit functioning due to lack of proper policies. The lacking areas were loan administration, Treasury management, loan recovery and security documentation etc.
4. The large borrowers of the bank (Harisiddhi Group, National Hydropower, Momento Apparels, Space time Network) were enjoying credit facility beyond single obligor limit.
5. The total number of Board meeting in the year was 9 against the statutory requirement of 12.
6. Front office and back office of treasury department was not segregated.
7. Nostro accounts had not been reconciled for years. There were many pending items even in the inter branch accounts.

Nabil Bank Limited (NABIL)

1. The bank had adversely classified some loans and advances and subsequently there was a shortfall in the provision by Rs.27.09 million.
2. In most of the sample credit, net worth of director/proprietor/guarantor was not obtained. Similarly, in few cases, the valuation of property was not obtained.
3. Deviations from the Product Paper Guideline were observed in most of the consumer credit provided by Lalitpur branch. Some of the areas where deviations observed were age of the borrower, interest rate, service charges, experience, security, margin, legal documents, and valuation of collateral.
4. The documentation of the bank's network topology could not cover Hardware configuration.
5. Bank had not formulated Audit guideline to support the functioning of internal audit department

Nepal Investment Bank Limited (NIBL)

1. In many instances, the credit facilities of some big borrowers were not supported by Credit Application. Instead, internal memorandum was used in case-to-case basis. Bank was advised to develop a uniform standard of Credit application for all types of borrowers for the same category of loan.
2. The bank had not settled loan of Panchakanya steel Pvt. Ltd. despite NRB's instruction to settle that loan.

3. Bank was advised to assign a limit for personal loan and not to provide personal loan (overdraft facility) without assessment of repayment sources.

Laxmi Bank Limited (LXBL)

1. Some deviations were observed from the credit policy guidelines prepared by the bank. Despite the provision of Credit policy, audited financials were not obtained within 3 months after year end, financials and provisional statements were not obtained in every six months and revaluation of collateral in every two years were not complied.
2. In few instances, bank was found more aggressive to provide credit facility more than the requirement of borrowing unit.
3. Three of the top depositors had 38.73% shares in total deposit.
4. Despite the instruction from Audit Committee, the internal audit department had not conducted audit of Information Technology (IT).

Standard Chartered Bank Nepal Limited (SCBNL)

1. The Standard Chartered group issued most of the existing policies and manuals including Portfolio Underwriting Standards, Global Market policy, and Internal Audit Manual. However, before adapting those policies, the board of directors of SCBNL did not approve policies.
2. Bank was advised to manage credit card files to mitigate operational risk and credit risk.
3. Bank had provided loans and advances against the guarantee of its promoter Standard Chartered Group.

4.3 Special On-site Inspection

During the year 2005/06, Bank Supervision Department conducted 19 special on-site examinations, one each on 11 banks, relating to various matters.

Table 8: Total Number of Special Inspection

Name of Banks	No of inspection
Nepal Bank Limited **(NBL)**	1
Rastriya Banijya Bank **(RBB)**	1
Standard Chartered Bank Nepal Ltd. **(SCBN)**	1
Nepal Bangladesh Bank Limited **(NBBL)**	5
Bank of Kathmandu Limited **(BOK)**	1
Nepal Credit and Commerce Bank Ltd. **(NCCBL)**	5
Lumbini Bank Limited **(LBL)**	1
Nepal Industrial & Commercial Bank Ltd. **(NIC)**	1
Machhapuchhre Bank Limited **(MPBL)**	1
Kumari Bank Limited **(KBL)**	1
Siddhartha Bank Limited **(SBL)**	1
Total No of Special Inspection	**19**

4.4 Off-site Supervision

Cash Reserve Ratio

Banks are required to maintain a minimum cash reserve ratio of 5 percent of total deposit liabilities denominated in local currency, except for margin deposits. Banks, who fail to maintain such reserves, were levied financial penalties, the rate of which escalates every time there is non-compliance. During the year 2005/06, following banks were penalized in terms of non-compliance of cash reserve ratio.

Table 9: Penalty for non-compliance of Cash Reserve Ratio in 2005/06

Banks	Quarter I	Quarter II	Quarter III	Quarter IV	Total
Kumari Bank		6,035.76	-	-	**6,035.76**
Siddhartha Bank	-	-	-	2,857.50	**2,857.50**
Himalayan Bank	-	5,226.92	-	-	**5,226.92**
Rastriya Banijya	44,173.46		18,942.31		**63,115.77**
Total	**44,173.46**	**11,262.68**	**18,942.31**	**2,857.50**	**77235.95**

Priority and deprived Sector Lending

With regards to directed lending, banks were required to direct 2 percent of total loan portfolio in the priority sector and 3 percent in the deprived sector, for the year 2005/06. The failure to meet such an obligation resulted in the financial penalty for the bank, computed as the product of shortfall amount and the highest published rate of the bank, commensurate to the applicable time period. NRB has issued a Circular on December 23, 2002 that has provided the requisite proportion of Priority Sector lending (Deprived Sector remains unchanged) as follows:

Table 10: Minimum Percentage of Priority Sector Lending

Fiscal Year	Minimum % of total credit for Priority Sector
2002/03	7
2003/04	6
2004/05	4
2005/06	2
2006/07	2

Note: ***Effective FY 2064/65 (2007/08), investment in Priority Sector shall not be compulsory***.

During the year 2005/06, following banks were penalized in terms of non-compliance of directed lending.

Table 11: Penalty for non-compliance of Directed lending in 2005/06

Banks	Quarter I	Quarter II	Quarter III	Quarter IV	Total
SCBNL	-	5,34,950.00	-	-	**5,34,950.00**
LBL	20,550.00	-	-	-	**20,550.00**
NIBL	22,132.50	-	-	-	**22,132.50**
SBL	347,031.25	-	-	-	**347,031.25**
Total		**-**	**-**	**-**	

Annual Accounts Clearance

Banks are required to obtain clearance from Nepal Rastra Bank prior to publishing their annual accounts for the year 2005/06. In this process, an off-site surveillance of the banks' was conducted based on the various documents like the final accounts submitted by the banks, preliminary audit report, management reply, long form audit report and the preceding on-site examination report. The bank's financial position, compliance of the relevant statutes and issues raised by the external auditors were analyzed at length to determine whether any supervisory intervention was required. If the need for a supervisory intervention is felt, direction is issued to that effect and the direction issued in this regard is to be disclosed in the Annual report, itself.

Annual accounts of 17 banks were cleared during 2006/07, the only exception being RBB. The annual accounts of Rastriya Banijya Bank could not be cleared because of failure of the bank to submit the obligatory documents.

4.5 Enforcement Activities

The enforcement division, which is called the Desk, is responsible for ensuring that the directions of the Nepal Rastra Bank in respect of the on-site examination and off-site supervision are adhered to by the banks. In this regard, a continuous follow up was conducted and efforts were made to ensure that the bank had, in fact, complied with the direction issued by Nepal Rastra Bank. This unit prepared quarterly enforcement reports in stipulated time frame.

4.6 Policy Planning Activities

The policy and planning unit formulated an Action Plan for the upcoming year 2006/07. The significant difference from the earlier Annual Plan was the abolishment of branch level inspections of Nepal Bank Limited and Rastriya Banijya Bank. Earlier, the corporate level inspections of Nepal Bank Limited and Rastriya Banijya Bank were not conducted at regular intervals. So, in order to keep a track of the affairs of these banks, branch level inspections were carried out. Now, as the corporate level inspections of these banks are being conducted at regular intervals, it was deemed that, there was no longer a need for branch level inspections. In the year in review, policy, planning and analysis unit acted as a secretariat for various meetings of High Level Co-ordination Committee.

The policy-planning unit also conducted a periodic review of the Annual Supervision Action Plan of 2005/06 and the report was executed in accordance with the Inspection and Supervision By-law.

4.7 Other Activities

- **Special Monitoring of three private sector commercial banks**

  Nepal Rastra Bank placed three private sector commercial banks in the close monitoring during the review period. Nepal Bangladesh Bank, Nepal Credit and Commerce Bank and Lumbini Bank were paid close attention during the whole year. Since these banks having some major problems in corporate governance and connected lending, it was deemed to control their operation especially credit provide by them. A **Loan Monitoring Committee** was formed in the department and special inspection was carried from March 2006. The committee analyzed credit facilities greater than 5 million provided by these banks. The following table depicts the name of banks and number of credit proposals for which consents were given during 2005/06.

Table 12: Number of Credit Proposal for which consents were given

Banks	No of credit Proposals
Nepal Bangladesh Bank Limited	28
Nepal Credit and Commerce Bank Ltd.	24
Lumbini Bank Limited	67

- With a technical assistance of OSFI, Canada, a three-day seminar on Banking Supervision was conducted on March 2006. About 35 officers from Nepal Rastra Bank and some commercial banks participated the seminar.
- An interaction program with the external auditors of commercial banks was conducted on June 2006.

Chapter 5
Performance of the Banking Sector in 2005/06

5.1 Assets of the banking industry

The total assets of the bank increased by 13.29 percent in the year 2005/06 (previous year 12. 48%). The total assets increased by 3.63 percent in the public banks and 20.24 percent in the private banks. In context of the Nepalese economy, the growth rate of assets of the banks has to be classified as commendable.

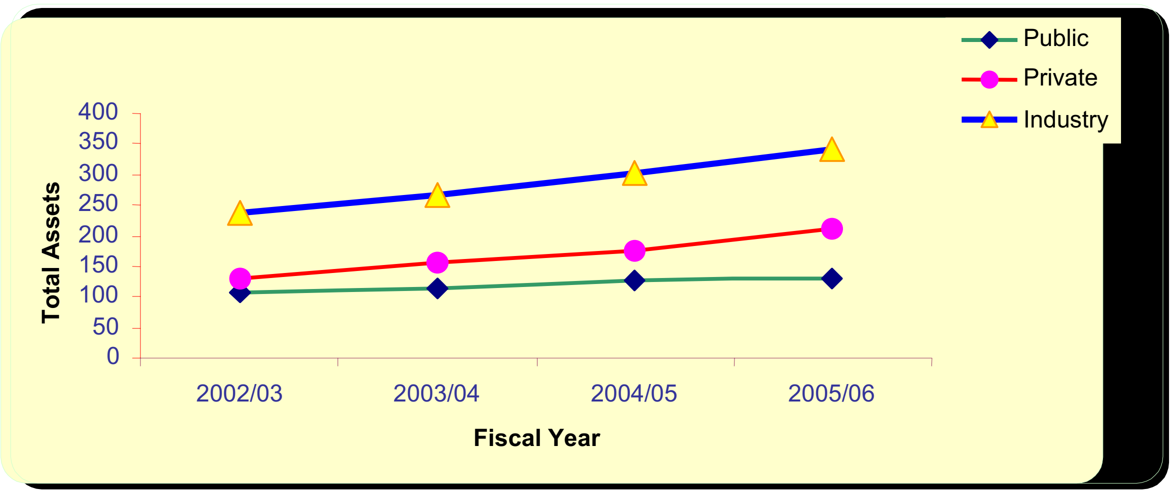
Table 13: Total Assets of the Banking Industry

(Rs. in billion)

Bank	2002/03	Change%	2003/04	Change %	2004/05	Change%	2005/06
Public	107.66	4.54	112.55	12.03	126.09	3.63	130.67
Private	128.54	20.89	155.39	12.80	175.28	20.24	210.76
Industry	236.20	13.44	267.94	12.48	301.37	13.29	341.43

The increase in the total assets is mainly on account of the increase in the loan portfolio of the banks, which has increased by approximately Rs.45.63 billion in the year 2005/06. The increase was 33.44 billion on the previous year. The loan portfolio of the public banks (excluding ADB) has more or less remained the same, while the private banks have posted an increase of Rs.35.48 billion during the period.

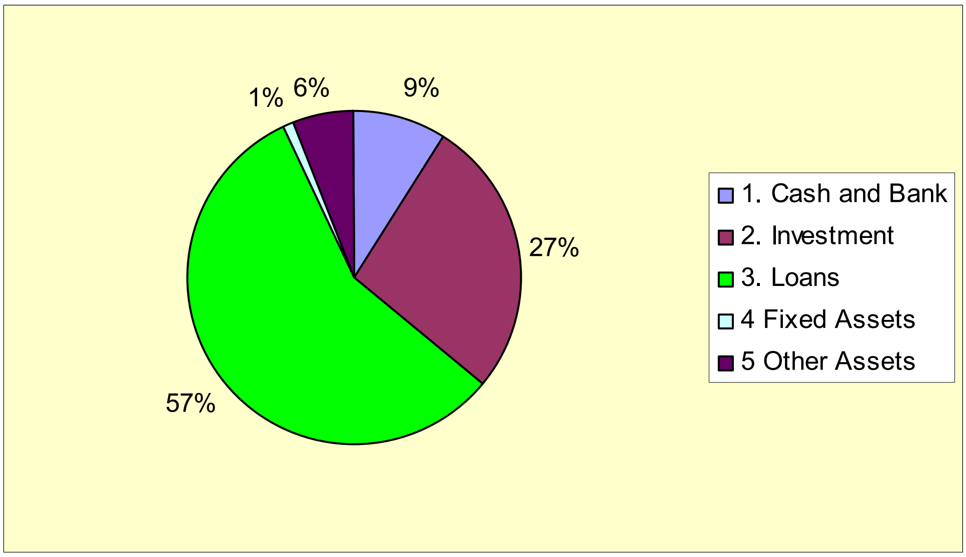
Figure 8 Assets of the Banking Industry (Mid July 2006)



5.2 Composition of Assets

The assets of the banking industry comprises of various assets, but is dominated by loans, which accounts for almost half of the total assets. Loans and advances comprises major share in the total assets followed by investment and cash and bank balance in that order. As on mid July 2006, the proportion of loans, investment and Cash and Bank balance to total assets was 57 percent, 27 percent and 9 percent respectively.

Figure 9: Composition of Assets (Mid July 2006)



5.3 Composition of Liabilities

The bank's liability consists of various forms of liability, primarily of capital and reserves, deposits and borrowings. The deposits of Rs.291.99 billion remained the main source of funding for the banking sector. As evident from the following table, the huge volume of negative reserves of the public banks and three private banks has negated the reserves of the entire banking industry.

The year on year comparison with 2004/05 indicates a positive change in the liabilities of the banking sector. The banks have been able to mobilize an additional deposit of Rs.65.96 billion during the year and even the reserves of the public banks and the banking industry has not changed favorably. The reserves of the public banks, private banks and the banking industry has been decreased by Rs.4.67 billion, 1.99 billion and Rs.6.67 billion respectively during the year 2005/06.

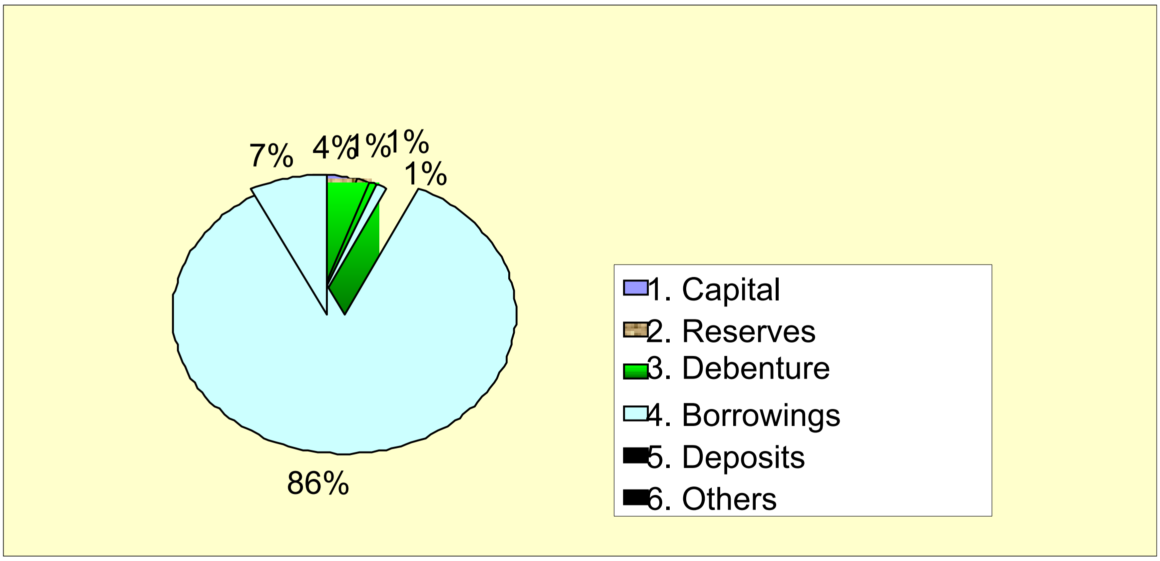
Table 14: Composition of Liabilities (Mid July 2006)

(Rs. in billion)

Liabilities	Public	Private	Industry:
Capital	8.03	8.82	16.85
Reserves	(33.85)	2.03	(31.83)
Debentures		1.81	1.81
Borrowings	6.59	2.62	9.21
Deposits	111.66	180.33	291.99
Others	38.24	15.16	53.40
Total	**130.66**	**210.77**	**341.43**

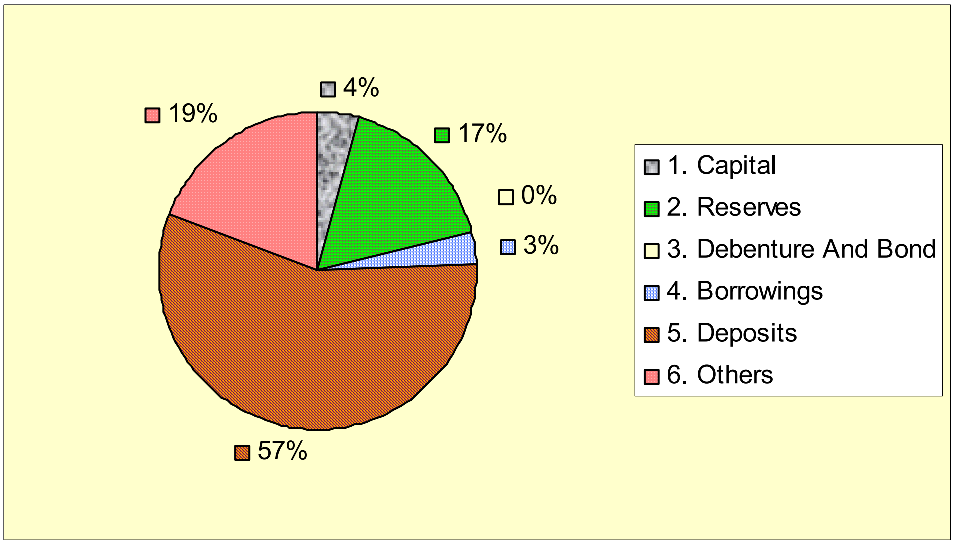
Because of the negative reserves of the public banks and three private banks the composition of the liabilities of the public banks and the banking industry, as well is, affected.

Figure 10: Composition of Liabilities of Private Banks (Mid July 2006)



The analysis of the composition of liabilities of the private banks indicates a heavy concentration of 86 percent in the form of deposits while the capital, borrowings and others account for 4 percent, 1 percent and 7 percent respectively.

Figure 11: Composition of Liabilities of Public Banks (Mid July 2006)



Whatever the analysis of the composition of liabilities of the public banks indicates a concentration of 57 percent in the form of deposits while the capital, Reserves and others account for 4 percent, 17 percent and 19 percent respectively.

5.4 Capital

The consolidated capital of the Nepalese banking industry has shown positive trend during the review period. The capital has improved by Rs.2.36 billion in 2005/06.

However, due to the large volume of negative reserves of the public banks and three private banks, the capital base is still is a long way from being satisfactory.

Table 15: Total Capital fund of the Banking Industry

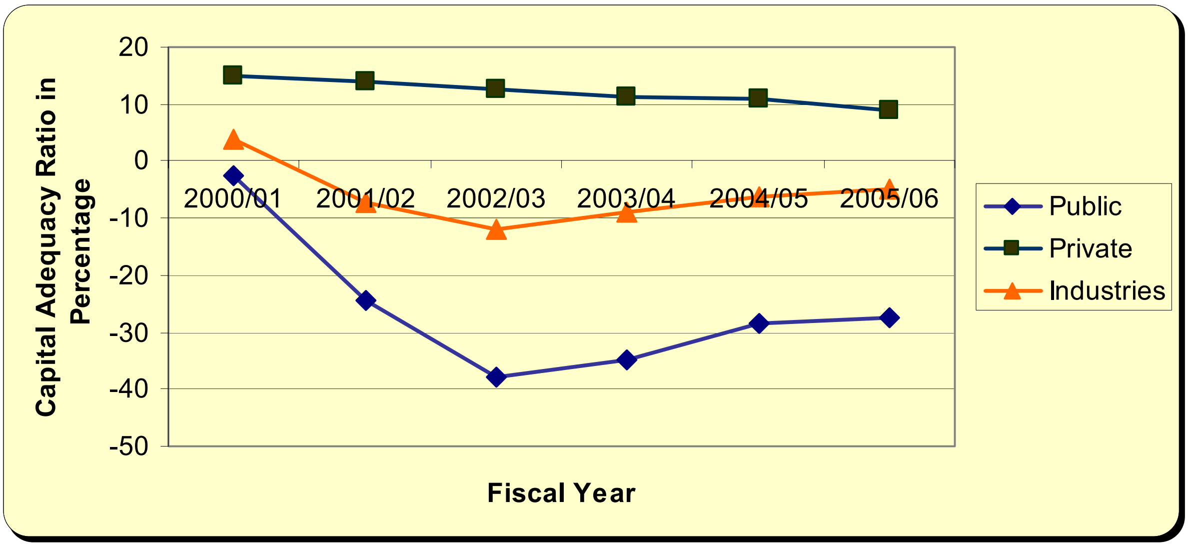
(Rs .in billions)

Banks	2003/04	Change%	2004/05	Change%	2005/06
Private	10.46	32.70%	13.88	-2.36%	13.55
Public	-30.72	9.51%	-27.8	9.65%	-25.12
Industry	-20.26	31.29%	-13.92	16.92%	-11.56

The capital adequacy position of the private banks is not satisfactory due to some problematic banks. However, because of continuous large increase in the risk assets of these banks, their capital adequacy ratio is declining.

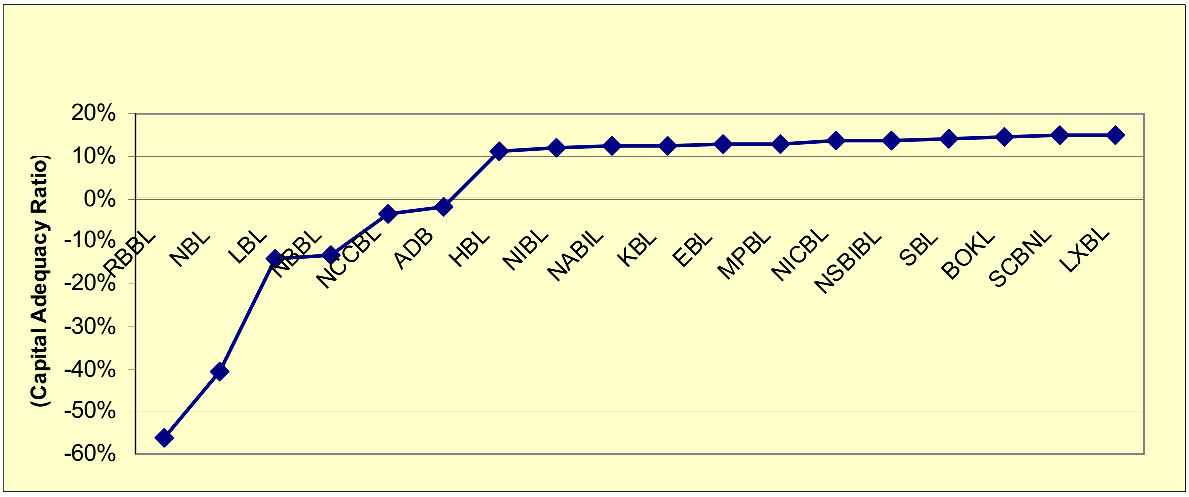
It is the public banks and three private banks that are responsible for the ruining the capital base of the entire banking industry. The public banks due to their inherent problems has suffered massive losses in the past and three private banks due to increase their non-performing loans has suffered massive losses from last year, which are reflected in their negative reserves. Although, the public banks have started to improve their financial condition, it is a far cry from an acceptable standard. The public banks, due to their size, have a relatively significant degree of sensitivity to the entire industry's performance and their improvement has been echoed in the improvement of the entire industry's capital.

Figure 12 Movements in the total Capital Adequacy Ratio



The review of the individual banks capital adequacy, as on Mid July 2006, reflects that most of the banks have complied with the statutory capital adequacy ratio of 11 percent. The banks with non-compliance are Rastriya Banijya Bank (-56.40%), Nepal Bank Ltd. (-40.44%), Nepal Bangladesh Bank Ltd. (-13.23%), Nepal Credit & Commerce Bank Ltd. (-3.46%), Lumbini Bank Ltd. (-13.93%) and Agriculture Development Bank (-2.07%).

Figure 13 Capital Adequacies of Banks (Mid July 2006)

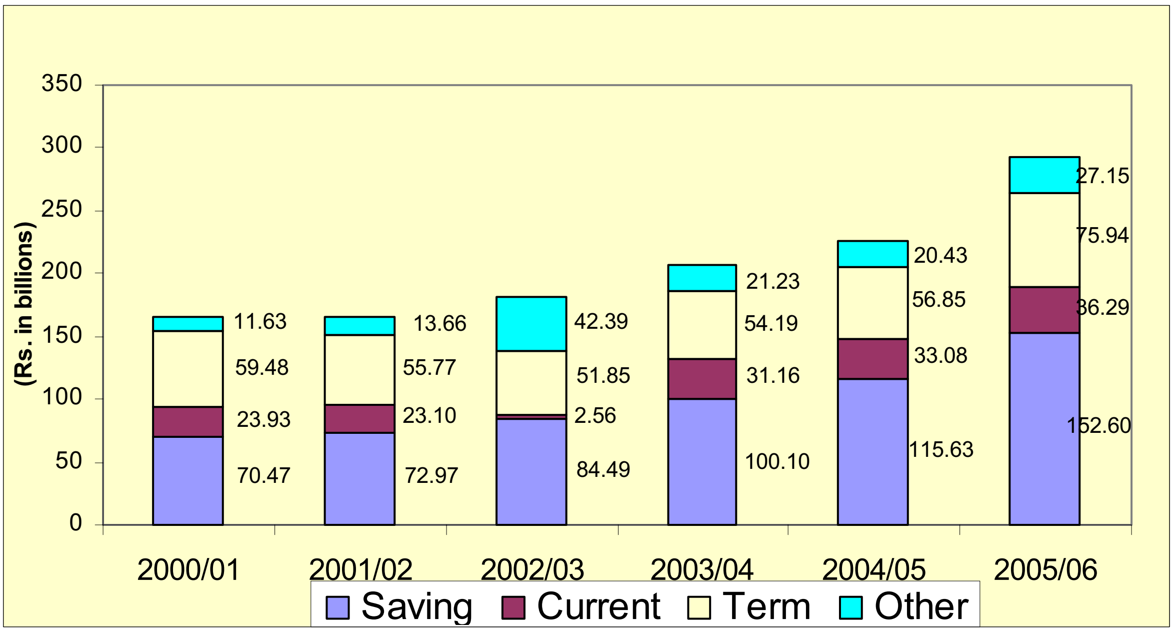


The capital of the Nepalese banking industry has depicted a favorable trend during 2005/06. There are various reasons for this improvement. The banks, during the period, on an average have performed well and some of them have raised capital from the market, which improved the overall capital position of the industry. All banks, except for three private banks were able to post handsome profits. Some banks were able to distribute cash dividends and bonus shares to its shareholders. At the same time, some banks raised finance from the market through issue of right shares during the year except some problematic banks.

5.5 Deposit

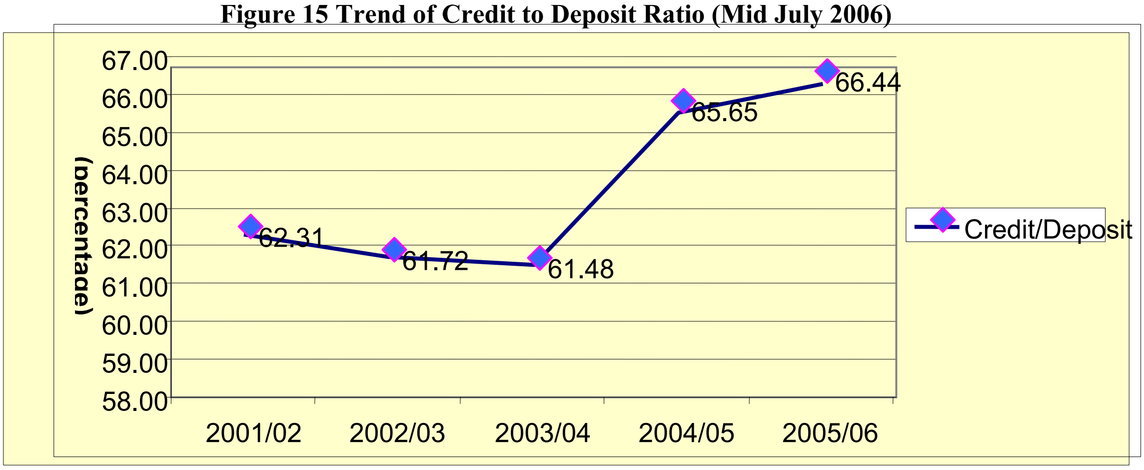
The total deposit of the banking sector was approximately Rs.292 billion as on Mid July 2006. The deposits have increased by 29.20 percent in 2005/06 as compared to 9.34 percent in 2004/05. Out of total increase of Rs.66 billion in 2005/06, an increase of Rs.36.97 billion is on account of the savings deposit alone.

Figure 14 Deposit Mix of the Banking Industry on Mid July 2006



The deposit of the banking industry has been, historically, dominated by the savings deposit and term deposits. The year ending Mid July 2006 is no different. The savings deposit account for 52.26 percent of total deposits followed by term deposits, which contributes 26.01 percent. In the total deposit, private banks have contributed 61.76 percent, while public banks have contributed 38.24 percent.

Figure 15 Trend of Credit to Deposit Ratio (Mid July 2006)



Though the trend of credit to deposit ratio during year from 2001/02 up to 2003/04 moved downwards, the trend has moved upward from 2004/05 indicating optimal condition.

5.6 Loans and Advances

The total loans and advances extended by the banking industry on Mid July rose by Rs.45.63 billion as compared to previous year. The loans and advances of the public banks (excluding ADB) have remained more or less the same for the last three years, while the private banks have enhanced their portfolio by more than Rs.20.50 billion resulting in the dilution of the concentration of public banks. However, the three public banks are still the three largest individual banks in Nepal, in respect of the size of their loan portfolio.

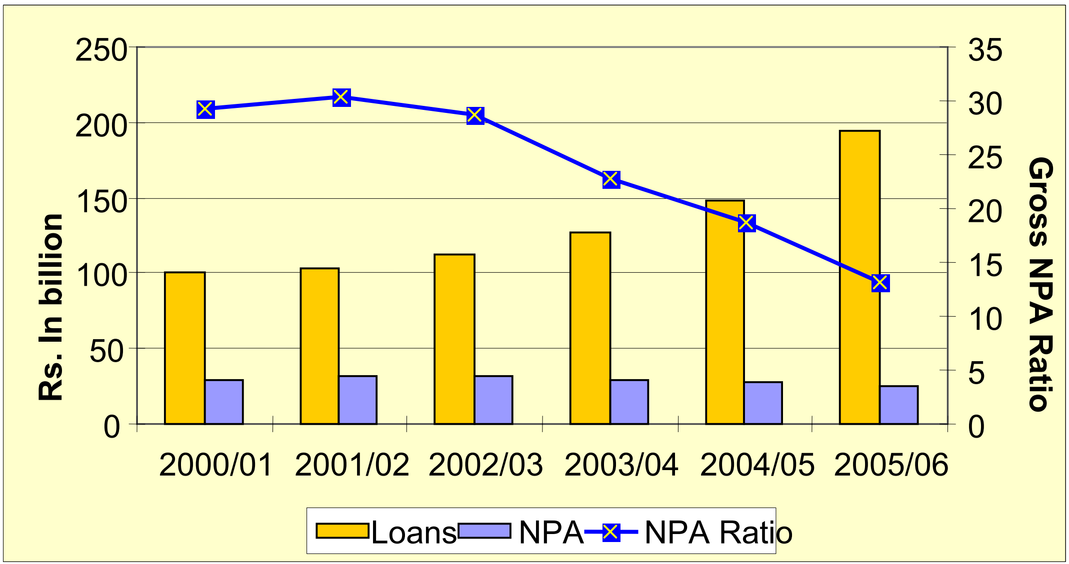
Table 16: Loans and Advances of the Banks

(Rs. in billions)

Banks	20005/06	Change (%)	2004/05	Change (%)	2003/04
Private	125	19.62	104.5	24.38	84.02
Public	69	57.3	43.87	1.93	43.04
Industry	194	30.75	148.37	16.77	127.06

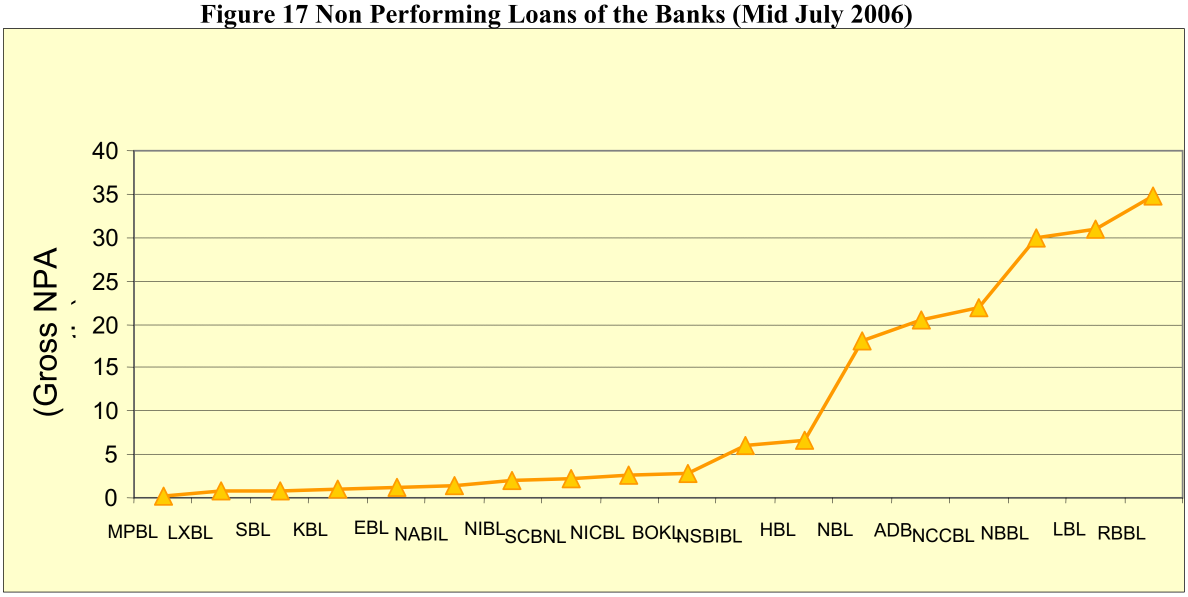
The Nepalese Banking system is riddled with a significant amount of Non Performing assets (NPA). The total volume of NPA as on Mid July 2006 was Rs.25.58 billion, which was 13.16 percent of loans and advances. The NPA has declined by Rs.1.05 billion in 2004/05 and by a further Rs.2.30 billion in 2005/06. It is clearly evident from the following picture that the volume of Non Performing assets is on the decline while the total loans are continuously increasing, thus resulting in a favorable proportion of Non Performing assets. The NPA ratio, however, is still a long way from being at a satisfactory level.

Figure 16 Total Loans, Non-Performing Loans and the NPL Ratio



With regard to quality of the loan portfolio of the individual banks, RBB was the worst closely followed by Nepal Bangladesh Bank, Lumbini Bank and Nepal Credit & Commerce Bank Limited. Among the private banks, it was Nepal Bangladesh Bank, Lumbini Bank and Nepal Credit & Commerce who had the largest proportion of NPA in their portfolio, while the lowest and the best NPA ratio belonged to Machhapuchhre Bank Limited.

Figure 17 Non Performing Loans of the Banks (Mid July 2006)



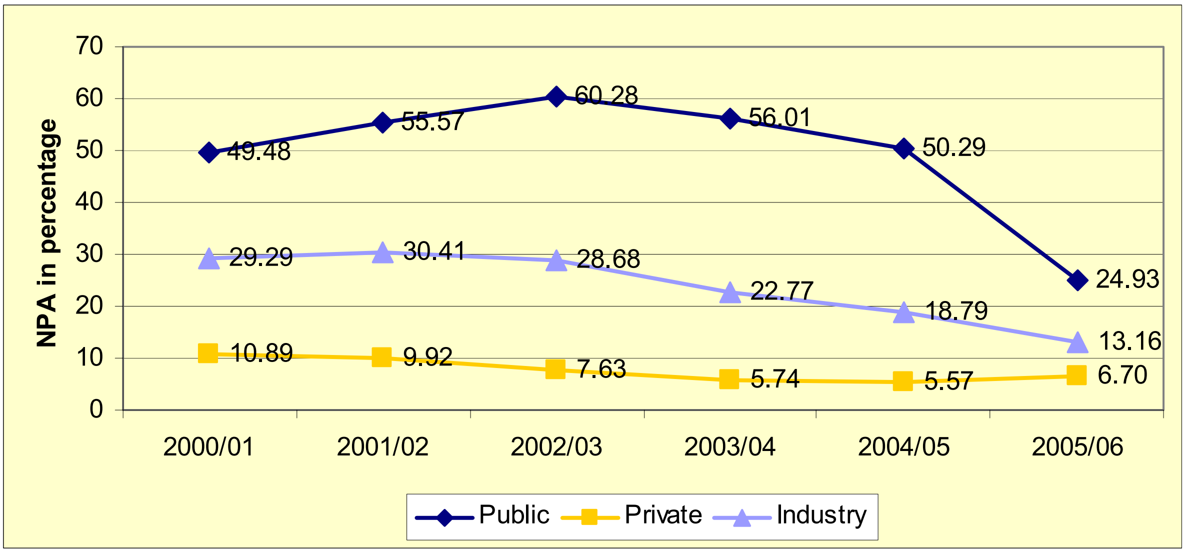
The volume of Non Performing assets is largely on account of the portfolio of the public banks. The volume of NPA, thus, needs to be broken down into the public banks and private banks, to better understand the reasons for the existing levels of NPA. The NPA ratio of the public banks is still 24.93 percent, though it has shown signs of improvement in the last couple of years. Meanwhile, the NPA ratio of the private banks on Mid July 2006 was 6.70 percent. This ratio has almost often been within the range of 10 percent and has been going downhill in the last five years. The declining volume of NPA in both the banks has reflected in a better NPA ratio of the industry, which has come down from a appalling 30.41 percent in 2001/02 to 13.16 percent as on Mid July 2006.

Table 17: Non-Performing Loans and Advances of the Banks

(Rs. in billions)

Banks	2001/02	2002/03	2003/04	2004/05	2005/06
Private	25.72	5.12	4.82	5.82	8.38
Public	5.64	26.97	24.11	22.06	17.20
Industry	31.36	32.09	28.93	27.88	25.58

Figure 18 NPA Ratios of Public and Private Banks



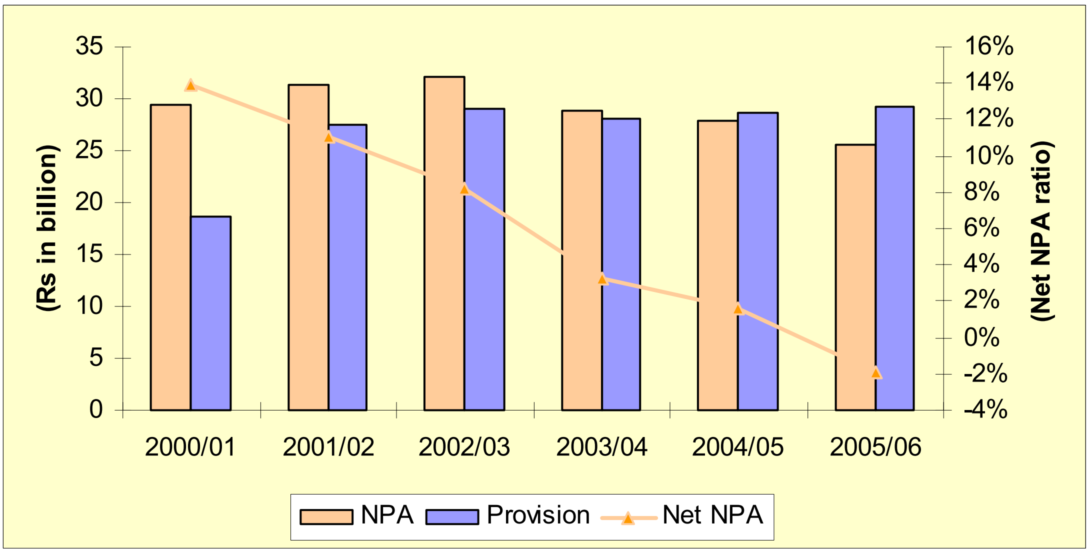
Nepal Rastra Bank has prescribed a provision on all loan accounts of the banks, which escalates as the quality of the loan deteriorates. The banks are required to create loan loss provisions on the gross value of outstanding loans, rather than on the net loans, and they are not allowed the relaxation in terms of the value of the collaterals.

The banks, thus, have to create provisions in accordance to the quality of their loan portfolios. So, the public banks with large volumes of Non Performing assets have large provisions in their balance sheets while the provisions of the private banks (except NBBL, NCCL, and LBL) are relatively lower. The Nepalese banking industry has somewhat shielded itself, from the large volume of NPA through creation of loan loss provisions. While the gross NPA ratio is still at alarming levels, the net NPA ratio is very minimal or negative.

The large volume NPA has traditionally been a problem in public banks and three private banks. After a reform program was initiated in the public banks, the volume of NPA, both gross as well as net has come down, significantly. The fact is also reflected in the following chart, where a wide gap between NPA and provision can be observed on Mid July

2002. This gap has narrowed down since 2001/02 and as on mid July 2006, the total provision of the banks has eclipsed the total loans of the industry.

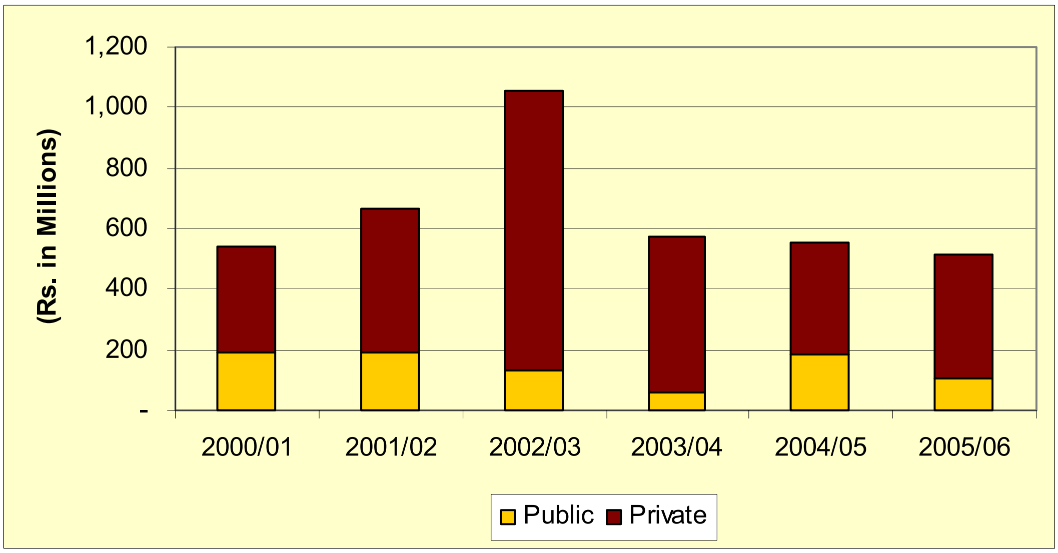
Figure 19 NPA, Loan Loss Provision and Net NPA



5.7 Non Banking Assets

The assets that are taken over by the bank towards the recovery in respect of the default by the borrower are classified as Non Banking Assets. The total amount of such assets on Mid July 2006 was Rs.513.85 million, a decrease of Rs.40.79 million from the previous year. The large chunk of these assets relate to the private banks, which is also a reflection of better recovery procedures in these banks in relation to the public banks.

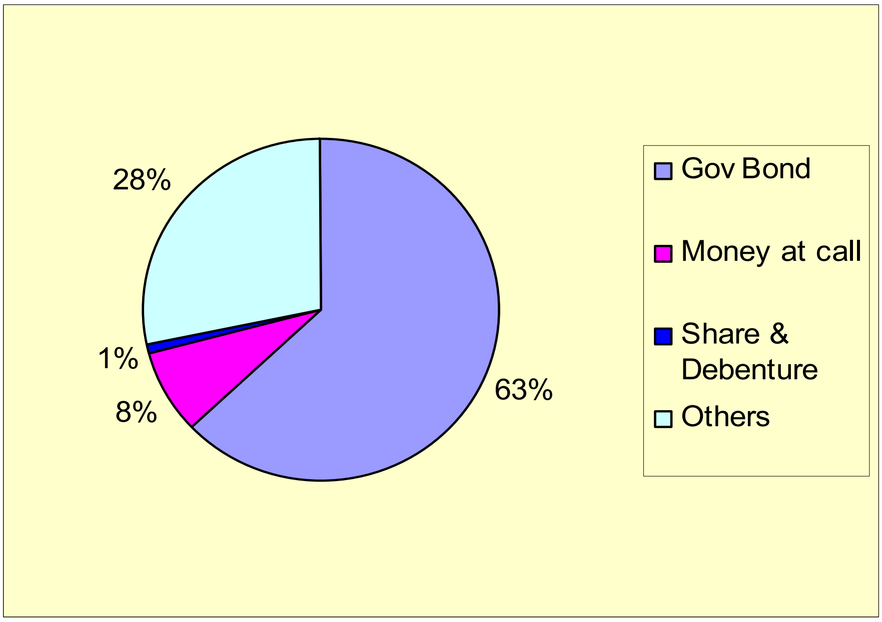
Figure 20 Composition of Non Banking Assets of the Industry



5.8 Investment

The investment activities of the Nepalese banks can be classified as limited. The banks have been predominantly investing in the government securities like the treasury bills and government bonds. This investment in government securities is for the liquidity benefit it offers. The other areas of investment include inter-bank placement and investment in shares and debentures.

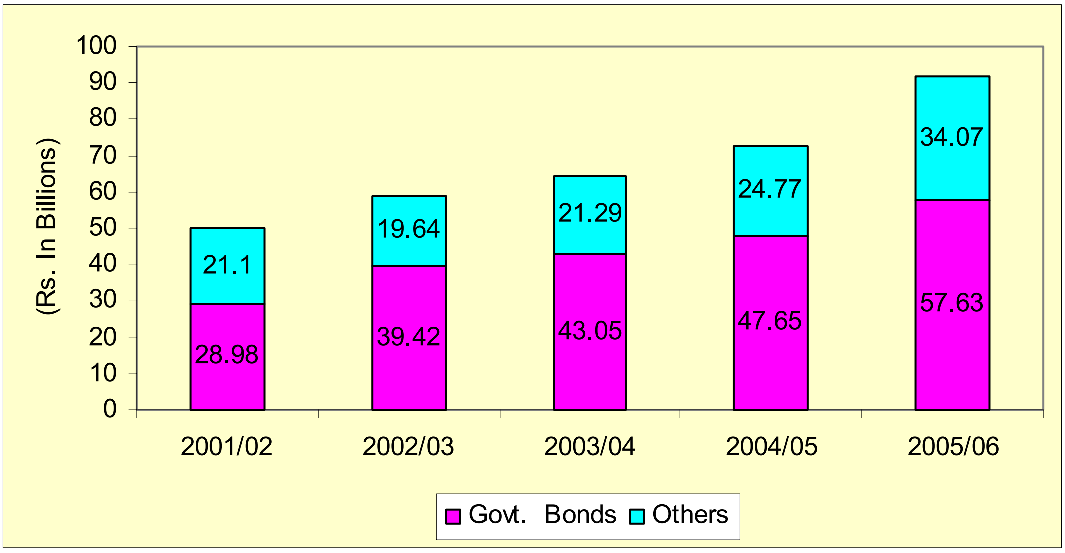
Figure 21 Composition of Investment (Mid July 2006)



The total investment has increased by 26.62 percent on Mid July 2006 in the banking industry as compared to previous year. The total volume of the investment as on Mid July 2006 was Rs.91.70 billion. The analysis of the composition of the investment of the banking industry indicates a heavy concentration of 63 percent in the form of Government Bonds while the Money at call, Share & Debenture and others account for 8 percent, 1 percent and 28 percent respectively. Banks are not allowed to invest in the shares and debentures of the Banks and the Financial Institutions but still their exists an investment of Rs. 220 Million in this regard.

This phenomenon has continuously propelled the proportion of investment in government security to the total investment, upward.

Figure 22: Investment Portfolio of Banking Industry



5.9 Earnings

The total earnings of the banking industry in 2005/06 were Rs.28.63 billion, which is an increase of Rs.8.52 billion from the previous year. The increase in the total revenue is an outcome of the increase in the interest income. The net profit of the banking industry has decreased by Rs.1.24 billion due to massive losses of three private banks during the year. All banks, except Lumbini Bank, Nepal Bangladesh Bank and Nepal Credit and Commerce Bank managed to earn profits, during the year. Out of these, Nepal Bangladesh Bank had the worst performance with a loss of Rs.1797 million followed by Lumbini Bank with loss of Rs.806 million and by Nepal Credit and Commerce Bank with loss of Rs.659 million. The public banks, which had alarming losses only a couple of years ago, had the distinction of being the two best banks in terms of profitability.

Till 2002/03, the Nepalese banking industry was unprofitable because of the performance of two public banks. However, their performance after the reform process has provided favorable results in terms of their profitability and the profitability of the industry, as a whole. The banks have managed to achieve profitability through higher interest income and minimization of costs. Their performance has increased the interest spread of the entire banking industry.

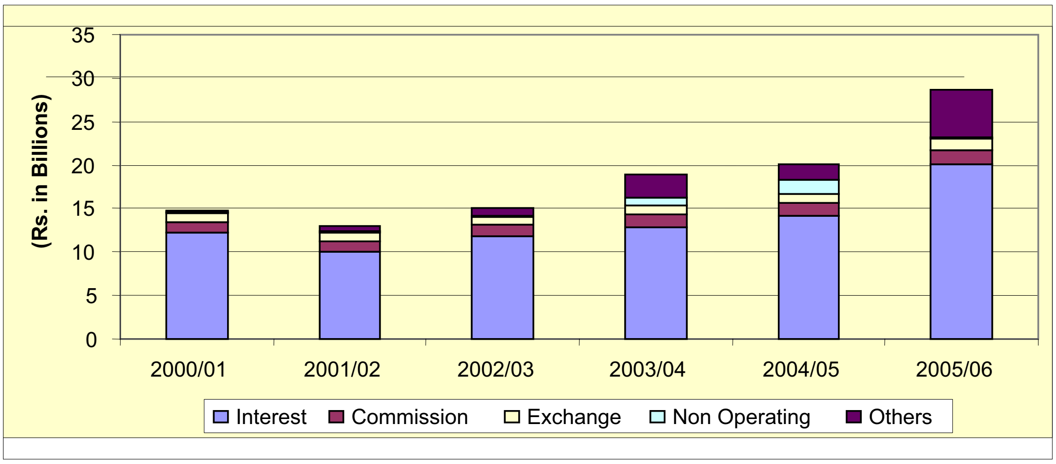
Table 18: Revenue and Profitability of the Banking Industry

(Rs. billions)

Indicator	2005/06	2004/05	2003/04	2002/03	2001/02
Revenue	28.63	20.11	18.86	15.08	13.01
Net Profit	3.23	4.47	3.71	-3.31	-9.43
Int. Spread (%)	5.31	4.02	4.06	3.93	3.15

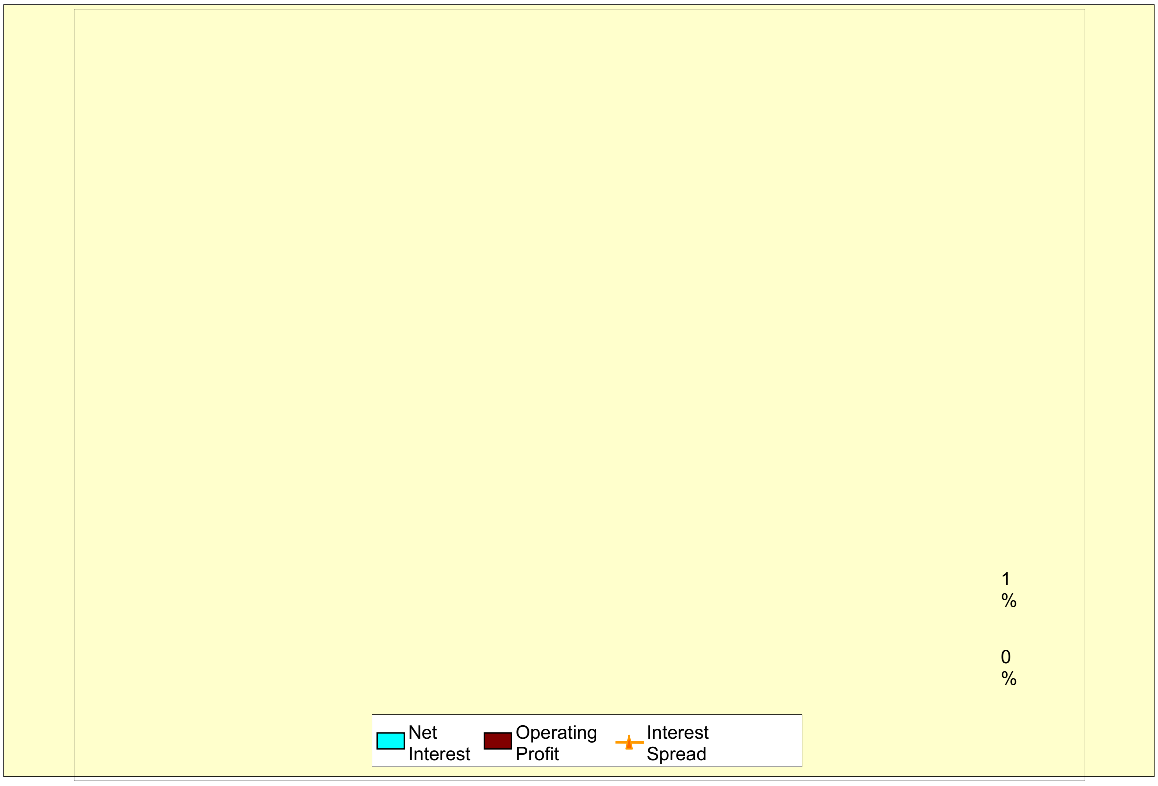
The revenue of the banks is dominated by the interest income, which contributes close to three quarters of the total revenue of the banks. During 2005/06, the total interest income of the banks was Rs.20.09 billion out of total revenue of Rs.28.63 billion, which amounts to 70.19 percent. Besides, the interest income, other major source of income is commission and discount, exchange income and other income.

Figure 23 Components of Revenue



The backbone of profitability is the net interest income of the banks, computed as the surplus of interest income over the interest expenses. All of the banks, during 2005/06, have been able to attain positive net interest income. The banks (except Four Banks) have also been able to post an operating profit, which is an effective measure of efficiency of bank operations however Nepal Bank Limited, Nepal Bangladesh Bank limited, Nepal Credit and Commerce Bank Limited and Lumbini Bank Limited have not able to earn operating profit during the year 2005/06. The maximum weighted average interest spread of a bank; during the year was 5.81 percent while the lowest was 2.10 percent.

Figure 24 Operating Efficiency of Banks during the year 2005/06



5.10 Liquidity

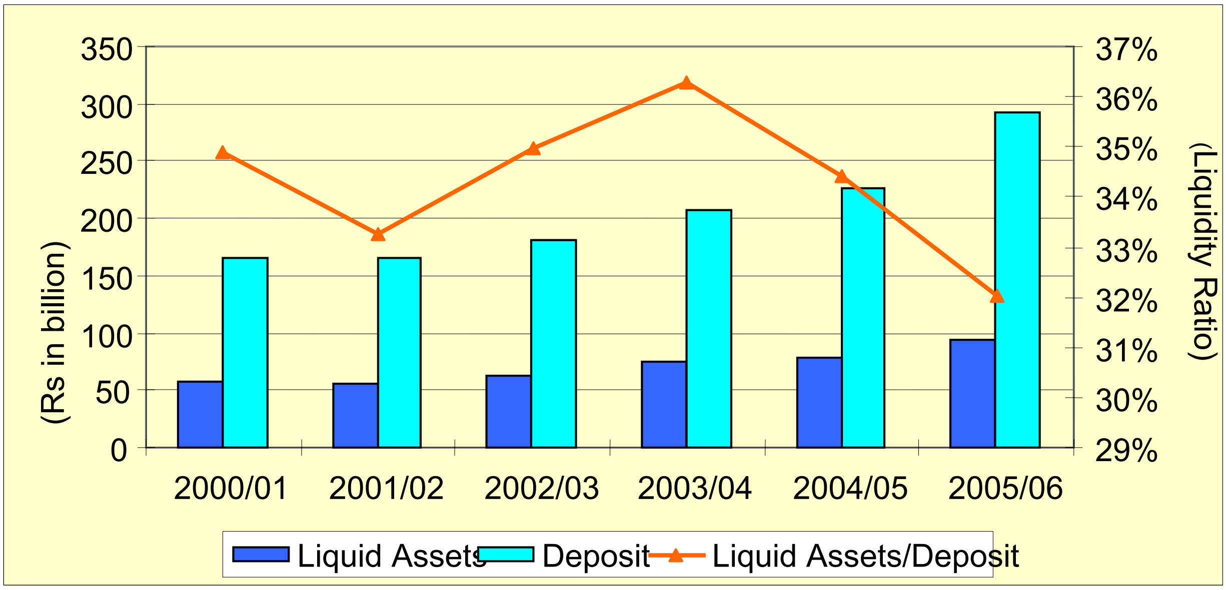
The banks should be able to honor the demand for payment by its depositors and other stakeholders. In order to do so, banks maintain certain volume of liquid assets, the size and volume determined by the bank's size of operations and the past trends. The banking industry's liquid assets (including the investment in government security) have registered a growth of 20.16 percent in 2005/06. The growth in the deposit liabilities and total assets of the industry, during the same period, has been 29.20 percent and 3.57 percent respectively. The proportion of liquid assets to total assets and total deposits, as on Mid July 2006, was 29.94 percent and 32.01 percent respectively.

Table 19: Movement in the Liquid Assets of the Banks

(Rs. In billions)

Particulars	2005/06	Change%	2004/05	Change%	2003/04
Liquid Assets	93.45	20.16	77.77	3.68	75.01
Deposit	291.99	29.20	225.99	9.34	206.68
Liquid Assets/ Deposit	32.01		34.41		36.29

Figure 25 Liquidity Position of the Nepalese Banking Industry



Chapter 6
Issues and Challenges of Supervision

6.1 Background

Advances in technology, the ability of money to move around the globe at the speed of light, innovative products and services, interrelations among economies, and a larger participation by developing countries have made the world of finance a far more complex place.

The objective of prudential regulation and supervision is to develop a banking system that is safe and sound. This objective could be largely achieved by having banks hold only assets with as little risk as possible (e.g., only short-term government debt), but this would defeat another objective of the financial system to provide financial services to facilitate economic efficiency and growth, and to spread the benefits of growth as widely as possible, especially through appropriate lending policies and practices.

The NRB has been engaged in an ambitious reform of the banking system, including bank supervision and has taken many positive steps to improve the regulatory framework and banking practices in this country. Prudential supervisors like NRB have two main functions. One is to promote the soundness of financial institutions by requiring them to observe minimum standards of prudent business behavior. The second is to help manage the situation of financial institutions that have a life-threatening weakness. In both cases, the ultimate responsibility and accountability of the supervisor is to depositors or their equivalents – not to the financial institution itself. While discharging the responsibilities, supervisory bodies in the world are facing many challenges.

6.2 Compliance of Basel Core Principles

Although supervisory practices and processes are always evolving and improving over time, it is helpful to subject supervisory arrangements to scrutiny against internationally accepted benchmarks, and to consider where improvements can be made. To be effective, any such assessment must be undertaken with a critical eye. It is too easy for supervisors to assert that existing arrangements represent best practice when closer analysis would reveal otherwise. For complying Basel Core Principles, there should exist a strong public infrastructure, including:

- Financial transparency and effective corporate governance in Nepalese banking industries,
- Balanced and stable fiscal policy,
- Effective supervision of financial sector by all related regulatory bodies,
- A sound legal system with strong enforcement of laws associated with contract enforcement, bankruptcy, collateral and loan recovery,

- Accounting standards and disclosure requirements, which are broadly consistent with internationally accepted principles,
- Establishment of institutions such as Assets Management Companies, Credit Rating Agencies, Infrastructure Development Banks, Deposit Insurance Fund, Foreign Bank Branches etc, and
- Laws on Financial Crime and Conflicts of Interest etc.

6.3 Implementation of Basel II

The challenge of ensuring compliance with the international supervision norms and standards is intense. Nepal Rastra bank, by statute, is responsible to regulate and supervise all banks and financial institutions operating in Nepal. In line with the international developments, it is important that Nepal Rastra Bank makes sure that the provisions of international standards including financial reporting standards are being followed, except in areas where local regulation prevails. Besides, the accounting standards, it is also essential that the disclosure requirements of the banks are adequate and in compliance with international financial reporting standards. A second important trend is toward accepting regulated institutions' internal risk measurement systems – where they meet certain minimum criteria – to determine regulatory capital or solvency.

There are, of course, costs in building more sophisticated internal risk management systems, and these might not be warranted for smaller players. The investment could however be very worthwhile for larger companies, particularly if development costs can be offset against a lower overall regulatory capital requirement. There are also costs for the supervisor in acquiring the expertise to assess internal systems. But if the outcome is better informed supervisory staff, reduced ongoing regulatory effort and more reliable capital calculations then that investment will have big payoffs in both safety and efficiency.

6.4 Expansion of Service Menu of Banking Industry

Banks are gradually starting to realize that, in today's competitive banking environment, exemplary customer service is one of the distinguishing characteristics that banks can exploit to establish a competitive edge. Since most banks offer comparable products and services, they should continually search for a competitive advantage that will attract new customers and help them retain existing ones. Banks are therefore, looking to develop innovative products and services to maintain superior customer service levels while at the same time remaining profitable.

With the number of market players in the rise, the competition has been obviously growing in the banking industry. The most obvious effect of the rising competition can be seen in the interest rates offered by the banks. The banks, which some years ago, used to charge rates in the range of 15 to 20 percent, have dramatically, reduced their interest rates to 8 to 12 percent, in order to remain competitive.

Nepalese banks will have more complicated edge after foreign banks are allowed to open branches in Nepal. With the entry of foreign banks, the gradual development of derivative markets and access of Nepalese commercial banks in the global market may require more attention of supervisors.

6.5 E-banking and IT Risks

Unlike the other field, world of IT is ever changing. There is continual increase in system complexity and standard of regulation. Financial institutions are moving with new innovations and new developments. These new innovations consequently bring new risk to the financial institutions. Supervisor should ensure that the financial systems are operating in sound and secure way. Hence it is essential to keep up with the development of the market while being proactive in formulating the regulatory framework.

Banks are now gradually shifting towards IT based solutions to enhance service delivery in order to address customer concerns. More and more banks are embracing E-banking and provision of ATMs to reduce long queues in banking hall. In addition, some of the banks have launched mobile phone banking services, which facilitates several account enquiry tools, including account balances, thereby, minimizing the need for customers to visit banking halls. This drive towards IT based solutions will continue to gather momentum in the future as banks will find it be very difficult to survive in the ever growing competition without some form of competitive advantage. The prudential regulator and supervisor of the future should be able to adapt its policies and processes to deal with evolution in the risks confronting regulated institutions.

6.6 Dual Banking Systems

Government ownership and control has been another hurdle in banking supervision. The Nepalese government owned commercial banks have been performing dual banking services: commercial and development. Wide spread of their branches have helped to promote banking to the remote villages of this country, which has helped a lot to provide financial access to the poor. Since the deposit of these three banks only is nearly half of the deposit of the whole banking industry, these banks are too big to fail. Lack of adequate internal control system, traditional way of management, government intervention in the management, poor MIS etc are some other challenges to these banks. These banks are run with heavy accumulated loss and negative reserves. This has indeed created challenges for NRB to streamline these big banks. The best solution for safe landing these banks is to inject capital through the Nepal government or to privatize them with re-capitalization.

6.7 Large borrowers and Connected Lending

The on-site inspection and off-site supervision of the banks indicate growing tendencies of concentration of large exposures in the hands of few groups of borrowers. The banks, in order to get a large piece of the cheese were pursuing these borrowers with discounted rates and relaxation in terms of the security requirements. This has gradually led the large number of borrowers exploring multiple banking facilities. The risk exposure of the banks, meanwhile, has increased because of compromises in the collateral security and the ever-growing bargaining strength of these borrowers. Thus, a special inspection was conducted in all of the banks to gather information on these large borrowers. This inspection was conducted with a view to ascertain the consolidated exposure of these large borrowers, their utilizations, interest rates, collateral arrangements etc. The inspection was also designed to serve as a prelude for the envisioned regulation on multiple banking.

6.8 Registration of Charges and Multi-banking

Lack of debt register for movable properties in Nepal is another challenge for supervisor. Earlier, borrowers used to provide immovable properties as collateral security for the facilities. The banks, then without stiff competition, also used to demand high quality of collaterals from the borrowers. Now, as the competition is rising, the borrowers are more assertive and the nature of security provided by them is movable. The volume of loans extended against the security of hypothecated assets is growing at a rapid pace. The borrowers availing such kind of facility tend to provide a written document stating that the goods are hypothecated to so and so bank. However, there is no concrete evidence that they are indeed hypothecated to the said bank, as, in Nepal, there were no legal provision regarding the registration of charges, unlike in other countries. However, during the review period, a Secured Transaction Act was enacted but not enforced yet. In the present context, the borrower is also able to obtain finance from two or more than two banks, against the same security. This scenario has been multiplying the risk exposure of the banks and is detrimental to the interest of the stakeholders and has the potential to derail the objective, of sound and stable banking system, envisioned by Nepal Rastra Bank. Thus, something needs to be done about the establishment of said procedures to instill discipline in the market, eliminate the possibility of malpractices and mitigate the risk of the banks.

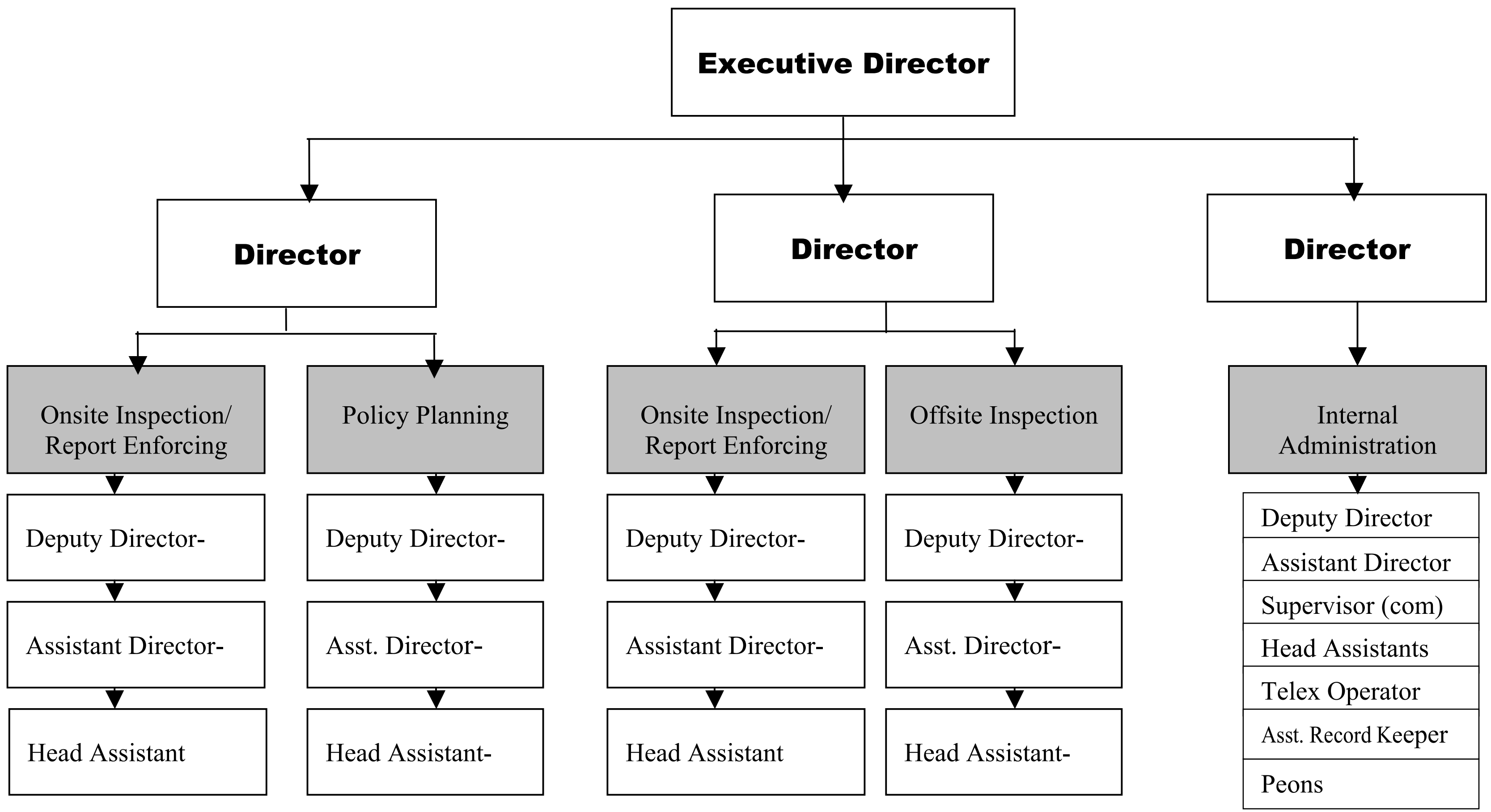
6.9 Enhancing Supervisory Capacity

The major pre-requisite of an effective supervision is the competence of the supervisor. The banking industry is continuously evolving and in order to deliver an effective supervision in such a scenario, it is vital that supervisors are competent and adept in their work. The dynamic state of banking epitomizes the importance of the competency and skills of the supervisor. Realizing this, Bank Supervision Department has been providing various prospects for honing the skills of the supervisors through participations in trainings, seminars both at national and international levels. The capacity building is a continuous exercise and efforts should be made to ensure that supervisors are not just adept to meet the challenge of today, but for tomorrow as well.

Appendix 1
Trainings and Seminars for Bank Supervisors in 2005/06

S.N.	Program	Organizer	No. of Participant	Duration	Country
1	World Bank Seminar	SEACEN	1	10 days	Malaysia
2	Conference for Directors of Bank Supervision of Asia Pacific	SEACEN	1	7 days	Malaysia
3	Consolidated Supervision	SEACEN	1	11 days	Malaysia
4	Conference for senior Bank Supervisors	ACSIC	1	7 days	Korea
5	Seminars of off-site and on-site supervision of Banks	BIS/FSI,	1	6 days	Switzerland
6	Adequacy of the Existing Levels of Capital Implementation	SEACEN,	2	6 days	Malaysia
7	Regional Seminars for Bank Supervisors	SEACEN	1	12 days	Srilanka
8	Basel II Implementation in South Asia	SEACEN,	5	10 days	Malaysia
9	Banking Supervision under Basel II	BUNDES	1	10 days	Germany
10	Risk Focused Supervision	ADB	1	9 days	Australia
11	Credit Risk Analysis	SEACEN	1	14 days	Malaysia
12	FSI Seminars on Advance Risk Management	BIS/FSI,	1	10 days	Switzerland
13	Market Risk Analysis	SEACEN	1	10 days	Malaysia
14	Micro credit and co-operative Study	APRACA	1	7 days	Philippines
15	Q.T. for Micro Surveillance	SEACEN	1	8 days	Malaysia
16	Risk Management Priorities	BIS/FSI	1	6 days	Hong Kong
17	Macro-economic and monetary Policy Management	SEACEN	1	21 days	Brunei
18	Central Banking	BTC	1	10 days	Nepal
19	Central Bank Operation	BTC	1	7 days	Nepal
20	IT Security	BTC	2	3 days	Nepal
21	Risk Based Supervision	BTC	1	7 days	Nepal
22	Database Management MS Access	BTC	1	7 days	Nepal
23	Inspection and Supervision	BTC	1	14 days	Nepal
24	Computer Operation	BTC	1	14 days	Nepal
25	Central Banking, Computer Operation and Accounts manual	BTC	1	14 days	Nepal
26	Stress Management	BTC	2	3 days	Nepal
27	Risk Based Supervision	BTC	2	7 days	Nepal
28	Monetary and Fiscal Management	BTC	1	14 days	Nepal

Appendix 2
Organization Chart of Bank Supervision Department



Appendix 3
Unified Directives relating to Bank and Financial Institutes

*In the beginning of FY 2062/63-2005/06,) a*ll Circulars separately issued by NRB for Commercial banks, Development Banks, Finance Company and Micro Credit Banks were replaced by a unified directive and were issued by Banks And Financial Regulations Department, NRB via Bai. Bi. Ni. Bi. 148/1/2062/63/ Dated: 2062.4.3/July 18, 2005. These directives came into effect from July 16, 2005.

Directive No.	Subject	Main Contents
1	**Capital Adequacy Norms**	Maintenance of Minimum Capital Fund, Classification of Capital, Tota Weighted Risk Assets, Risk-Weight age of on-Balance Sheet Assets & off Balance Sheet Items, Capital Fund Ratio, Reporting Requirement of Capita Fund, Time Period For Fulfilling The Shortfall in Capital Fund, Actions For No Complying The Directives Relating To Capital Fund
2	**Loan Classification and Provisioning.**	Classification Of Loan And Advances, Additional Arrangement In Respect Of "Pass Loan", "Loss" Loan, Term Loan, Recover Principal And Interest By Exceeding The Overdraft Limit, Letters Of Credit And Guarantee, Loan Rescheduling And Restructuring, Loan Loss Provisioning, Adjustment In Provisioning, Loan Loss Provision Relating To Non-Banking Assets, Submission Of Return Relating to Classification of Loan and Advances, Actions to be taken in cases of noncompliance
3	**Single Borrower Obligor Limit**	Fixation Of Limit On Credit And Facilities, Limit Adjustment, Exemption In Limit Of Credit And Facilities, Related Parties Are To Be Considered As A Group, Sublimations Of Return On Related Customers, Provision Of Cent Percent To Minimize Concentration Risk
4	**Accounting Policies And Format Of Financial Statements**	Guidelines Relating to Financial Statements: Definition of Financial Year: Prescribed Forms as Statutory Format, Compliance to Accounting Standards, Publication of Financial Statements, Accounting for Internal Purpose, No change allowed in NRB Prescribed Formats, Filing of Return Principal Accounting Policies: Disclosure of Accounting Policies, Brief Explanation to Accounting Policies, Notes on Accounts, Brief Explanations on Accounting Heads of the Balance Sheet, Brief Explanations on Accounting Heads of the P/L Account, Brief Explanations on Accounting Heads of the Profit and loss Appropriation Account, Statement of Changes in Equity, Relating to Cash Flow Statement
5	**Minimization of Risks**	Classification of Risks, Arrangement for Minimization of Liquidity Risks, Interest Rate Risks, Foreign Exchange Risks and Credit and Investment Risks
6	**Good Corporate Governance.**	Code-of-ethics for Directors, Duties and Responsibilities of Board of Directors, Appointment of Chief Executive, Code-of-ethics for Employees, Audit Committee, Prohibition to Extend Credit to the Directors, Shareholders, Employees and Firms Related to Directors, Promoters, Shareholders etc. Against collateral of assets of directors, family members, Exemption for credit as per Staff Rules
7	**Timeframe For Implementation of Regulatory Directives Issued in connection with Inspection and Supervision**	Timeframe for responding to on-site inspection report, Loan Loss Provisioning, Loan Portfolio Improvement Program, Capital Adequacy Plan, Management of Assets/Liabilities, Internal Audit and Control, Implementation of Plans, Policies and Procedures, Progress Reports and Follow Ups.

8	**Investment In Shares And Securities**	Implementation of Investment Policy under approval of the Board of Directors, Investment in HMG securities/NRB Bonds, Investment in shares and securities of organized institutions, Underwriting of shares/Debentures, Review of Investment Portfolios, Valuation of Shares and Debentures, Additional Arrangements regarding Investments, Action for non-compliance
9	**Filing of Statistical Returns**	Weekly, monthly, quarterly, half-yearly and yearly returns
10	**Transfer or Sale of Promoters Shares of Licensed Institutions**	Transfer to Legal Heirs, Conditions for Transfer/Sale of Promoters Shares, Conditions to the Purchasers, Eligible time period of NRB Approval, Relating to Transfers Already Approved, Purchasers not to transfer the shares for specific period, Amend Memorandum/Articles of Association, Action Against Non-compliance, Transfer of Promoters Shares Resulting in excess of 15% Holding, Loan Against Mortgage/Collateral of Promoters' Shares, Cooperative Institutions not to Invest in Institutional Capacity as Promoter or Promoters Group
11	**Consortium Lending.**	Definition of Consortium Lending, Conditions for Participation in Consortium Lending, Prohibition to Lend & Open Account by Others, Time Period for Making Decision, Selection of Participating Members, Constitution of Consortium Group, Selection of Lead Institution, Lead Institution to Disburse and Collect, Functions, Duties, Rights of Lead Institution, Majority Decision to Prevail, Liabilities and Duties of Participating Members, Arrangement for Additional Lending, Leaving the Consortium, Power to Appoint Auditor/Consultants and Returns to be Filed.
12	**Credit Information and Black Listing**	Credit Information Center, Returns to be filed, Credit information to be obtained compulsorily, Procedure for inclusion in the Black List, Classification of Borrowers as Willful Defaulters and Non-willful Defaulters, Prohibition to extend credit to black listed borrowers, Special arrangements in respect of collateral valuators, Special arrangements in respect of Auditors, Recommendation for confiscation of Passports, Arrangement for Black Listing: Situations for inclusion in the Black List for Individuals, Firm, Company and Organized Institution to be included in the Black List, Situations not requiring inclusion in the blank list, Removal from the Black List, Publishing particulars of black listed borrowers, Willful defaulters not to hold public positions
13	**Maintenance of Liquidity**	Applicable for A, B, C Class Institutions, Applicable for D Class Institutions, *Cash Reserve Weekly Statement, Cash Reserve Monthly Statement*
14	**Opening of Branch/Expansion of Branches/ Offices**	Prohibition to open/close branch/offices without approval, Application for Opening Branch Offices, Priority for Approval, Expansion of Branch Offices, Provision Relating to Office Hours, Opening of Extension Counters, Action for Non-Compliance
15	**Interest Rates**	Fixation of Interest Rates, Prohibition for Fixing Flat Interest Rate, Interest Rates to be Approved, Submission of Return, Interest Rates to be Published, Recognition of Interest Income, Action for Non-compliance
16	**Mobilization of Financial Resources**	Limit for Mobilization of Financial Resources, Limit for Institutional Deposit Collection, Prepare Rules and Procedures for Deposit Collection/Payment, Borrowings, Issuing Debenture/Debt Instruments, Time Period for Bringing Down Excess Resources

Appendix 4
Bank Regulators in the World

Name of Country	Regulatory Body
Afghanistan	Da Afghanistan Bank
Albania	Bank of Albania
Algeria	Banque d'Algérie
Andorra	Institut Nacional Andorrà de Finances
Angola	Banco Nacional de Angola
Anguilla	Anguilla Financial Services
Antigua & Barbuda	Financial Services Regulatory Commission
Argentina	Banco Central de la Republica Argentina
Armenia	Central Bank of the Republic of Armenia
Aruba	Centrale Bank van Aruba
Australia	Australian Prudential Regulation Authority
Austria	Financial Market Authority
Azerbaijan	National Bank of Azerbaijan
Bahamas	Central Bank of the Bahamas
Bahrain	Bahrain Monetary Agency
Bangladesh	Bangladesh Bank
Barbados	Central Bank of Barbados
Belarus	National Bank of the Republic of Belarus
Belgium	Banking, Finance & Insurance Commission
Belize	Central Bank of Belize
Benin	Banque Centrale des Etats de l'Afrique de l'Ouest
Bermuda	Bermuda Monetary Authority
Bhutan	Royal Monetary Authority of Bhutan
Bolivia	Superintendencia de Bancos y Entidades Financieras
Bosnia-Herzegovina	Banking Agency of Federation of Bosnia and Herzegovina and Banking Agency of Republic of Srpska
Botswana	Bank of Botswana
Brazil	Banco Central do Brasil
Brunei Darussalam	Financial Institutions Division Ministry of Finance
Bulgaria	Bulgarska Narodna Banka
Burkina Faso	Banque Centrale des Etats de l'Afrique de l'Ouest
Burundi	Banque de la République du Burundi
Cambodia	National Bank of Cambodia
Cameroon	Banque des États de l'Afrique Centrale
Canada	Office of the Superintendent of Financial Institutions
Cape Verde Islands	Banco de Cabo Verde
Cayman Islands	Cayman Islands Monetary Authority

Central African Republic	Banque des États de l'Afrique Centrale
Chad	Banque des États de l'Afrique Centrale
Channel Islands	Jersey Financial Services Commission and Guernsey Financial Services Commission
Chile	Superintendencia de Bancos e Instituciones Financieras
China	China Banking Regulatory Commission
Colombia	Superintendencia Bancaria de Colombia
Comores Archipelago	Banque Centrale des Comores
Congo (Democratic Republic of)	Banque Centrale du Congo
Congo (Republic of)	Banque des États de l'Afrique Centrale
Cook Islands	Financial Supervisory Commission
Costa Rica	Superintendencia General De Entidades Financieras
Côte d'Ivoire	Banque Centrale des Etats de l'Afrique de l'Ouest
Croatia	Hrvatska narodna banka
Cuba	Banco Central de Cuba
Cyprus	Central Bank of Cyprus
Czech Republic	Ceská národní banka
Denmark	The Danish Financial Supervisory Authority
Djibouti	Banque Nationale de Djibouti
Dominica	Eastern Caribbean Central Bank and International Business Unit
Dominican Republic	Superintendencia de Bancos de la República Dominicana
Ecuador	Superintendencia de Bancos
Egypt	Central Bank of Egypt
El Salvador	Supervision of the Financial System
Equatorial Guinea	Banque des États de l'Afrique Centrale
Eritrea	Bank of Eritrea
Estonia	Bank of Estonia
Ethiopia	National Bank of Ethiopia
Faroe Islands	The Danish Financial Supervisory Authority
Fiji	Reserve Bank of Fiji
Finland	Financial Supervision Authority
France	Banque de France
French Guiana	Banque de France
French Polynesia	Banque de France
French West Indies	Banque de France
Gabon	Banque des États de l'Afrique Centrale
Gambia	Central Bank of the Gambia
Georgia	National Bank of Georgia
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht
Ghana	Bank of Ghana

Gibraltar	Financial Services Commission
Greece	Banque de Grèce
Greenland	The Danish Financial Supervisory Authority
Grenada	Grenada International Financial Services Authority (GIFSA)
Guatemala	Superintendencia de Bancos de Guatemala
Guinea	Banque Centrale de la République de Guinée
Guinea-Bissau	Banque Centrale des Etats de l'Afrique de l'Ouest
Guyana	Bank of Guyana
Haiti	Banque de la République d'Haiti
Honduras	Comisión Nacional de Bancos y Seguros
Hong Kong	Hong Kong Monetary Authority
Hungary	Hungarian Financial Supervisory Authority
Iceland	Ministry of Finance of Iceland
India	Reserve Bank of India
Indonesia	Bank Indonesia
Iran	Bank Markazi Jomhouri Islami Iran
Ireland	Financial Regulator
Isle of Man	Financial Supervision Commission (IOM)
Israel	Bank of Israel
Italy	Banca d'Italia
Jamaica	Bank of Jamaica
Japan	Financial Services Agency
Jordan	Central Bank of Jordan
Kazakhstan	Agency of the Republic of Kazakhstan Regulation and Supervision of Financial Market and Financial Organisations
Kenya	Central Bank of Kenya
Kiribati	Ministry of Finance & Economic Development
Korea (North)	Central Bank of the Democratic People's Republic of Korea
Korea (South)	Financial Supervisory Service
Kuwait	Central Bank of Kuwait
Kyrgyzstan	National Bank of the Kyrgyz Republic
Laos	Banque de la République Democratique Populaire Lao
Latvia	Financial and Capital Market Commission (FCMC)
Lebanon	Banque du Liban
Leeward & Windward Islands	See Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, St. Lucia and St. Vincent
Lesotho	Central Bank of Lesotho
Liberia	Central Bank of Liberia
Libya	Central Bank of Libya
Liechtenstein	Financial Market Authority Liechtenstein
Lithuania	Bank of Lithuania

Luxembourg	Commission de Surveillance du Secteur Financier
Macau	Autoridade Monetária de Macau
Macedonia	National Bank of the Republic of Macedonia
Madagascar	Commission de Supervision Bancaire et Financière
Malawi	Reserve Bank of Malawi
Mali	Banque Centrale des Etats de l'Afrique de l'Ouest
Malaysia	Bank Negara Malaysia
Maldives	Maldives Monetary Authority
Malta	Malta Financial Service Authority
Mauritania	Banque Centrale de Mauritanie
Mauritius	Bank of Mauritius
Mexico	Comision Nacional Bancaria y de Valores
Moldova	National Bank of Moldova
Monaco	Banque de France
Mongolia	The Bank of Mongolia
Montenegro	Central Bank of Montenegro
Montserrat	Financial Services Commission
Morocco	Bank Al-Maghrib
Mozambique	Banco de Moçambique
Myanmar	Central Bank of Myanmar
Namibia	Bank of Namibia
Nepal	Nepal Rastra Bank
Netherlands	De Nederlandsche Bank NV
Netherlands Antilles	Bank van de Nederlandse Antillen
Nevis	Eastern Caribbean Central Bank
New Caledonia	Banque de France
New Zealand	Reserve Bank of New Zealand
Nicaragua	Banco Central de Nicaragua
Niger	Banque Centrale des Etats de l'Afrique de l'Ouest
Nigeria	Central Bank of Nigeria
Norway	The Banking, Insurance and Securities Commission of Norway
Oman	Central Bank of Oman
Pakistan	State Bank of Pakistan
Palau	Financial Institutions Commission
Panama	Superintendencia de Bancos
Papua New Guinea	Bank of Papua New Guinea
Paraguay	Banco Central del Paraguay
Peru	Superintendencia de Banca y Seguros
Philippines	Bangko Sentral ng Pilipinas
Poland	Narodowy Bank Polski

Portugal	Banco de Portugal
Puerto Rico	Office of the Commissioner of Financial Institutions
Qatar	Qatar Central Bank
Reunion Island	Banque de France
Romania	Banca Nationala a României
Russian Federation	Central Bank of the Russian Federation
Rwanda	Banque Nationale du Rwanda
St. Kitts	Financial Services Division
St. Lucia	Financial Services Supervision Unit
St. Pierre et Miquelon	Banque de France
St. Vincent	International Financial Services Authority
Samoa	Central Bank of Samoa
San Marino	Banca Centrale della Repubblica di San Marino
São Tomé and Príncipe	Banco Central de São Tomé e Príncipe
Saudi Arabia	Saudi Arabian Monetary Agency
Senegal	Banque Centrale des Etats de l'Afrique de l'Ouest
Serbia	National Bank of Serbia
Seychelles	Central Bank of Seychelles
Sierra Leone	Bank of Sierra Leone
Singapore	Monetary Authority of Singapore
Slovakia	Národná Banka Slovenska
Slovenia	Banka Slovenije
Solomon Islands	Central Bank of Solomon Islands
Somalia	Central Bank of Somalia
South Africa	South African Reserve Bank
Spain	Banco de España
Sri Lanka	Central Bank of Sri Lanka
Sudan	Bank of Sudan
Suriname	Centrale Bank van Suriname
Swaziland	Central Bank of Swaziland
Sweden	The Swedish Financial Supervisory Authority
Switzerland	Swiss Federal Banking Commission
Syria	Central Bank of Syria
Taiwan	Financial Supervisory Commission
Tajikistan	National Bank of Tajikistan
Tanzania	Bank of Tanzania
Thailand	Bank of Thailand
Togo	Banque Centrale des Etats de l'Afrique de l'Ouest
Tonga	National Reserve Bank of Tonga
Trinidad & Tobago	Central Bank of Trinidad and Tobago

Tunisia	Banque Centrale de Tunisie
Turkey	Banking Regulation and Supervision Agency
Turkmenistan	Central Bank of Turkmenistan
Turks & Caicos Islands	The Financial Services Commission
Tuvalu	National Bank of Tuvalu
Uganda	Bank of Uganda
Ukraine	National Bank of Ukraine
United Arab Emirates	Central Bank of the United Arab Emirates, Dubai Financial Services Authority
United Kingdom	Financial Services Authority
United States of America	Farm Credit Administration
	Federal Deposit Insurance Corporation
	Federal Reserve Bank of Atlanta
	Federal Reserve Bank of Boston
	Federal Reserve Bank of Chicago
	Federal Reserve Bank of Cleveland
	Federal Reserve Bank of Dallas
	Federal Reserve Bank of Kansas City
	Federal Reserve Bank of Minneapolis
	Federal Reserve Bank of New York
	Federal Reserve Bank of Philadelphia
	Federal Reserve Bank of Richmond
	Federal Reserve Bank of San Francisco
	Federal Reserve Bank of St Louis
	Federal Reserve System
	Office of the Comptroller of the Currency
	Office of Thrift Supervision
	Texas Department of Banking
Uruguay	Banco Central del Uruguay
US Dependencies	Federal Deposit Insurance Corporations
Uzbekistan	The Central Bank of the Republic of Uzbekistan
Vanuatu	Reserve Bank of Vanuatu
Venezuela	Superintendencia de Bancos y Otras Instituciones Financieras
Vietnam	State Bank of Vietnam
Virgin Islands (British)	Financial Services Commission
Yemen	Central Bank of Yemen
Zambia	Bank of Zambia
Zimbabwe	Reserve Bank of Zimbabwe

Appendix 5
Useful Web links for Supervisors

Name of Agency	Web address
Australian Prudential Regulatory Authority	www.apra.gov.au
Asian Development Bank	www.adb.org
Association for financial professionals	www.afponline.org
American Bankers Association	www.aba.com
Association of German Banks	www.german-banks.com
Asian Clearing Union	www.asianclearingunion.org
Bank Administration Institute (BAI)	www.bai.org
Banking Federation of the European Union	www.fbe.be
Bank for International Settlement	www.bis.org
Bank Negara Malaysia	www.bnm.gov.my
Conference of State Bank Supervisors, USA	www.csbsdal.org
Canada Deposit Insurance Corporation	www.cdic.ca
China Banking Regulatory Commission	www.cbrc.gov.cn
European Committee for Banking Standards (ECBS)	www.ecbs.org
European Bank for Reconstruction and Development	www.ebrd.org
Financial Services Authority UK	www.fsa.gov.uk
Federal Reserve Board USA	www.federalreserve.gov
Federal Reserve Bank Boston	www.bos.frb.org
Federal Reserve Bank St. Louis	www.stls.frb.org
Federal Reserve Bank Kansas City	www.kc.frb.org
Federal Reserve Bank Philadelphia	www.phil.frb.org
Federal Reserve Bank Minneapolis	woodrow.mpls.frb.fed.us
Federal Reserve Bank San Francisco	www.frbsf.org
Federal Reserve Bank Richmond	www.richmondfed.org
Federal Reserve Bank Atlanta	www.frbatlanta.org
Federal Reserve Bank New York	www.newyorkfed.org
Federal Reserve Bank Dallas	www.dallasfed.org
Federal Reserve Bank Cleveland	www.clevelandfed.org
Federal Deposit Insurance Corporation, USA	www.fdic.gov
Federal Financial Institutions Examination Council, USA	www.ffiec.gov
Financial Services Agency, Japan	www.fsa.go.jp
International Accounting Standard Board	www.iasb.org
International Monetary Fund (IMF)	www.imf.org
Korea Financial Supervisory Commission	www.fsc.go.kr
Monetary Authority of Singapore	www.mas.gov.sg
Office of the superintendent of financial institutions, Canada	www.osfi-bsif.gc.ca
Reserve Bank of India	www.rbi.org.in
SEACEN Center, Malaysia	www.seacen.org
The Risk Management Association, USA	www.rmahq.org
World Bank Group	www.worldbank.org

Appendix 6
Excerpts of Audited Financial Statements of Commercial Banks

1. Nepal Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Share Capital	380,383	380,383	380,383	380,383	380,383
Reserves and Surplus	-9,934,258	-10,211,515	-9,394,908	-7,805,928	-6,681,838
Debenture & Bond	0	0	0	0	0
Loans & Borrowing	213,264	52,010	0	1247,065	1,717,442
Deposit	34,264,847	35,014,000	35,735,045	35,934,163	35,829,765
Bills Payable	120,145	141,311	31,427	417,788	100,984
Proposed & Payable dividend	1,128	1,128	1,124	1,121	1,115
Tax Liabilities	0	0	0	0	0
Other Liabilities	14,514,335	14,439,174	17,408,810	16,870,562	4,571,054
Total Liabilities	**39,559,844**	**39,816,491**	**44,161,881**	**47,045,154**	**35,918,905**
Cash Balance	1,665,104	1,416,545	1,010,231	1,069,614	1,110,953
Balance with NRB	3,273,592	2,649,311	4232386	4,508,554	5,353,964
Balance with Banks	1,688,421	529,313	618,452	581,170	709,140
Money At call	1,543,599	81,540	751,995	550,000	0
Investment	7,151,381	12,447,699	11,004,820	14,199,216	14,490,247
Loan and Advances	8,638,438	7,971,097	8,881,824	8,218,909	9,756,163
Fixed Assets	139,641	137,795	195,047	187,085	191,706
Non- Banking Assets	25991	88,502	56,90	187,084	0
Other Assets	15,433,677	14,494,689	17,461,436	17,730,606	4,306,732
Total Assets	**39,559,844**	**39,816,491**	**44,161,881**	**47,045,154**	**35,918,905**
Interest Income	1,525,989	2,200,314	1,825,041	1,987,119	2,049,030
Interest Expenses	1,713,203	1,585,600	1,025,533	748,953	774,325
Net Interest Income	**(187,214)**	**614,714**	**799,508**	**1,238,166**	**1,274,705**
Commission and discount	241,007	280,137	231,916	188,421	177,784
Other Operating Income	66,311	9,774	101,590	134,725	140,843
Exchange Income	183,620	42,661	71,815	1,369	121,337
Total Operating Income	**303,724**	**947,286**	**1,204,829**	**1,562,681**	**1,714,669**
Employees Expenses	1,227,851	1,541,829	1,848,846	1,064,352	1,067,634
Other Operating Expenses	158,492	225,923	299,060	206,419	428,651
Operating Profit Before Provision	**(1,082,619)**	**(820,466)**	**(943,077)**	**291,910**	**218,384**
Provisions for possible losses	2,114,436	16,290	18,522	180,541	607,483
Operating Profit	**(3,197,055)**	**(836,756)**	**(961,599)**	**111,369**	**(389,099)**
Non-Operating Income/ Expenses	125,759	131,818	645,528	1,451,459	22,905
Return From Loan Loss Provision	0	453,207	1,105,394	408,199	1,813,642
Profit From Ordinary activities	**(3,071,296)**	**(251,731)**	**789,323**	**1,971,027**	**1,447,448**
Extra ordinary Income /Expenses	0	0	0	(240,897)	(119,457)
Net Profit including all activities	**(3,071,296)**	**(251,731)**	**789,323**	**1,730,130**	**1,327,991**
Provision For Staff Bonus	0	0	78,932	0	120,726
Provision For Income Tax	0	0	0	0	0
-This Year	0	0	0	0	0
-Up to Last Year	0	0	0	0	0
Net Profit / Loss	**(3,071,296)**	**(251,731)**	**710,391**	**1,730,130**	**1,207,265**
Financial Indicators					
Core Capital to Risk Weighted Assets	-27.03%	-29.75%	-25.91%	-19.54%	-40.44%
Capital Fund to Risk Weighted Assets	-19.67%	-28.25%	-24.97%	-19.54%	-43.09%
Non-Performing Loan to Total Loan	56.27%	60.47%	53.74%	49.64%	18.18%
Weighted Average Interest Spread	0.88%	2.94%	3.16%	4.40%	3.16%
Net Interest Income (Rs. in million)	-186	615	800	1,238	1,275
Return on Assets	-7.76%	-0.63%	1.61%	3.68%	3.36%
Credit to Deposit	56.19%	51.79%	50.20%	46.94%	34.72%
Liquid Assets to Total Assets	38.58%	42.27%	38.96%	38.23%	65.69%
Liquid Assets to Total Deposit	44.55%	48.07%	48.15%	50.06%	65.86%

2. Rastriya Banijya Bank*

(Rs. in '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	1,172,300	1,172,300	1,172,300	1,172,300	1,172,300
Reserves and Surplus	-18,623,655	-23,563,206	-22,610,203	-21,371,738	-19,859,528
Debenture & Bond	0	0	0	0	0
Borrowing	156,167	161,950	79,966	4,217,813	4,357,727
Deposit	38,993,290	39,402,273	40,866,767	43,016,063	46,195,482
Bills Payable	19,784	16,421	24,486	39,718	40,721
Proposed & Payable dividend	33,035	15,740	23,610	31,480	39,350
Tax Liabilities	0	0	0	0	0
Other Liabilities	23,218,303	25,546,173	25,499,394	8,083,312	7,967,424
Total Liabilities	**44,969,224**	**42,751,651**	**45,056,320**	**35,188,948**	**39,913,476**
Cash Balance	850,186	1,019,318	1,007,240	1,621,786	1,202,152
Balance with NRB	2,493,546	1,865,849	5,599,263	3,325,243	3,867,105
Balance with Banks	1,182,914	850,822	412,587	606,165	159,565
Money At call	0	740,000	100,000	0	0
Investment	4,159,474	4,626,218	3,117,026	8,415,882	11,555,358
Loan and Advances	13,689,748	11,679,489	10,831,084	13,430,932	14,659,981
Fixed Assets	402,563	479,022	391,803	393,082	420,849
Non- Banking Assets	163,069	106,043	50,549	186,939	105,366
Other Assets	22,027,724	21,384,830	23,546,768	7,208,919	7,943,100
Total Assets	**44,969,224**	**42,751,651**	**45,056,320**	**35,188,948**	**39,913,476**
Interest Income	1,744,740	2,044,055	2,235,881	2328821	2282825
Interest Expenses	2,347,083	2,103,431	1,494,845	1004722	850136
Net Interest Income	**(602,343)**	**(59,376)**	**741,036**	**1,324,099**	**1,432,689**
Commission and discount	214,520	211,484	309,803	287753	289578
Other Operating Income	78,190	84,234	146,384	115669	109675
Exchange Income	78,200	2,857	15,740	13612	73951
Total Operating Income	**(231,433)**	**239,199**	**1,212,963**	**1,741,133**	**1,905,893**
Employees Expenses	758,690	3,248,985	905,805	739455	745186
Other Operating Expenses	242,720	244,831	230,229	234349	288625
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**(1,232,843)**	**(3,254,617)**	**76,929**	**767,329**	**872,082**
Provisions for possible losses	5,842,505	1,590,647	10,706	137415	629022
Operating Profit	**(7,075,348)**	**(4,845,264)**	**66,223**	**629,914**	**243,060**
Non-Operating Income/ Expenses	7,095	6,669	147,086	44266	27233
Return From Loan Loss Provision	0	0	910,000	719841	1515763
Profit From Ordinary activities	**(7,068,253)**	**(4,838,595)**	**1,123,309**	**1,394,021**	**1,786,056**
Extra ordinary Income /Expenses	0	0	0	-71127	-33391
Net Profit including all activities	**(7,068,253)**	**(4,838,595)**	**1,123,309**	**1,322,894**	**1,752,665**
Provision For Staff Bonus	0	0	83,208		
Provision For Income Tax	0	0	0	0	0
-This Year	0	0	0	0	0
-Up to Last Year	0	0	0	0	0
Net Profit / Loss	**(7,068,253)**	**(4,838,595)**	**1,040,101**	**1,322,894**	**1,752,665**
Financial Indicators					
Core Capital to Risk Weighted Assets	-35.30%	-45.52%	-43.27%	-34.12%	-56.40%
Capital Fund to Risk Weighted Assets	-28.02%	-44.28%	-42.12%	-34.12%	-56.40%
Non-Performing Loan to Total Loan	55.07%	60.15%	57.64%	52.99%	34.83%
Weighted Average Interest Spread	-0.90%	0.90%	3.39%	4.91%	5.81%
Net Interest Income (Rs. in million)	-602	-59	741	1,324	1,433
Return on Assets	-15.72%	-11.32%	2.31%	2.33%	4.32%
Credit to Deposit	69.34%	67.53%	61.43%	62.77%	50.01%
Liquid Assets to Total Assets	19.16%	20.15%	22.28%	16.92%	14.16%
Liquid Assets to Total Deposit	22.09%	21.86%	24.56%	13.84%	12.24%

***Provisional**

3. Nabil Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	491,654	491,654	491,654	491,654	491,654
Reserves and Surplus	654,773	822,532	990,028	1,165,984	1,383,340
Debenture & Bond	0	0	0	0	0
Borrowing	417,298	961,461	229,660	17,062	173,202
Deposit	15,506,428	13,447,661	14,119,033	14,586,609	19,347,399
Bills Payable	67,753	108,944	173,499	119,753	112,607
Proposed & Payable dividend	159,295	339,969	536,450	361,221	435,084
Tax Liabilities	0	0	0	15,345	34,605
Other Liabilities	332,051	390,404	205,162	428,702	352,080
Total Liabilities	**17,629,252**	**16,562,625**	**16,745,486**	**17,186,330**	**22,329,971**
Cash Balance	318,159	187,777	286,886	146,353	237,819
Balance With NRB	506,675	892,747	606,695	389,705	318,359
Bank Balance With Banks	226,986	64,244	76,905	23,323	74,061
Money At call	31,368	670,204	918,733	868,428	1,734,902
Investment	8,199,515	6,031,176	5,835,948	4,267,233	6,178,533
Loan and Advances	7,437,895	7,755,950	8,189,993	10,586,170	12,922,543
Fixed Assets	237,639	251,915	338,126	361,235	319,086
Non- Banking Assets	0	0	0	0	0
Other Assets	671,015	708,612	492,200	543,883	544,668
Total Assets	**17,629,252**	**16,562,625**	**16,745,486**	**17,186,330**	**22,329,971**
Interest Income	1,120,184	1,017,872	1,001,617	1,068,747	1,309,999
Interest Expenses	462,079	317,348	282,948	243,544	357,161
Net Interest Income	**658,105**	**700,524**	**718,669**	**825,203**	**952,838**
commission and discount	114,337	144,406	135,958	128,883	138,294
Other Operating Income	22,476	27,929	38,755	55,934	82,898
Exchange Income	154,219	144,075	157,324	184,879	185,484
Total Operating Income	**949,137**	**1,016,934**	**1,050,706**	**1,194,899**	**1,359,513**
Employees Expenses	147,439	210,583	180,840	199,516	219,781
Other Operating Expenses	134,317	166,200	150,759	190,299	182,696
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**667,381**	**640,151**	**719,107**	**805,084**	**957,036**
Provisions for possible losses	0	0	1,052	243,357	3,770
Operating Profit	**667,381**	**640,151**	**718,055**	**561,727**	**953,266**
Non-Operating Income/ Expenses	(50)	86,946	92,781	72,241	735
Return From Loan Loss Provision	227,898	6,222	0	0	7,729
Profit From Ordinary activities	**895,229**	**733,319**	**810,836**	**633,968**	**961,730**
Extra ordinary Income /Expenses	(441,525)	(51,574)	(81,821)	(31,133)	26,074
Net Profit indulging all activities	**453,704**	**681,745**	**729,015**	**602,835**	**987,804**
Provision For Staff Bonus	44,116	66,364	71,941	84,198	89,800
Provision For Income Tax	137,950	199,145	201,763	0	262,741
-This Year	0	0	0	0	262,563
-Up to Last Year	0	0	0	0	179
Net Profit / Loss	**271,638**	**416,236**	**455,311**	**518,637**	**635,263**
Financial Indicators					
Core Capital to Risk Weighted Assets	10.53%	11.45%	12.12%	11.35%	10.78%
Capital Fund to Risk Weighted Assets	13.86%	13.05%	13.56%	12%	12.31%
Non-Performing Loan to Total Loan	7.14%	5.54%	3.35%	1.32%	1.38%
Weighted Average Interest Spread	4.02%	4.51%	4.46%	5.01%	4.90%
Net Interest Income (Rs. in million)	658	701	719	825	952
Return on Assets	1.54%	2.51%	2.72%	3.02%	3.23%
Credit to Deposit	50.31%	60.34%	60.55%	75.05%	68.63%
Liquid Assets to Total Assets	29.52%	32.63%	33.21%	22.35%	20.90%
Liquid Assets to Total Deposit	33.56%	40.18%	39.39%	26.34%	24.12%

4. Nepal Investment Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	169,984	295,293	295,293	587,738	590,586
Reserves and Surplus	353,485	343,250	433,755	592,435	824,854
Debenture & Bond	0	0	0	0	550,000
Borrowing	98,500	6,829	361,500	350,000	0
Deposit	4,174,763	7,922,767	11,524,679	14,254,574	18,927,30
Bills Payable	6,823	31,634	57,836	15,008	18,820
Proposed & Payable dividend	0	59,059	44,294	79,353	121,627
Tax Liabilities	0	0	0	0	9,319
Other Liabilities	170,335	355,418	538,139	394,956	287,626
Total Liabilities	**4,973,890**	**9,014,250**	**13,255,496**	**16,274,064**	**21,330,13**
Cash Balance	61,523	200,971	315,383	374,266	562,560
Balance With NRB	166,303	450,478	545,620	780,244	1,526,067
Bank Balance With Banks	111,098	275,088	365,920	185,971	247,894
Money At call	0	40,000	310,000	140,000	70,000
Investment	1,822,162	1,705,241	3,862,483	3,934,189	5,602,869
Loan and Advances	2,564,424	5,772,141	7,130,125	10,126,056	12,776,208
Fixed Assets	35,883	191,116	249,788	320,592	343,450
Non- Banking Assets	46,359	46,359	24,650	1,537	0
Other Assets	166,138	332,856	451,527	411,209	201,090
Total Assets	**4,973,890**	**9,014,250**	**13,255,496**	**16,274,064**	**21,330,138**
Interest Income	326,224	459,510	731,403	886,800	1,172,742
Interest Expenses	130,436	189,214	326,202	354,549	490,947
Net Interest Income	**195,788**	**270,296**	**405,201**	**532,251**	**681,795**
Commission and discount	16,198	40,812	55,747	93,551	115,942
Other Operating Income	4,306	10,744	16,842	56,567	35,902
Exchange Income	42,856	50,834	87,980	102,518	125,748
Total Operating Income	**259,148**	**372,686**	**565,770**	**784,887**	**959,387**
Employees Expenses	41,720	61,288	89,749	97,004	111,054
Other Operating Expenses	84,648	108,039	149,479	182,915	200,215
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**132,780**	**203,359**	**326,542**	**504,968**	**648,118**
Provisions for possible losses	75,188	30,335	91,092	140,409	103,808
Operating Profit	**57,592**	**173,024**	**235,450**	**364,559**	**544,310**
Non-Operating Income/ Expenses	3,104	488	1,768	6,192	391
Return From Loan Loss Provision	26,098	15,544	19,974	0	10,704
Profit From Ordinary activities	**86,794**	**189,056**	**257,192**	**370,751**	**555,405**
Extra ordinary Income /Expenses	0	0	0	0	0
Net Profit including all activities	**86,794**	**189,056**	**257,192**	**370,751**	**555,405**
Provision For Staff Bonus	8,679	18,906	25,719	37,075	50,491
Provision For Income Tax	21,010	53,332	78,802	101,529	154,378
-This Year	0	0	0	0	154,378
-Up to Last Year	0	0	0	0	0
Net Profit / Loss	**57,105**	**116,818**	**152,671**	**232,147**	**350,536**
Financial Indicators					
Core Capital to Risk Weighted Assets	15.47%	7.88%	7.22%	8.52%	7.97%
Capital Fund to Risk Weighted Assets	17.21%	8.85%	11.18%	11.58%	11.97%
Non-Performing Loan to Total Loan	4.80%	1.98%	2.47%	2.69%	2.07%
Weighted Average Interest Spread	4.24%	4.80%	5.98%	4.30%	3.90%
Net Interest Income (Rs. in million)	196	270	405	532	681
Return on Assets	1.15%	1.30%	1.15%	1.53%	1.61%
Credit to Deposit	65.00%	74.74%	63.68%	73.33%	69.63%
Liquid Assets to Total Assets	11.33%	15.16%	26.69%	21.07%	23.11%
Liquid Assets to Total Deposit	13.49%	17.25%	30.70%	24.06%	26.04%

5. Standard Chartered Bank Nepal Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	339,549	339,549	374,640	374,640	374,640
Reserves and Surplus	895,930	1,029,359	1,121,099	1,207,775	1,379,498
Debenture & Bond	0	0	0	0	0
Borrowing	684,724	79,164	78,283	55,926	0
Deposit	15,835,748	18,755,634	21,161,442	19,335,095	23,061,032
Bills Payable	51,400	54,842	59,024	56,298	55,751
Proposed & Payable dividend	339,549	373,504	412,104	461,338	499,980
Tax Liabilities	0	0	0	0	
Other Liabilities	296,206	368,452	435467	680,168	405,431
Total Liabilities	**18,443,105**	**21,000,503**	**23,642,059**	**22,171,240**	**25,776,332**
Cash Balance	257,845	198,755	187,705	195,459	279,511
Balance With NRB	376,223	1,141,097	1,534,170	692,191	749,741
Bank Balance With Banks	191,197	172,453	301,289	223,467	246,989
Money At call	2,061,964	1,657,910	2,218,599	2,259,691	1,977,271
Investment	9,275,885	10,357,679	11,360,328	9,702,553	12,847,536
Loan and advances	5,364,006	5,695,824	6,693,862	8,420,869	8935418
Fixed Assets	101,066	191,711	136,234	71,413	101,302
Non- Banking Assets	0	0	0	0	0
Other Assets	814,919	1,585,074	1,493,492	605,597	638,564
Total Assets	**18,443,105**	**21,000,503**	**23,642,059**	**22,171,240**	**25,776,332**
Interest Income	1,013,636	1,001,360	1,042,175	1,058,677	1,189,602
Interest Expenses	299,860	255,154	275,809	254,126	303,198
Net Interest Income	**713,776**	**746,206**	**766,366**	**804,551**	**886,404**
Commission and discount	163,463	215,201	198,947	184,830	222,929
Other Operating Income	25,362	24,119	26,531	29,293	25,442
Exchange Income	228,100	232,522	273,050	266,865	283,472
Total Operating Income	**1,130,701**	**1,218,048**	**1,264,894**	**1,285,539**	**1,418,247**
Employees Expenses	126,510	128,328	134,685	148,586	168,231
Other Operating Expenses	190,942	311,013	279,693	256,649	221,087
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**813,249**	**778,707**	**850,516**	**880,304**	**1,028,929**
Provisions for possible losses	75,049	2,340	23,516	30,082	47,730
Operating Profit	**738,200**	**776,367**	**827,000**	**850,222**	**981,200**
Non-Operating Income/ Expenses	(18,362)	(15,530)	(10,756)	2,957	1,433
Return From Loan Loss Provision	16,254	30,401	43,304	33,652	53,090
Profit From Ordinary activities	**736,092**	**791,238**	**859,548**	**886,831**	**1,035,723**
Extra ordinary Income /Expenses	(509)	0	0	0	(2,411)
Net Profit including all activities	**735,583**	**791,238**	**859,548**	**886,831**	**1,033,311**
Provision For Staff Bonus	72,145	76,084	85,955	88,683	93,937
Provision For Income Tax	184,231	208,222	235,793	258,944	280,619
-This Year	0	0	0	0	274,505
-Up to Last Year	0	0	0	0	6,114
Net Profit / Loss	**479,207**	**506,932**	**537,800**	**539,204**	**658,755**
Financial Indicators					
Core Capital to Risk Weighted Assets	13.92%	12.31%	14.14%	14.25%	12.99%
Capital Fund to Risk Weighted Assets	17.39%	14.21%	15.99%	16.36%	14.91%
Non-Performing Loan to Total Loan	4.84%	4.13%	3.77%	2.69%	2.13%
Weighted Average Interest Spread	4.19%	4.11%	3.76%	3.70%	4.10%
Net Interest Income (Rs. in million)	714	746	766	805	886
Return on Assets	2.60%	2.41%	2.27%	2.43%	2.56%
Credit to Deposit	35.97%	31.99%	31.63%	43.55%	39.92%
Liquid Assets to Total Assets	47.02%	47.11%	51.56%	47.69%	46.16%
Liquid Assets to Total Deposit	54.76%	52.75%	57.60%	54.69%	51.60%

6. Himalayan Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	390,000	480,429	536,250	643,500	772,200
Reserves and Surplus	468,115	582,704	782,271	915,190	993,975
Debenture & Bond	0	0	0	0	360,000
Borrowing	534,012	645,840	659,006	506,048	144,625
Deposit	18,619,375	21,007,379	22,010,333	24,814,012	26,490,851
Bills Payable	55,576	46,727	64,382	68,399	73,578
Proposed & Payable dividend	97,500	5,645	0	80,120	238,409
Tax Liabilities	0	0	0	3,251	0
Other Liabilities	507,855	586499	709,783	832,364	386,751
Total Liabilities	**20,672,434**	**23,355,223**	**24,762,025**	**27,862,884**	**29,460,389**
Cash Balance	462,777	397,189	274,235	286,530	305,428
Balance With NRB	695,379	1,153,139	1,625,983	1,604,149	1,096,253
Bank Balance With Banks	106,517	428,880	100,966	123,792	315,671
Money At call	352,350	150,100	368,900	441,081	1,005,280
Investment	9,157,106	10,175,435	9,292,103	11,692,341	10,889,031
Loan and Advances	8,913,724	10,001,850	11,951,869	12,442,710	14,642,559
Fixed Assets	318,844	229,871	299,643	295,822	540,824
Non- Banking Assets	41,192	36,457	36,265	31,930	21,733
Other Assets	624,545	782,302	812,061	944,529	643,610
Total Assets	**20,672,434**	**23,355,223**	**24,762,025**	**27,862,884**	**29,460,389**
Interest Income	1,148,998	1,201,234	1,245,895	1,446,468	1,626,474
Interest Expenses	578,133	554,128	491,543	561,964	648,842
Net Interest Income	**570,865**	**647,106**	**754,352**	**884,504**	**977,632**
Commission and discount	101,704	102,561	123,929	132,816	165,448
Other Operating Income	32,038	30,154	34,076	41,300	52,324
Exchange Income	104,601	109,599	112,420	137,301	198,130
Total Operating Income	**809,208**	**889,420**	**1,024,777**	**1,195,921**	**1,393,534**
Employees Expenses	101,538	120,146	152,509	178,589	234,589
Other Operating Expenses	155,786	177,132	211,047	277,375	329,699
Exchange Loss	0	0	0	0	
Operating Profit Before Provision	**551,884**	**592,142**	**661,221**	**739,957**	**829,246**
Provisions for possible losses	166,506	202,873	197,214	55,709	145,154
Operating Profit	**385,378**	**389,269**	**464,007**	**684,248**	**684,092**
Non-Operating Income/ Expenses	2,451	10,760	3,299	2,795	1,887
Return From Loan Loss Provision	0	0	0	0	56,562
Profit From Ordinary activities	**387,829**	**400,029**	**467,306**	**687,043**	**742,541**
Extra ordinary Income /Expenses	0	0	0	(88,253)	(2,902)
Net Profit including all activities	**387,829**	**400,029**	**467,306**	**598,790**	**739,639**
Provision For Staff Bonus	38,783	40,003	46,730	59,879	67,240
Provision For Income Tax	114,023	147,896	157,522	213,692	214,941
-This Year	0	0	0	0	214,941
-Up to Last Year	0	0	0	0	
Net Profit / Loss	**235,023**	**212,130**	**263,054**	**325,219**	**457,458**
Financial Indicators					
Core Capital to Risk Weighted Assets	6.99%	7.14%	7.66%	8.42%	8.65%
Capital Fund to Risk Weighted Assets	12.33%	11.03%	10.62%	11.10%	11.26%
Non-Performing Loan to Total Loan	8.35%	10.08%	8.88%	7.44%	6.60%
Weighted Average Interest Spread	3.53%	3.33%	3.25%	3.19%	3.80%
Net Interest Income (Rs. in million)	571	647	754	885	978
Return on Assets	1.14%	0.91%	1.06%	1.17%	1.55%
Credit to Deposit	47.89%	47.61%	54.30%	50.07%	55.27%
Liquid Assets to Total Assets	22.57%	26.24%	23.43%	28.44%	26.70%
Liquid Assets to Total Deposit	25.05%	29.17%	26.36%	31.95	29.70%

7. Nepal Bangladesh Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	357,252	359,925	359,925	719,852	719,852
Reserves and Surplus	269,251	324,008	296,653	-485,276	-2,282,436
Debenture & Bond	0	0	0	0	0
Borrowing	287,500	68,319	67,225	0	71,000
Deposit	9,534,219	10,580,648	12,807,376	12,125,578	13,015,136
Bills Payable	42,729	63,929	150,924	41,662	44,109
Proposed & Payable dividend	0		0	1,502	1,352
Tax Liabilities	0	0	0	0	
Other Liabilities	611,282	535,783	575,870	873,832	140,268
Total Liabilities	**11,102,233**	**11,932,612**	**14,257,973**	**13,277,150**	**11,709,281**
Cash Balance	364,618	309,790	352,153	300,849	354,456
Balance With NRB	1,172,862	508,265	829,861	794,166	1,157,838
Bank Balance With Banks	221,825	81,458	254,459	306,752	182,391
Money At call	100,000	100,000	0	0	30,029
Investment	1,008,642	2,168,923	2,699,166	2,411,720	2,661,833
Loan and Advances	7,632,418	7,247,978	8,648,744	7,787,690	6,460,246
Fixed Assets	91,509	80,734	191,178	189,307	172,325
Non- Banking Assets	244,494	467,937	270,340	147,355	205,466
Other Assets	265,865	967,527	1,012,072	1,339,311	484,697
Total Assets	**11,102,233**	**11,932,612**	**14,257,973**	**13,277,150**	**11,709,281**
Interest Income	850,525	1,013,712	1,095,501	876,508	758,132
Interest Expenses	552,743	597,881	625,362	547,943	518,094
Net Interest Income	**297,782**	**415,831**	**470,139**	**328,565**	**240,038**
Commission and discount	108,840	109,046	105,058	92,998	85,298
Other Operating Income	47,732	64,771	63,152	73,997	47,846
Exchange Income	69,706	56,300	56,160	39,671	63,957
Total Operating Income	**524,060**	**645,948**	**694,509**	**535,231**	**437,139**
Employees Expenses	61,362	69,897	76,624	95,884	140,662
Other Operating Expenses	77,198	101,404	113,762	161,344	119,905
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**385,500**	**474,647**	**504,123**	**278,003**	**176,572**
Provisions for possible losses	269,346	261,875	400,733	905,153	1,882,278
Operating Profit	**116,154**	**212,772**	**103,390**	**(627,150)**	**(1,705,706)**
Non-Operating Income/ Expenses	(4,149)	0	7,324	(22,393)	(11,105)
Return From Loan Loss Provision	0	0	0	0	271,575
Profit From Ordinary activities	**112,005**	**212,772**	**110,714**	**(649,543)**	**(1,445,236)**
Extra ordinary Income /Expenses	(23)	0	0	0	(271,575)
Net Profit including all activities	**111,982**	**212,772**	**110,714**	**(649,543)**	**(1,716,811)**
Provision For Staff Bonus	11,198	21,277	11,071	0	
Provision For Income Tax	35,000	120,000	97,000	100,000	80,348
-This Year	0	0	0	0	71,290
-Up to Last Year	0	0	0	0	9,058
Net Profit / Loss	**65,784**	**71,495**	**2,643**	**(749,543)**	**(1,797,159)**
Financial Indicators					
Core Capital to Risk Weighted Assets	5.75%	6.22%	4.65%	1.51%	-13.23%
Capital Fund to Risk Weighted Assets	9.92%	8.11%	5.61%	3.02%	-13.23%
Non-Performing Loan to Total Loan	15.77%	12.73%	10.81%	19.04%	29.88%
Weighted Average Interest Spread	4.67%	4.74%	4.47%	2.84%	2.10%
Net Interest Income (Rs. in million)	298	416	470	329	240
Return on Assets	0.59%	0.60%	0.02%	-5.65%	-14.86%
Credit to Deposit	84.79%	75.25%	75.31%	79.39%	75.27%
Liquid Assets to Total Assets	24.77%	25.48%	28.16%	27.22%	36.30%
Liquid Assets to Total Deposit	28.85%	28.73%	31.35%	29.81%	32.65%

8. Nepal SBI Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	424,893	425,157	426,876	431,866	640,236
Reserves and Surplus	135,454	144,695	199,761	257,147	342,137
Debenture & Bond	0	0	0	0	200,000
Borrowing	558,792	65,826	117,178	469,629	612,428
Deposit	5,572,470	6,522,817	7,198,327	8,654,774	11,002,041
Bills Payable	88	0	0	31,123	46,239
Proposed & Payable dividend	0	34,013	0	3,878	35,470
Tax Liabilities	0	0	0	0	0
Other Liabilities	329,444	373,819	498,264	496,956	157,288
Total Liabilities	**7,021,141**	**7,566,327**	**8,440,406**	**10,345,373**	**13,035,839**
Cash Balance	166,621	269,659	161,222	143,750	244,188
Balance With NRB	1,177,464	894,124	580,453	390,026	626,123
Bank Balance With Banks	275,877	169,751	122,752	189,969	247,847
Money At call	0	0	0	123,112	363,200
Investment	599,056	1,207,275	1,907,521	2,607,680	3,610,775
Loan and Advances	4,299,250	4,468,719	5,143,662	6,213,879	7,626,736
Fixed Assets	65,588	71,034	62,350	66,452	66,712
Non- Banking Assets	72,223	72,839	14,820	7,255	24,556
Other Assets	365,062	412,926	447,626	603,250	225,702
Total Assets	**7,021,141**	**7,566,327**	**8,440,406**	**10,345,373**	**13,035,839**
Interest Income	399,631	469,740	493,598	578,372	708,719
Interest Expenses	288,580	291,820	255,919	258,430	334,770
Net Interest Income	**111,051**	**177,920**	**237,679**	**319,942**	**373,949**
commission and discount	36,579	29,962	30,667	42,568	40,754
Other Operating Income	4,373	5,495	8,220	11,275	7,136
Exchange Income	42,535	18,510	30,616	32,357	43,060
Total Operating Income	**194,538**	**231,887**	**307,182**	**406,142**	**464,899**
Employees Expenses	26,648	33,731	32,510	37,582	50,539
Other Operating Expenses	60,750	77,365	82,180	90,629	99,214
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**107,140**	**120,791**	**192,492**	**277,931**	**315,146**
Provisions for possible losses	67,551	84,173	118,725	193,243	146,657
Operating Profit	**39,589**	**36,618**	**73,767**	**84,688**	**168,489**
Non-Operating Income/ Expenses	(1,652)	(2,093)	(570)	1,443	(2,926)
Return From Loan Loss Provision		42,201	48,505	52,973	54,178
Profit From Ordinary activities	**63,191**	**76,726**	**121,702**	**139,104**	**219,741**
Extra ordinary Income /Expenses	0	0	0		0
Net Profit including all activities	**63,191**	**76,726**	**121,702**	**139,104**	**219,741**
Provision For Staff Bonus	6,319	7,673	12,170	13,910	19,976
Provision For Income Tax	16,029	20,305	48,680	67,807	82,762
-This Year	0	0	0	67,807	66,120
-Up to Last Year	0	0	0	0	16,642
Net Profit / Loss	**40,843**	**48,748**	**60,852**	**57,387**	**117,003**
Financial Indicators					
Core Capital to Risk Weighted Assets	10.83%	10.16%	9.47%	8.68%	10.53%
Capital Fund to Risk Weighted Assets	12.86%	12.34%	10.95%	9.47%	13.57%
Non-Performing Loan to Total Loan	6.32%	8.90%	6.25%	6.54%	6.13%
Weighted Average Interest Spread	3.84%	3.23%	3.55%	3.68%	3.33
Net Interest Income (Rs. in million)	111	178	238	319	374
Return on Assets	0.58%	0.64%	0.72%	0.55%	0.90%
Credit to Deposit	82.27%	73.52%	76.85%	77.87%	69.32%
Liquid Assets to Total Assets	30.24%	33.34%	32.63%	33.20%	38.92%
Liquid Assets to Total Deposit	38.10%	38.68%	38.26%	39.69%	46.11%

9. Everest Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	399,319	455,000	455,000	455,000	518,000
Reserves and Surplus	131,591	157,825	225,319	314,617	444,808
Debenture & Bond	0	0	0	0	300,000
Borrowing	81,767	0	0	300,000	
Deposit	5,466,609	6,694,964	8,063,902	10,097,691	13,802,445
Bills Payable	2,129	22,101	22,027	17,778	15,806
Proposed & Payable dividend	51,864	0	0	23,527	114,667
Tax Liabilities	0	329	11,249	3,312	
Other Liabilities	483,619	721990	831,074	571,201	763,559
Total Liabilities	**6,616,898**	**8,052,209**	**9,608,571**	**11,792,126**	**15,959,285**
Cash Balance	177,211	136,659	128,757	192,590	259,347
Balance With NRB	367,428	730,331	442,243	779,669	1,139,515
Bank Balance With Banks	57,846	272,579	60,804	77,730	154,105
Money At call	86,130	0	187,445	570,000	66,960
Investment	1,693,037	1,653,978	2,535,658	2,128,932	4,200,515
Loan and Advances	3,948,478	4,908,461	5,884,124	7,618,670	9,801,308
Fixed Assets	93,383	109,591	118,374	134,068	152,090
Non- Banking Assets	35,162	51,103	21,015	24,571	7,437
Other Assets	158,223	189,507	230,151	265,896	178,008
Total Assets	**6,616,898**	**8,052,209**	**9,608,571**	**11,792,126**	**15,959,285**
Interest Income	443,821	520,173	657,249	719,298	903,411
Interest Expenses	257,051	307,639	316,366	299,566	401,397
Net Interest Income	**186,770**	**212,534**	**340,883**	**419,732**	**502,014**
commission and discount	36,773	61,504	74,331	78,130	96,839
Other Operating Income	13,783	20,198	23,818	31,479	48,902
Exchange Income	45,414	32,208	27,794	27,078	14,398
Total Operating Income	**282,740**	**326,444**	**466,826**	**556,419**	**662,153**
Employees Expenses	32,187	37,368	48,530	60,597	70,925
Other Operating Expenses	79,030	93,585	101,571	129,067	143,562
Exchange Loss	0	0	0	0	
Operating Profit Before Provision	**171,523**	**195,491**	**316,725**	**366,755**	**447,666**
Provisions for possible losses	34,729	45,746	84,017	88,927	70,466
Operating Profit	**136,794**	**149,745**	**232,708**	**277,828**	**377,200**
Non-Operating Income/ Expenses	1,141	1,249	1,867	2,974	2,959
Return From Loan Loss Provision	0	0	0	0	
Profit From Ordinary activities	**137,935**	**150,994**	**234,575**	**280,802**	**380,159**
Extra ordinary Income /Expenses	0	0	0	0	
Net Profit including all activities	**137,935**	**150,994**	**234,575**	**280,802**	**380,159**
Provision For Staff Bonus	14,154	15,099	23,457	28,080	34,560
Provision For Income Tax	38,433	41,714	67,551	81,914	108,309
-This Year	0	0	0	0	106,753
-Up to Last Year	0	0	0	0	1,556
Net Profit / Loss	**85,348**	**94,181**	**143,567**	**170,808**	**237,290**
Financial Indicators					
Core Capital to Risk Weighted Assets	12.11%	11.60%	9.58%	8.87%	8.59%
Capital Fund to Risk Weighted Assets	12.90%	13.10%	11.07%	13.54%	12.72%
Non-Performing Loan to Total Loan	1.05%	2.20%	1.72%	1.63%	1.27%
Weighted Average Interest Spread	3.65%	2.61%	3.98%	4.10%	3.99%
Net Interest Income (Rs. in million)	187	213	341	420	502
Return on Assets	1.29%	1.17%	1.49%	1.41%	1.50%
Credit to Deposit	73.98%	75.42%	75.59%	78.24%	73.40%
Liquid Assets to Total Assets	33.66%	34.01%	34.20%	30.81%	32.39%
Liquid Assets to Total Deposit	40.75%	40.91%	40.75%S	36.84%	37.45%

10. Bank of Kathmandu Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	463,581	463,581	463,581	463,581	463,581
Reserves and Surplus	56,604	115,552	187,164	257,157	376,153
Debenture & Bond	0	0	0	0	200,000
Borrowing	0	498,236	912,150	6,000	553,180
Deposit	5,723,290	6,170,712	7,741,644	8,942,748	10,485,359
Bills Payable	12,565	35,144	38,709	19,874	11,622
Proposed & Payable dividend	0	23,179	46,358	81,477	98,712
Tax Liabilities	0	0	0	0	0
Other Liabilities	100,606	138,413	106,737	86,293	89,723
Total Liabilities	**6,356,646**	**7,444,817**	**9,496,343**	**9,857,130**	**12,278,329**
Cash Balance	193,069	157,400	139,220	161,470	184,020
Balance With NRB	298,129	362,393	449,864	417,867	349,296
Bank Balance With Banks	192,448	172,918	193,798	161,184	195,382
Money At call	127,387	30,350	272,321	328,874	594,047
Investment	667,459	1,816,149	2,477,409	2,598,253	3,374,712
Loan and Advances	4,613,697	4,542,700	5,646,698	5,912,579	7,259,083
Fixed Assets	94,219	93,642	83,625	95,231	110,745
Non- Banking Assets	22,312	88,502	25,483	24,088	7,356
Other Assets	147,926	180,763	207,925	157,584	203,689
Total Assets	**6,356,646**	**7,444,817**	**9,496,343**	**9,857,130**	**12,278,329**
Interest Income	473,297	496,809	567,096	607,096	718,121
Interest Expenses	285,006	276,705	286,297	241,639	308,156
Net Interest Income	**188,291**	**220,104**	**280,799**	**365,457**	**409,966**
commission and discount	47,872	60,746	77,708	70,324	70,776
Other Operating Income	740	1,237	1,966	6,495	16,968
Exchange Income	48,646	67,444	64,046	72,115	78,955
Total Operating Income	**285,549**	**349,531**	**424,519**	**514,390**	**576,665**
Employees Expenses	50,155	51,682	47,726	53,822	59,120
Other Operating Expenses	78,981	89,547	85,829	99,190	117,591
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**156,413**	**208,302**	**290,964**	**361,378**	**399,954**
Provisions for possible losses	127,490	82,612	101,263	133,917	78,381
Operating Profit	**28,923**	**125,690**	**189,701**	**227,462**	**321,573**
Non-Operating Income/ Expenses	930	23	15,460	(469)	1,090
Return From Loan Loss Provision	0	10,000	0	209,129	103,871
Profit From Ordinary activities	**29,853**	**135,713**	**205,161**	**436,122**	**426,535**
Extra ordinary Income /Expenses	0	0	0	(209,129)	(95,205)
Net Profit including all activities	**29,853**	**135,713**	**205,161**	**226,993**	**331,329**
Provision For Staff Bonus	2,985	13,571	20,516	22,700	30,121
Provision For Income Tax	17,594	40,014	57,172	64,763	98,768
-This Year	0	0	0	64,763	93,236
-Up to Last Year	0	0	0	0	5,532
Net Profit / Loss	**9,274**	**82,128**	**127,473**	**139,530**	**202,441**
Financial Indicators					
Core Capital to Risk Weighted Assets	9.91%	10.44%	10.14%	10.23%	10.71%
Capital Fund to Risk Weighted Assets	13.99%	12.05%	11.18%	11.22%	14.52%
Non-Performing Loan to Total Loan	8.11%	8.67%	6.66%	4.99%	2.72%
Weighted Average Interest Spread	3.80%	3.33%	3.41%	3.69%	3.37%
Net Interest Income (Rs. in million)	188	220	281	365	409
Return on Assets	0.15%	1.10%	1.34%	1.42%	1.65%
Credit to Deposit	85.44%	78.69%	77.61%	69.13%	71.42%
Liquid Assets to Total Assets	21.30%	30.00%	36.09%	32.63%	32.42%
Liquid Assets to Total Deposit	23.65%	36.20%	44.27%	35.96%	37.97%

11. Nepal Credit and Commerce Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	350,000	490,000	595,000	693,554	698,415
Reserves and Surplus	-492,976	-411,176	-407,767	-437,707	-1,007,452
Debenture & Bond	0	0	0	0	0
Borrowing	0	19,747	13,500	0	13,600
Deposit	3,708,972	4,294,098	5,987,701	6,630,943	6,619,581
Bills Payable	8,568	21,613	16,568	5,893	63,605
Proposed & Payable dividend	0	0	0	0	0
Tax Liabilities	19,643	23,113	0	0	0
Other Liabilities	500,978	395,210	455,786	592,603	39,951
Total Liabilities	**4,095,185**	**4,832,605**	**6,660,788**	**7,485,286**	**6,427,700**
Cash Balance	167,540	236,403	209,687	151,354	230,561
Balance With NRB	235,823	363,198	550,556	441,010	478,205
Bank Balance With Banks	142,732	70,665	210,142	70,338	75,190
Money At call	263,723	113,019	54,448	47,944	21,100
Investment	283,227	411,832	573,984	400,337	591,644
Loan and Advances	2,320,272	2,997,258	4,271,634	5,419,735	4,643,262
Fixed Assets	109,537	114,098	122,025	124,027	111,837
Non- Banking Assets	14,580	130,609	87,073	57,484	72,617
Other Assets	557,751	395,523	581,239	773,057	203,284
Total Assets	**4,095,185**	**4,832,605**	**6,660,788**	**7,485,286**	**6,427,700**
Interest Income	307,707	437,180	486,826	541,855	562,780
Interest Expenses	275,859	255,911	314,272	315,800	315,991
Net Interest Income	**31,848**	**181,269**	**172,554**	**226,055**	**246,789**
commission and discount	14,819	17,034	33,679	37,866	37,470
Other Operating Income	9,368	9,031	24,088	26,134	20,098
Exchange Income	19,909	477	1,233	10,552	13,773
Total Operating Income	**75,944**	**207,811**	**231,554**	**300,607**	**318,130**
Employees Expenses	17,708	23,088	33,470	39,222	48,178
Other Operating Expenses	40,881	52,548	67,525	76,595	69,829
Exchange Loss	0	0	0	6,663	
Operating Profit Before Provision	**17,355**	**132,175**	**130,559**	**178,127**	**200,123**
Provisions for possible losses	387,524	37,431	124,591	165,580	782,710
Operating Profit	**(370,169)**	**94,744**	**5,968**	**12,547**	**(582,587)**
Non-Operating Income/ Expenses	39		750	(1,819)	4,686
Return From Loan Loss Provision	0	0	0	0	95,783
Profit From Ordinary activities	**(370,130)**	**94,744**	**6,718**	**10,728**	**(482,118)**
Extra ordinary Income /Expenses	(27,047)	0	0	0	(72,144)
Net Profit including all activities	**(397,177)**	**94,744**	**6,718**	**10,728**	**(554,262)**
Provision For Staff Bonus		9,474	672	0	0
Provision For Income Tax		3,470	2,637	15,885	15,483
-This Year	0	0	0	15,885	15,483
-Up to Last Year	0	0	0		
Net Profit / Loss	**(397,177)**	**81,800**	**3,409**	**(5,157)**	**(569,745)**
Financial Indicators					
Core Capital to Risk Weighted Assets	-4.07%	1.90%	2.85%	3.48%	-5.05%
Capital Fund to Risk Weighted Assets	2.33%	6.51%	3.42%	5.51%	-3.46%
Non-Performing Loan to Total Loan	40.11%	20.63%	12.72%	8.64%	21.87%
Weighted Average Interest Spread	4.32%	4.76%	4.37%	4.29%	4.25%
Net Interest Income (Rs. in million)	32	181	173	226	247
Return on Assets	-9.70%	1.69%	0.05%	-0.07%	-7.72%
Credit to Deposit	77.60%	79.09%	78.78%	90.66%	89.12%
Liquid Assets to Total Assets	24.65%	22.73%	23.07%	13.83%	20.64%
Liquid Assets to Total Deposit	27.22%	25.58%	25.67%	15.61%	20.04%

12. Lumbini Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	350,000	350,000	350,000	500,000	500,000
Reserves and Surplus	-161,291	-72,151	-53,512	-254,991	-1,222,070
Debenture & Bond	0	0	0	0	0
Borrowing	121,472	90,000	164,719	0	0
Deposit	2,646,106	2,959,745	3,777,605	4,031,221	4,786,440
Bills Payable	7,675	10,684	4,574	60,517	104,585
Proposed & Payable dividend	0	0	0	0	0
Tax Liabilities	0	0	0	7496	0
Other Liabilities	97,688	101,890	120,818	150658	90,388
Total Liabilities	**3,061,650**	**3,440,168**	**4,364,204**	**4,494,901**	**4,259,343**
Cash Balance	98,616	83,853	114,709	103,231	133,384
Balance With NRB	284013	185717	324765	267601	178,329
Bank Balance With Banks	149758	63995	91658	48181	90,421
Money At call	0	50,000	30,000	0	50,000
Investment	269,871	382,750	558,187	535,184	673,720
Loan and Advances	2,085,332	2,441,639	2,980,398	3,167,724	2,983,895
Fixed Assets	36,526	37,240	40,079	48,345	41,996
Non- Banking Assets	0	32643	25727	64939	49,402
Other Assets	137,534	162331	198681	259696	58,196
Total Assets	**3,061,650**	**3,440,168**	**4,364,204**	**4,494,901**	**4,259,343**
Interest Income	266,378	308,680	361,240	384,598	343,821
Interest Expenses	170,499	186,484	197,322	193,475	215,553
Net Interest Income	**95,879**	**122,196**	**163,918**	**191,123**	**128,268**
commission and discount	8,260	13,034	14,382	13,935	16,582
Other Operating Income	5,704	7,665	7,058	14,349	14,578
Exchange Income	4,997	6,560	18,503	12,294	20,866
Total Operating Income	**114,840**	**149,455**	**203,861**	**231,701**	**180,294**
Employees Expenses	24,169	29,470	36,396	37,084	48,581
Other Operating Expenses	37,861	41,181	48,022	50,384	70,392
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**52,810**	**78,804**	**119,443**	**144,233**	**61,321**
Provisions for possible losses	150,781	0	73,375	303,412	855,593
Operating Profit	**(97,971)**	**78,804**	**46,068**	**(159,179)**	**(794,272)**
Non-Operating Income/ Expenses	(2)	0	(1,175)	(2,289)	(1,058)
Return From Loan Loss Provision	0	20,239	0	0	9,412
Profit From Ordinary activities	**(97,973)**	**99,043**	**44,893**	**(161,468)**	**(785,918)**
Extra ordinary Income /Expenses	0	0	0	(109)	(9,413)
Net Profit including all activities	**(97,973)**	**99,043**	**44,893**	**(161,577)**	**(795,331)**
Provision For Staff Bonus		9,904	4,489	0	0
Provision For Income Tax	0	0	21,764	35,196	10,731
-This Year	0	0	0	0	10,731
-Up to Last Year	0	0	0	0	0
Net Profit / Loss	**(97,973)**	**89,139**	**18,640**	**(196,773)**	**(806,062)**
Financial Indicators					
Core Capital to Risk Weighted Assets	6.45%	8.68%	7.54%	5.68%	-15.11%
Capital Fund to Risk Weighted Assets	12.89%	11.37%	8.71%	6.35%	-13.93%
Non-Performing Loan to Total Loan	19.32%	11.70%	7.36%	15.23%	30.99%
Weighted Average Interest Spread	4.23%	4.18%	4.74%	4.39%	2.54%
Net Interest Income (Rs. in million)	96	122	164	191	128
Return on Assets	-3.20%	2.59%	0.43%	-4.38%	-18.92%
Credit to Deposit	86.37%	88.60%	85.31%	91.41%	90.29%
Liquid Assets to Total Assets	20.66%	19.14%	22.78%	18.55%	36.78%
Liquid Assets to Total Deposit	23.90%	22.25%	26.32%	20.68%	32.73%

13. Nepal Industrial and Commercial Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	499,890	499,955	499,960	500,000	600,000
Reserves and Surplus	26,206	52,146	120,438	184,194	166,462
Debenture & Bond	0	0	0	0	200,000
Borrowing	-	274,750	60,018	450,371	457,705
Deposit	3,165,311	3,144,320	5,146,483	6,241,378	8,765,950
Bills Payable	37,357	24,354	32,921	28,329	91,508
Proposed & Payable dividend	5,900	4,894	4,429	54,011	10,954
Tax Liabilities	0	0	0	2,040	4,631
Other Liabilities	39,889	37,100	65,818	47,744	86,390
Total Liabilities	**3,768,653**	**4,037,519**	**5,930,067**	**7,508,067**	**10,383,600**
Cash Balance	139,856	95,742	79,042	69,778	139,186
Balance With NRB	350,561	175,246	205,387	83,7301	455,769
Bank Balance With Banks	69,112	47,070	34,876	98,470	154,184
Money At call	46,810	29,900	129,663	89,881	353,515
Investment	753,812	1,153,262	1,760,724	1,572,902	2,479,912
Loan and Advances	2,278,994	2,419,522	3,561,139	4,711,712	6,655,964
Fixed Assets	54,758	50,214	43,285	59,496	39,864
Non- Banking Assets	0	0	12,868	3,465	2,645
Other Assets	74,750	66,563	103,083	65,062	102,561
Total Assets	**3,768,653**	**4,037,519**	**5,930,067**	**7,508,067**	**10,383,600**
Interest Income	297,764	291,143	363,037	457,610	579,979
Interest Expenses	197,094	142,606	183,582	225,992	340,222
Net Interest Income	**100,670**	**148,537**	**179,455**	**231,618**	**239,758**
commission and discount	18,564	21,966	27,236	27,102	29,447
Other Operating Income	0	2,476	5,561	9,180	20,242
Exchange Income	18,831	12,183	20,832	24,606	25,388
Total Operating Income	**138,065**	**185,162**	**233,084**	**292,505**	**314,835**
Employees Expenses	26,990	33,827	35,226	39,003	45,494
Other Operating Expenses	46,226	50,706	47,445	51,629	57,356
Exchange Loss	0	26	0	0	0
Operating Profit Before Provision	**64,849**	**100,603**	**150,413**	**201,873**	**211,985**
Provisions for possible losses	57,516	53,481	42,904	19,952	60,913
Operating Profit	**7,333**	**47,122**	**107,509**	**181,921**	**151,072**
Non-Operating Income/ Expenses	2,095	(82)	40	285	59
Return From Loan Loss Provision	0	0	0	5,086	10,359
Profit From Ordinary activities	**9,428**	**47,040**	**107,549**	**187,291**	**161,490**
Extra ordinary Income /Expenses	0	0	0	(4,262)	(10,359)
Net Profit including all activities	**9,428**	**47,040**	**107,549**	**183,030**	**151,131**
Provision For Staff Bonus	943	4,704	10,755	18,303	13,739
Provision For Income Tax	1,665	16,394	28,535	50,971	40,804
-This Year	0	0	0	50,971	40,804
-Up to Last Year	0	0	0	0	0
Net Profit / Loss	**6,820**	**25,942**	**68,259**	**113,756**	**96,588**
Financial Indicators					
Core Capital to Risk Weighted Assets	18.54%	17.44%	12.92%	12.36%	9.94%
Capital Fund to Risk Weighted Assets	20.90%	18.87%	13.75%	13.29%	13.54%
Non-Performing Loan to Total Loan	8.16%	6.66%	3.92%	3.78%	2.60%
Weighted Average Interest Spread	3.02%	4.03%	3.06%	3.33%	2.74%
Net Interest Income (Rs. in million)	101	149	179	232	240
Return on Assets	0.18%	0.64%	1.15%	1.52%	1.08%
Credit to Deposit	74.84%	81.51%	72.73%	78.66%	78.74%
Liquid Assets to Total Assets	34.14%	35.25%	28.40%	30.50%	27.54%
Liquid Assets to Total Deposit	40.65%	45.26%	32.73%	36.69%	32.62%

14. Machhapuchchhre Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	136,200	544,174	550,000	550,000	715,000
Reserves and Surplus	-56,656	-42,469	4,222	87,739	216,091
Debenture & Bond	0	0	0	0	0
Borrowing	0	90,000	102,167	154,217	131,675
Deposit	994,817	1,778,788	2,754,632	5,586,803	7,893,298
Bills Payable	2,466	3,957	5,136	9,327	11,365
Proposed & Payable dividend	0	0	0	0	5,645
Tax Liabilities	0	0	0	874	10,462
Other Liabilities	27,550	25,407	32,477	67,500	86,294
Total Liabilities	**1,104,377**	**2,399,857**	**3,448,634**	**6,456,460**	**9,069,830**
Cash Balance	31,538	45,642	65,256	121,550	280,421
Balance With NRB	110,872	88,887	136,657	463,233	489,091
Bank Balance With Banks	83,719	67,196	208,831	146,350	44,412
Money At call	0	220,000	150,000	15,000	718,475
Investment	117,484	398,356	274,407	468,612	1,190,830
Loan and Advances	655,061	1,464,166	2,493,108	5,061,433	6,068,427
Fixed Assets	57,080	59,225	62,413	86,212	104,943
Non- Banking Assets	0	0	0	4,354	12,533
Other Assets	48,623	56,385	57,962	89,716	160,699
Total Assets	**1,104,377**	**2,399,857**	**3,448,634**	**6,456,460**	**9,069,830**
Interest Income	70,089	139,040	215,207	381,931	563,362
Interest Expenses	64,480	76,156	113,579	187,028	288,662
Net Interest Income	**5,609**	**62,884**	**101,628**	**194,903**	**274,700**
commission and discount	3,113	5,654	14,840	21,391	33,401
Other Operating Income	267	505	1,001	13,206	13,691
Exchange Income	3,718	5,946	12,621	11,359	35,152
Total Operating Income	**12,707**	**74,989**	**130,090**	**240,859**	**356,945**
Employees Expenses	11,808	17,435	19,872	29,582	43,410
Other Operating Expenses	23,181	34,079	42,358	59,973	85,924
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**(22,282)**	**23,475**	**67,860**	**151,304**	**227,610**
Provisions for possible losses	20,067	6,466	15,980	22,907	34,703
Operating Profit	**(42,349)**	**17,009**	**51,880**	**128,397**	**192,908**
Non-Operating Income/ Expenses	1	0	(2)	287	(9)
Return From Loan Loss Provision	0	0	0	345	20,149
Profit From Ordinary activities	**(42,348)**	**17,009**	**51,878**	**129,029**	**213,048**
Extra ordinary Income /Expenses	0	0	0	(346)	(1,530)
Net Profit including all activities	**(42,348)**	**17,009**	**51,878**	**128,683**	**211,518**
Provision For Staff Bonus		1,701	5,188	12,868	19,229
Provision For Income Tax		0		30,945	58,294
-This Year	0	0	0	30,945	57,911
-Up to Last Year	0	0	0	0	383
Net Profit / Loss	**(42,348)**	**15,308**	**46,690**	**84,870**	**133,995**
Financial Indicators					
Core Capital to Risk Weighted	8.00%	23.98%	17.01%	10.52%	11.95%
Capital Fund to Risk Weighted	10.68%	24.75%	17.82%	11.36%	12.79%
Non-Performing Loan to Total Loan	10.45%	2.08%	0.98%	0.39%	0.28%
Weighted Average Interest Spread	4.36%	2.50%	3.78%	3.97%	3.40%
Net Interest Income (Rs. in million)	6	63	102	195	275
Return on Assets	-3.83%	0.64%	1.35%	1.31%	1.48%
Credit to Deposit	68.38%	84.09%	92.24%	91.83%	77.87%
Liquid Assets to Total Assets	24.95%	20.88%	18.33%	13.53%	26.87%
Liquid Assets to Total Deposit	27.70%	28.17%	22.95%	15.63%	30.87%

15. Kumari Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	350,000	350,000	500,000	500,000	625,000
Reserves and Surplus	-1,441	11,033	33,403	145,442	238,851
Debenture & Bond	0	0	0	0	0
Borrowing	31,991	0	0	401,761	251,400
Deposit	1,179,894	2,513,144	4,807,936	6,268,954	7,768,957
Bills Payable	8,838	4,129	14,637	7,339	11,919
Proposed & Payable dividend	0	0	26,316	0	6,579
Tax Liabilities	0	0	0	0	296
Other Liabilities	23,478	107,869	111,883	114,386	107,274
Total Liabilities	**1,592,760**	**2,986,175**	**5,494,175**	**7,437,882**	**9,010,276**
Cash Balance	30,276	40,800	68,472	111,249	135,795
Balance With NRB	50,867	224,028	524,635	219,830	210,553
Bank Balance With Banks	48,011	26,877	92,371	112,292	43,282
Money At call	0	0	0	90,000	145,000
Investment	255,000	423,155	983,504	1,190,271	1,394,948
Loan and Advances	1,111,559	2,105,737	3,649,008	5,590,926	6,891,855
Fixed Assets	51,896	40,425	57,152	82,984	91,933
Non- Banking Assets	0	0	0	0	3,592
Other Assets	45,151	125,153	119,033	40,330	93,318
Total Assets	**1,592,760**	**2,986,175**	**5,494,175**	**7,437,882**	**9,010,276**
Interest Income	96,355	185,090	310,216	499,918	605,527
Interest Expenses	48,168	92,945	163,903	240,130	337,056
Net Interest Income	**48,187**	**92,145**	**146,313**	**259,788**	**268,471**
commission and discount	3,441	9,413	16,446	23,083	26,281
Other Operating Income	616	582	1,773	2,609	10,003
Exchange Income	9,152	7,144	14,414	14,989	26,374
Total Operating Income	**61,396**	**109,284**	**178,946**	**300,469**	**331,129**
Employees Expenses	15,326	23,254	28,576	42,395	59,820
Other Operating Expenses	31,423	45,504	56,441	71,812	88,683
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**14,647**	**40,526**	**93,929**	**186,262**	**182,626**
Provisions for possible losses	12,388	16,805	17,126	41,111	25,871
Operating Profit	**2,259**	**23,721**	**76,803**	**145,151**	**156,755**
Non-Operating Income/ Expenses	0	4		5	(39)
Return From Loan Loss Provision	0	0	0	0	5,117
Profit From Ordinary activities	**2,259**	**23,725**	**76,803**	**145,156**	**161,833**
Extra ordinary Income /Expenses	0	0	0	0	0
Net Profit including all activities	**2,259**	**23,725**	**76,803**	**145,156**	**161,833**
Provision For Staff Bonus	226	2,373	7,680	14,515	14,712
Provision For Income Tax	696	8,879	20,437	42,760	43,454
-This Year	0	0	0	0	43,454
-Up to Last Year	0	0	0	0	0
Net Profit / Loss	**1,337**	**12,473**	**48,686**	**87,881**	**103,667**
Financial Indicators					
Core Capital to Risk Weighted Assets	25.60%	14.22%	28.21%	10.20%	11.26%
Capital Fund to Risk Weighted Assets	26.79%	15.46%	29.13%	11.15%	12.34%
Non-Performing Loan to Total Loan	1.27%	1.70%	0.00%	0.95%	0.01%
Weighted Average Interest Spread	3.27%	6.48%	3.82%	3.85%	4.58%
Net Interest Income (Rs. in million)	48	92	61	260	268
Return on Assets	0.08%	0.42%	0.89%	1.18%	1.15%
Credit to Deposit	95.48%	85.06%	76.91%	90.62%	90.20%
Liquid Assets to Total Assets	15.44%	17.66%	23.43%	22.23%	18.30%
Liquid Assets to Total Deposit	20.84%	20.98%	26.77%	26.37%	21.22%

16. Laxmi Bank Limited

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	275,000	330,000	549,789	609,839	609,917
Reserves and Surplus	-4,217	-3,183	7,266	33,731	69,116
Debenture & Bond	0	0	0	0	0
Borrowing	0	70,000	317,005	18,691	29,760
Deposit	112,597	691,810	1,684,159	3,051,759	4,444,351
Bills Payable	162	2,150	283	31,443	4,749
Proposed & Payable dividend	0	0	0	309	149
Tax Liabilities	0	0	0	1,450	0
Other Liabilities	727	5,769	26,988	73,548	47,147
Total Liabilities	**384,269**	**1,096,546**	**2,585,490**	**3,820,770**	**5,205,190**
Cash Balance	2,968	16,054	36,977	109,852	66,602
Balance With NRB	36,792	79,479	222,596	254,904	132,382
Bank Balance With Banks	128,898	58,076	119,894	104,788	26,140
Money at call	0	0	100,000	57,505	70,000
Investment	54,027	110,914	295,107	410,939	499,311
Loan and Advances	122,880	768,184	1,733,420	2,657,959	4,202,362
Fixed Assets	26,258	30,944	32,633	124,385	125,170
Non- Banking Assets	0	0	0	0	662
Other Assets	12,446	32,895	44,863	100,438	82,562
Total Assets	**384,269**	**1,096,546**	**2,585,490**	**3,820,770**	**5,205,190**
Interest Income	1,867	49,787	124,046	214132	319253
Interest Expenses	354	20,096	63,177	118439	190590
Net Interest Income	**1,513**	**29,691**	**60,869**	**95694**	**128664**
commission and discount	231	4,262	11,299	11254	15039
Other Operating Income	83	491	1,026	4427	9789
Exchange Income	522	4,534	6,076	5770	9426
Total Operating Income	**2,349**	**38,978**	**79,270**	**117145**	**162917**
Employees Expenses	2,877	14,394	19,198	29934	37641
Other Operating Expenses	2,447	17,322	35,730	37122	50123
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**(2,975)**	**7,262**	**24,342**	**50089**	**75153**
Provisions for possible losses	1,241	6,518	9,750	18226	15626
Operating Profit	**(4,216)**	**744**	**14,592**	**31863**	**59528**
Non-Operating Income/ Expenses		405	(55)	-9089	-8971
Return From Loan Loss Provision	0	0	0	16772	5866
Profit From Ordinary activities	**(4,216)**	**1,149**	**14,537**	**39546**	**56423**
Extra ordinary Income /Expenses	0	0	0	912	-724
Net Profit indluding all activities	**(4,216)**	**1,149**	**14,537**	**40457**	**55699**
Provision For Staff Bonus	0	115	1,454	3678	5064
Provision For Income Tax	0	0	2,634	0	
-This Year	0	0	0	10315	15250
-Up to Last Year	0	0	0	0	0
Net Profit / Loss	**(4,216)**	**1,034**	**10,449**	**26465**	**35385**
Financial Indicators					
Core Capital to Risk Weighted Assets	133.19%	37.60%	11.90%	19.59%	13.71%
Capital Fund to Risk Weighted Assets	133.80%	38.56%	12.81%	20.72%	14.96%
Non-Performing Loan to Total Loan	0.00%	0.00%	0.76%	1.63%	0.78%
Weighted Average Interest Spread	2.38%	5.16%	4.30%	4.19%	3.24%
Net Interest Income (Rs. in million)	2	30	61	96	129
Return on Assets	-1.10%	0.09%	0.40%	0.68%	0.79%
Credit to Deposit	110.23%	112.16%	103.96%	89.33%	96.30%
Liquid Assets to Total Assets	43.89%	22.75%	29.53%	23.86%	13.82%
Liquid Assets to Total Deposit	149.79%	36.07%	45.33%	30.41%	16.18%

17. Siddhartha Bank Limited (Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	0	350,000	350,000	350,000	500,000
Reserves and Surplus	0	-1,284	16,198	37,889	103,141
Debenture & Bond	0	0	0	0	0
Borrowing	0	110,000	220,000	190,000	181,150
Deposit	0	391,678	1,291,314	2,461,922	3,918,076
Bills Payable	0	0	962	429	0
Proposed & Payable dividend	0	0	0	0	0
Tax Liabilities	0	714	2,018	17,083	1,113
Other Liabilities	0	12,627	31,547	41,673	53,455
Total Liabilities	**0**	**863,735**	**1,912,039**	**3,098,996**	**4,756,935**
Cash Balance	0	9,439	18,214	33,459	64,977
Balance With NRB		42,611	35,412	45,637	48,831
Bank Balance With Banks	0	13,037	18,220	51,633	2,138
Money At call	0	102,073	174,830	22,471	100,000
Investment	0	3,775	42,050	286,623	650,979
Loan and Advances	0	622,735	1,543,768	2,570,776	3,789,123
Fixed Assets	0	21,819	28,409	30,217	39,692
Non- Banking Assets	0	0	0	720	480
Other Assets	0	48,246	51,136	57,460	60,715
Total Assets	**0**	**863,735**	**1,912,039**	**3,098,996**	**4,756,935**
Interest Income	0	23,889	113,630	198,184	305,561
Interest Expenses	0	5,619	45,506	91,981	153,709
Net Interest Income	**0**	**18,270**	**68,124**	**106,203**	**151,852**
commission and discount	0	2,163	7,034	7,553	13,775
Other Operating Income	0	2,687	6,866	7,982	9,701
Exchange Income	0	88	2,229	7,171	12,051
Total Operating Income	**0**	**23,208**	**84,253**	**128,908**	**187,379**
Employees Expenses	0	8,040	16,458	20,310	26,087
Other Operating Expenses	0	10,163	21,668	30,898	44,125
Exchange Loss	0	0	0	0	0
Operating Profit Before Provision	**0**	**5,005**	**46,127**	**77,700**	**117,167**
Provisions for possible losses	0	6,290	17,769	0	16,473
Operating Profit	**0**	**(1,285)**	**28,358**	**77,700**	**100,694**
Non-Operating Income/ Expenses	0	0	0	0	3
Return From Loan Loss Provision	0	0		19,370	0
Profit From Ordinary activities	**0**	**(1,285)**	**28,358**	**97,070**	**100,697**
Extra ordinary Income /Expenses	0	0	0	0	0
Net Profit including all activities	**0**	**(1,285)**	**28,358**	**97,070**	**100,697**
Provision For Staff Bonus	0		2,836	9,707	9,154
Provision For Income Tax	0		8,039	17,083	26,290
-This Year	0	0	0	17,083	26,290
-Up to Last Year	0	0	0	0	0
Net Profit / Loss	**0**	**(1,285)**	**17,483**	**70,280**	**65,253**
Financial Indicators					
Core Capital to Risk Weighted Assets	0	41.11%	18.50%	13.06%	13.29%
Capital Fund to Risk Weighted Assets	0	41.85%	19.36%	13.93%	14.16%
Non-Performing Loan to Total Loan	0	0.00%	1.61%	2.58%	0.87%
Weighted Average Interest Spread	0	5.15%	5.53%	4.46%	4.07%
Net Interest Income (Rs. in million)	0	18	68	106	152
Return on Assets	0	-0.15%	0.91%	2.27%	1.37%
Credit to Deposit	0	160.60%	121.41%	107.03%	98.75%
Liquid Assets to Total Assets	0	19.79%	15.10%	13.87%	12.91%
Liquid Assets to Total Deposit	0	43.64%	22.36%	17.46%	15.68%

18. Agriculture Development Bank

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Capital	0	0	0	1,677,615	6,478,000
Reserves and Surplus	0	0	0	-7,666,883	-7,313,358
Debenture & Bond	0	0	0	0	0
Borrowing	0	0	0	3,589,299	513,532
Deposit	0	0	0	27,223,046	29,631,817
Bills Payable	0	0	0	0	0
Proposed & Payable dividend	0	0	0	0	0
Tax Liabilities	0	0	0	23,5147	74,8270
Other Liabilities	0	0	0	6,164,751	5,239,362
Total Liabilities	**0**	**0**	**0**	**31,222,975**	**35,297,623**
Cash Balance	0	0	0	680,844	746,812
Balance With NRB		0	0	1,730,302	3,018,299
Bank Balance With Banks	0	0	0	623,892	1,006,589
Money At call	0	0	0	0	0
Investment	0	0	0	1,355,833	1,511,330
Loan and Advances	0	0	0	22,638,255	24,900,914
Fixed Assets	0	0	0	816,192	882,083
Non- Banking Assets	0	0	0	0	0
Other Assets	0	0	0	3,377,657	3,231,596
Total Assets	**0**	**0**	**0**	**31,222,975**	**35,297,623**
Interest Income				3,915,225	4,095,069
Interest Expenses				1,487,499	1,501,368
Net Interest Income	**0**	**0**	**0**	**2,427,726**	**2,593,701**
Commission and discount				42,646	42,262
Other Operating Income				286,315	164,861
Exchange Income				0	2,834
Total Operating Income	**0**	**0**	**0**	**2,756,687**	**2,803,658**
Employees Expenses				963,176	1,775,337
Other Operating Expenses				447,881	254,889
Exchange Loss	0	0	0	11,937	0
Operating Profit Before Provision	**0**	**0**	**0**	**1,333,693**	**773,432**
Provisions for possible losses				1,505,105	149,285
Operating Profit	**0**	**0**	**0**	**(171,412)**	**624,147**
Non-Operating Income/ Expenses				92,780	117,765
Return From Loan Loss Provision	0	0	0	0	549,333
Profit From Ordinary activities	**0**	**0**	**0**	**(78,632)**	**1,291,245**
Extra ordinary Income /Expenses	0	0	0	0	(355,266)
Net Profit including all activities	**0**	**0**	**0**	**(78,632)**	**935,979**
Provision For Staff Bonus				0	69,332
Provision For Income Tax				0	0
-This Year	0	0	0	0	148,270
-Up to Last Year	0	0	0	0	364,853
Net Profit / Loss	**0**	**0**	**0**	**(78,632)**	**353,524**
Financial Indicators					
Core Capital to Risk Weighted Assets	0	0	0	-15.58%	-2.07%
Capital Fund to Risk Weighted Assets	0	0	0	-15.58%	-2.07%
Non-Performing Loan to Total Loan	0	0	0	19.18%	20.59%
Weighted Average Interest Spread	0	0	0	4.90%	5.56%
Net Interest Income (Rs. in million)	0	0	0	2,428	2,594
Return on Assets	0	0	0	-20.59%	1%
Credit to Deposit	0	0	0	115.01%	112.42%
Liquid Assets to Total Assets	0	0	0	11.00%	14.72%
Liquid Assets to Total Deposit	0	0	0	12.62%	17.53%

19. Consolidated Financials of Banking Industry 2005-06

(Rs. In '000)

Capital and Liabilities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
Share Capital	6,552,005	7,777,400	8,350,651	11,101,522	16,849,764
Reserves and Surplus	(26,283,085)	(30,721,880)	(28,048,813)	(32,823,223)	(31,828,256)
Debenture & Bond	-	-	-	-	1,810,000
Loans & Borrowing	3,185,487	3,194,132	3,382,377	11,973,882	9,208,426
Deposit	165,498,736	181,292,438	206,678,378	253,257,333	291,985,286
Bills Payable	444,058	587,940	697,395	970,678	807,968
Proposed & Payable dividend	805,171	857,131	1,094,685	1,179,337	1,609,093
Tax Liabilities	19,643	24,156	13,267	285,998	808,696
s Other Liabilities	41,129,546	44,141,996	47,654,017	36,580,209	20,871,465
Total Liabilities	**191,351,561**	**207,153,313**	**239,821,957**	**282,525,736**	**312,122,442**
Cash Balance	5,259,939	5,135,942	4,968,201	6,373,971	7,081,487
Balance with NRB	11,555,520	11,724,238	18,231,216	17,720,459	21,132,454
Balance with Banks	4,748,461	3,306,346	3,164,030	3,630,679	3,949,261
Money At call	4,613,331	4,055,096	5,983,939	5,565,173	7,259,539
Investment	45,525,708	55,654,713	59,969,477	70,819,520	88,349,123
Loan and Advances	75,553,458	82,097,416	97,501,323	139,950,468	160,778,434
Fixed Assets	1,890,132	2,159,452	2,419,531	3,362,069	3,731,586
Non- Banking Assets	665,382	1,120,994	574,480	681,020	521,164
Other Assets	41,539,630	41,899,116	47,009,760	34,422,377	19,319,394
Total Assets	**191,351,561**	**207,153,313**	**239,821,957**	**282,525,736**	**312,122,442**
Interest Income	10,087,205	11,859,588	12,869,658	18,151,359	20,094,407
Interest Expenses	7,670,628	7,258,737	6,462,165	7,375,780	8,330,177
Net Interest Income	**2,416,577**	**4,600,851**	**6,407,493**	**10,775,580**	**11,764,233**
Commission and discount	1,129,721	1,329,385	1,468,980	1,485,104	1,617,899
Other Operating Income	311,349	302,092	508,707	920,936	830,899
Exchange Income	1,055,026	793,942	972,853	964,506	1,334,356
Total Operating Income	**4,912,673**	**7,026,270**	**9,358,033**	**14,146,123**	**15,547,386**
Employees Expenses	2,672,978	5,653,345	3,707,020	3,876,093	4,952,269
Other Operating Expenses	1,444,883	1,846,542	2,022,798	2,654,530	2,852,566
Exchange Loss	-	26	-	18,600	-
Operating Profit Before Provision	**794,812**	**(473,643)**	**3,628,215**	**7,596,900**	**7,742,550**
Provisions for possible losses	9,402,317	2,443,882	1,348,335	4,185,046	5,655,923
Operating Profit	**(8,607,505)**	**(2,917,525)**	**2,279,880**	**3,411,855**	**2,086,630**
Non-Operating Income/ Expenses	118,400	220,657	903,345	1,641,625	157,038
Return From Loan Loss Provision	295,504	577,814	2,127,177	1,465,367	4,583,133
Profit From Ordinary activities	**(8,193,601)**	**(2,119,054)**	**5,310,402**	**6,518,846**	**6,826,802**
Extra ordinary Income /Expenses	(469,104)	(51,574)	(81,821)	(644,344)	(948,303)
Net Profit including all activities	**(8,662,705)**	**(2,170,628)**	**5,228,581**	**5,874,502**	**5,878,497**
Provision For Staff Bonus	199,548	287,248	492,773	393,596	638,081
Provision For Income Tax	566,631	859,371	1,028,329	1,081,489	1,477,922
-This Year	-	-	-	257,769	1,601,979
-Up to Last Year	-	-	-	-	404,317
Net Profit / Loss	**(9,428,884)**	**(3,317,247)**	**3,707,479**	**4,389,103**	**3,234,122**

Filename:	Annual Reports_2007.doc
Directory:	C:\Documents and Settings\BSD\Desktop
Template:	C:\Documents and Settings\BSD\Application Data\Microsoft\Templates\Normal.dot
Title:	1
Subject:	
Author:	BSD
Keywords:	
Comments:	
Creation Date:	9/20/2007 3:57 PM
Change Number:	80
Last Saved On:	10/1/2007 11:27 AM
Last Saved By:	BSD
Total Editing Time:	329 Minutes
Last Printed On:	10/3/2007 3:37 PM

As of Last Complete Printing

Number of Pages: 95

Number of Words: 37,400 (approx.)

Number of Characters: 213,182 (approx.)