Bank Supervision Report
2009

Bank Supervision Department
Nepal Rastra Bank
Baluwatar, Kathmandu, Nepal

April 2010

NEPAL RASTRA BANK

BANK SUPERVISION REPORT-2009

The Banking Supervision Annual Report is a publication of the Bank Supervision Department of the Nepal Rastra Bank. 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.

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Executive Director's Pen

Dear readers,

It is my great privilege to present Annual Bank Supervision Report 2009 before you. This report summarizes the activities performed by Bank Supervision Department during the Year 2008/09. Besides, it also presents the snapshot of the financial system as a whole and basic characteristics and fundamentals of Nepalese banking industry. Further, it aims to benefit the readers by presenting due logics and reasons behind certain happenings and changes in the financial system of the country.

The face of commercial banking in Nepal is changing rapidly. The Competition in the industry is tough due to limited market and few investment opportunities in the country. For a robust and pliant financial system, therefore, commercial banks need to deal with important issues like improvements in effectiveness and efficiency in their overall operations, while achieving economies of scale through consolidation and exploring innovative cost-effective solutions.

The number of banks in the country is in rise. The service quality and proliferation have been improved a lot due to intense competition in the country and the banks' commitment to provide better service to the customers. The overall performance of the banking industry during the period has remained satisfactory. The capital adequacy of the banks has improved significantly and now only three banks i.e., NBL, RBB and Nepal Bangladesh Bank are to reach to the minimum level. Similarly, the assets quality of individual banks and the industry as a whole has also improved and non-performing loan (NPL) is declining. Banks are coming up with advanced and sophisticated technologies and there is a trend to spread up banking activities beyond capital city and are exploring new market in the suburb areas.

Besides these positive trends in the banking industry, there are some challenges, which are hindering the sound growth of the system. Even if the New Capital Adequacy Framework has been implemented in Nepal, effective implementation is a challenging task. At the same time moving towards advance approaches for capital allocation seems long way to go. The reform of government owned banks has not been happened as per satisfaction and it is challenging for NRB to provide level playing field to all commercial banks in the era of free market.

The supervisory function can only be effective by enhancing the supervisory reputation and effective enforcement of regulations in the financial system. Considering the proliferation in Nepalese financial system, the supervisory capacity building and the modification in our supervisory methodology becomes imperative. That's why there arises a need to move towards risk-based supervision. The non-banking sector is growing rapidly. Banks need to be efficient and competitive enough not only to the players of the banking industry but also to the non-banking financial institutions in order to attract depositors. The banks have to encourage prudent banking practices to strengthen and stabilize the financial system. At the same time, strengthening internal audit function of the banks, improvement in the solvency position of public sector banks, credit concentrations, full compliance of Basel core principles, effective coordination among regulators and supervisors of various sectors, and absence of credit rating agency are major challenges before us besides others.

The subprime crisis has exposed immense challenges to global financial players and regulators. Consequently, banks and financial institutions experienced banking panics, stock market crashes, bursting of financial bubbles, currency crisis and sovereign defaults and thereby creating many challenges to the supervisors and regulators around the globe. Though the impact is not that severe in Nepal, it has necessitated banks and supervisors to assume precautionary measures particularly on risk management system, portfolio mix, internal control mechanism and corporate governance. Considering this, Nepal Rastra Bank is planning to take leapfrog towards Risk Based Supervision, which is proactive, robust and better suited to the changing financial landscape. At the same time, we also express our deep commitment in strengthening and promoting financial system so as to spread up financial activities to the nooks and corners of the country and developing banking industry as a crucial engine for nation building.

Finally, I would appreciate the efforts of the members of Bank Supervision Department in accomplishing supervisory function effectively. At the same time, I also express my sincere appreciation to bankers, general public and other stakeholders in assisting us maintaining the credibility of central bank and achieving our supervisory objectives. Last but not the least; I would like to thank my friends of Policy Planning Unit for their endeavor in preparing and availing this report timely for publication.

Maha Prasad Adhikari
Executive Director
Bank Supervision Department

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CHAPTER 1

Nepalese Financial System

1.1 Introduction

Promoting financial stability and soundness in the country is one of the core objectives of central bank. Nepal Rastra Bank (NRB), the Central Bank of Nepal, was established in 1956 to discharge the central banking responsibilities in Nepal. Since then, Nepal Rastra Bank has been endeavoring incessantly for strengthening and promoting financial system. Even in the decade long disturbances in the country, Nepal Rastra Bank has remained successful to grow and spread up financial activities throughout the country. The financial sector today is more advanced, sophisticated and innovative in terms of technology, service proliferation, and delivery than any other sectors in the economy. Despite these achievements, developing a secure, healthy and efficient system of payments; making effective supervision of the banking and financial institutions, maintaining order and stability in the system and fostering healthy competition; and regaining and further enhancing the public confidence in entire banking and financial system have become great challenges to it in the present context.

The banks and financial institutions licensed by NRB are classified as A, B, C and D class institutions. Commercial banks are A class institutions, whereas development banks are categorized as B, finance companies as C and micro finance development banks as D. There are some Cooperatives and Non Government Organizations licensed for limited financial activities as non classified financial institutions. Due to the liberal licensing policy adopted by Nepal Rastra bank in the past, the number of banks and financial institutions has increased tremendously in the few years. Besides, there are significant numbers of co-operatives and postal saving offices that undertake limited banking and near banking financial services. Similarly, substantial amount of financial assets is created by non-bank financial sector; which comprises saving funds and trusts like Employee Provident Fund, Citizen Investment Trusts and insurance companies in the Nepalese financial system.

There has been a paradigm shift in Nepalese financial system. Banks are entering into new areas of innovations and offering wide varieties of products and services. They are getting stronger in terms of capital and service proficiency. Banks are required to meet minimum paid up capital of Rs.2 billion by mid July 2013. From last year, Nepal Rastra Bank has introduced New Capital Adequacy Framework for A class financial institutions under which capital is charged for credit, market and operational risk. NRB is taking very close look of the activities of banks under New Capital Adequacy Framework, especially the minimum capital requirement and improvement on risk management practices.

With the shift in the trend in banking industry, Nepal has also experienced so many ups and downs in the financial system. Many new issues are emerging creating shorter and longer-term impact in the system. Banks need to proactively assume their responsibilities and work on strengthening their capacity, bearing in mind the 21st century global struggle in the financial sector. Nepal Rastra Bank is also eminently aware that, for the achievement of the central bank objectives in the present dynamic environment, sustained progress and reform of the financial sector is of utmost importance. Continuously aware of this great responsibility, NRB is pursuing various policies, strategies and actions pertinent to the context. These activities convey the commitment of the NRB for addressing the present and future challenges of the financial system more competently. This dynamic and proactive approach to the financial system, especially with its increasing openness and competitive process in the context of growing global financial environment, should ensure a sustained progress and stability of the financial system under NRB's leadership, for contributing substantially to the sustained development of the economy of Nepal.

The prime challenge of Nepal Rastra Bank now, is to raise public confidence in the financial system. Still a big chunk of money in circulation is outside the formal banking channel. Due to this, central banking instruments could not be as effective as expected. Similarly, the tendency of commercial banks knocking the door of central bank in every problem is also to be discouraged. Eventually, it has become the need for the banks in improving their level of governance and self-regulation. Therefore, NRB has to play catalystic role in maintaining disciplined and prudent financial system.

The face of commercial banking is changing rapidly. Competition is getting tougher with financial liberalization. For a strong and resilient banking and financial system, therefore, banks need to go beyond peripheral issues and tackle major issues like improvements in profitability, efficiency and technology, while achieving economies of scale through consolidation and exploring available cost-effective solutions. These are some of the issues that need to be addressed if banks are to succeed in the days to come.

The objective of this report is to provide glimpses of the activities of Bank Supervision Department in 2008/09. This also aims to disseminate the information of the commercial banks supervised in the same period. Further, it aims to benefit the readers by presenting due logics and reasons behind certain happenings and changes in the financial system of the country.

Table 1 below depicts the number of financial institutions as on mid-July 2009 with comparison to mid July 2008 in the Nepalese Financial System.

Table 2.1: Number of Financial Institutions licensed by NRB (mid-July 2009)

S.N.	Type of financial Institutions	Class	2008	2009
1	Commercial Banks	A	25	26
2	Development Banks	B	58	63
3	Finance Companies	C	78	77
4	Micro Finance Development Banks	D	12	15
5	Saving and Credit Co-operatives	Non-classified	16	16
6	Non-Government Organizations	Non-classified	46	45
	Total		**235**	**242**

(Source: Banking and Financial Statistics (Mid-July 2009, No.53)

1.2 Nepal Rastra Bank as regulator and supervisor

Nepal Rastra Bank is the apex authority to regulate and supervise financial institutions in the country. It has been enacting various policies, directives and circulars in line with its central banking objectives since its inception. The NRB Act, 2002 has empowered Nepal Rastra Bank as an autonomous institution to conduct regulatory and supervisory activities independently. It's on the part of Nepal Rastra Bank to maintain financial stability in the country by raising confidence of both depositors and investors.

The following table presents the total assets of banks and financial institutions licensed under Nepal Rastra Bank and their respective shares in the whole financial system.

Table 1.2: Share of banks and financial institutions on Financial Claims

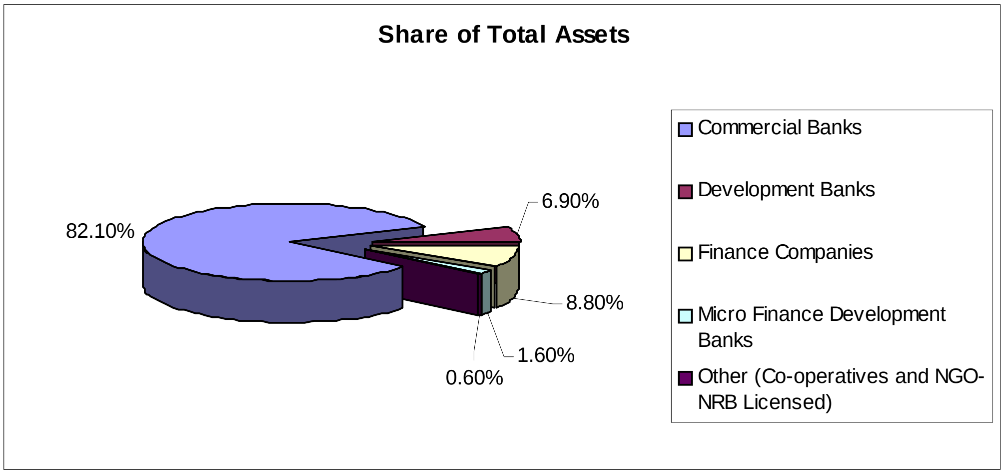
(Rs. in billion)

Bank and Financial Institutions	Total Assets 2008	% Share	Total assets 2009	% share
Commercial Banks	566	80.2	812	82.1
Development Banks	40	5.6	68	6.9
Finance Companies	80	11.4	**87**	8.8
Micro Finance Development Banks	13	1.8	16	1.6
Other (Co-operatives and NGO-NRB Licensed)	7	1.0	6	0.6
Total	**706**	**100**	**989**	**100**

Source: Banking and Financial Statistics (Mid-July 2009, No.53)

From table no-2, it is clear that commercial banks are the dominant players of the Nepalese financial system, though the share is fairly diversified in other financial institutions. In Year 2009, the total asset of the financial system has been increased to Rs. 989 billion from Rs.706 billion in previous year. The shares in the assets have been shifted gently to big institutions from small institutions in the same year, and reached to 82.1 percent in commercial banks, 8.8 percent in finance companies, 6.9 percent in development banks and remaining in other institutions. The following figure depicts the share of commercial banks and other financial institutions in total financial assets.

Chart No. 1: Share of Total Assets



(Source: Banking and Financial Statistics (Mid-July 2009, No.53)

Supervision function is performed by two different departments of the NRB namely Bank Supervision Department and Financial Institutions Supervision Department. The commercial banks are supervised by the Bank Supervision Department while the rest of the institutions are supervised by Financial Institution Supervision Department.

1.3 The Banking Sector

Nepal Bank Limited, established in 1937 AD, was the pioneering bank in the history of Nepalese banking industry. Since then, the number has been increasing continuously and reached to twenty-six till the mid July 2009. Commercial banks in Nepal can be categorized in to two groups - public and private banks. Public banks have substantial shares in the total assets of the industry and have huge branch networks around the country. Rastriya Banijya Bank, Nepal Bank Limited and Agriculture Development Bank are government owned banks. As the financial market was barred for private investors till the mid 1980s, these 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. The banks are getting stronger in terms of capital, technologies, products and operations. There is a harsh competition in the market as the number of banks is increasing and the market size is almost constant. So, there is a need for banks to strengthen their capacity in terms of innovation, service delivery and public accountability. The banks should not only concentrate themselves in profit making in the shorter term, rather they have to work for sustainable profitability. Sustainable profit can be ensured if the banks remain able to make the balance between profitability and liquidity. They should be ready to sacrifice shorter-term profit if they are exposing to excessive risk in liquidity aspects.

Table 1.3: List of Commercial Banks in Nepal (Mid July 2009)

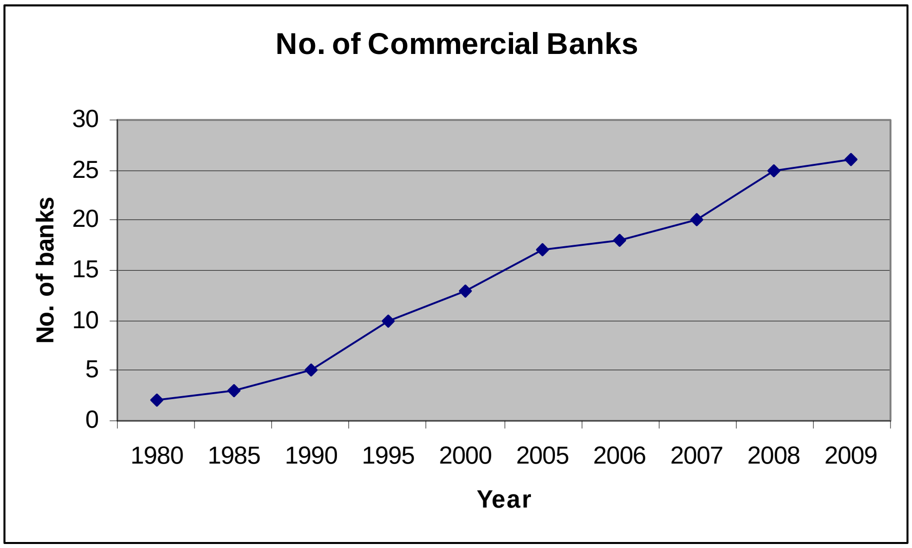
S.N.	Name	Operation Date (A.D.)	Head Office
1	Nepal Bank Limited (NBL)	1937/11/15	Kathmandu
2	Rastriya Banijya Bank (RBB)	1966/01/23	Kathmandu
3	NABIL Bank Limited (NABIL)	1984/07/16	Kathmandu
4	Nepal Investment Bank Limited (NIBL)	1986/02/27	Kathmandu
5	Standard Chartered Bank Nepal Ltd. (SCBN)	1987/01/30	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 (MBL)	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 Limited (ADBL)	2006/03/16	Kathmandu
19	Global Bank Limited (GBL)	2007/01/02	Birgunj
20	Citizens Bank International Limited (CBIL)	2007/06/-21	Kathmandu
21	Prime Commercial Bank Limited (PCBL)	2007/09/24	Kathmandu
22	Sunrise Bank Limited (SRBL)	2007/10/12	Kathmandu
23	Bank of Asia Nepal Limited (BOA)	2007/10/12	Kathmandu
24	DCBL Bank Limited (DCBL)	2008/05/25	Kathmandu
25	NMB Bank Limited (NMB)	2008/06/02	Kathmandu
26	Kist Bank Limited (Kist)	2009/05/07	Kathmandu

(Source: Banking and Financial Statistics (Mid-July 2009, No.53)

1.4 Increase in number of commercial banks

Due to the introduction of liberalization in Nepal in early 1990s, there has been a significant growth in number of banks and financial institutions. As on mid July 2009, the number of commercial banks reached to 26, which were 25 in the same date last year.

Chart No. 2: Numbers of Commercial Banks



(Source: Banking and Financial Statistics (Mid-July 2009, No.53)

1.5 Ownership and Control

Based on ownership structure as on mid July 2009, there are 3 Public Sector Banks and 23 Private Sector Banks. The largest bank of Nepal, Rastriya Banijya Bank, is fully owned by Nepal Government. Similarly, Nepal Government holds 40 percent shares in Nepal Bank Limited and 78.22 percent shares in Agriculture Development Bank Limited. Similarly, Nepal Government has also invested NRs. 6.4 billion in irredeemable preference shares and NRs.2.3 billion in redeemable preference shares issued by Agriculture Development Bank. The financial health of the public banks was very poor and thus a reform program was initiated in these banks under the Financial Sector Reform Project with the aid of the World Bank. Likewise, these banks have been placed under close monitoring and surveillance on account of their poor financial position.

The Private Banks can be further re-grouped 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. As on mid July 2009, there were seven Joint venture private banks in Nepal.

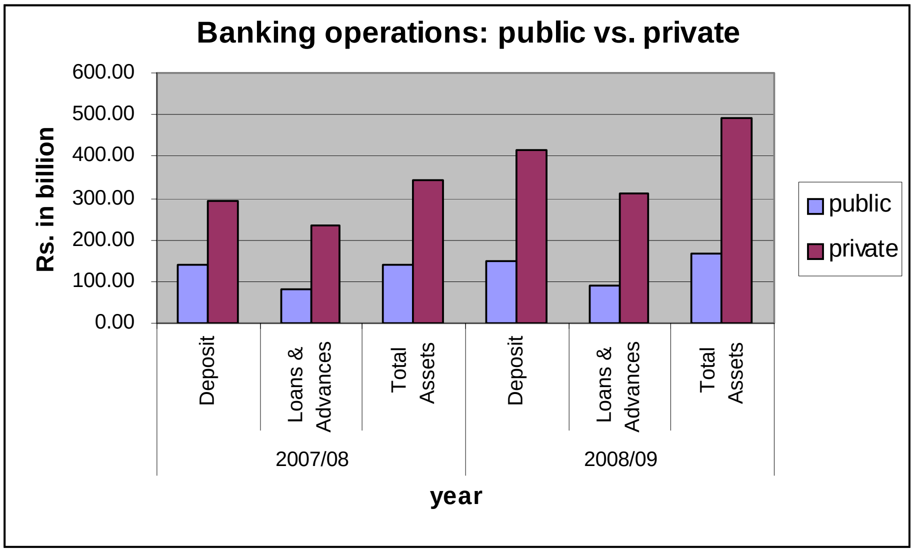
1.6 Scope of operations: Public vs. Private

Despite the fact that private sector banks are growing in numbers, their access in nooks and corners of the country is still limited. But they have started expanding their branches in the head quarters and business hubs of different districts. The public sector banks are still the largest banks in all aspects from deposit and credit mobilization to the number of branches in operation. The population taking benefit per bank in the country is gradually decreasing; meaning the access of the population to the banking system is improving eventually.

Similarly, the growing financial activities in the rural and suburb areas can attract banks to go beyond their existing boundaries.

The deposit, loans and advances and total assets of the banking industry as on mid July 2009 has increased compare to same date last year. From the figure below, it is seen that the performance of public banks in terms of deposits, loans & advances, and total assets is somehow limited relative to private sector banks.

Chart No. 3: Banking Operations: Public vs. Private (Mid July 2009)



(Source: Banking and Financial Statistics (Mid-July 2009, No.53)

1.7 Access of Banking Services and Branch Network

As on mid July 2009, there were 26 commercial banks including 3 public banks. The total number of banks branches as on mid July 2009 was 752 which on mid July 2008 was 555. Out of total 752 branches, 309 branches belonged to 3 public banks and remaining 443 branches belonged to 23 private sector commercial banks.

Table 1.4: Branches of Commercial Banks (Mid July 2009)

Name of Banks	2008	2009
Nepal Bank Limited (NBL)	99	100
Rastriya Banijya Bank (RBB)	114	123
NABIL Bank Limited (NABIL)	26	32
Nepal Investment Bank Limited (NIBL)	19	31
Standard Chartered Bank Nepal Ltd. (SCBN)	13	13
Himalayan Bank Limited (HBL)	17	23
Nepal SBI Bank Limited (NSBI)	17	33
Nepal Bangladesh Bank Limited (NBBL)	17	17
Everest Bank Limited (EBL)	26	30
Bank of Kathmandu Limited (BOK)	22	30
Nepal Credit and Commerce Bank Ltd. (NCCBL)	17	17
Lumbini Bank Limited (LBL)	5	5
Nepal Industrial & Commercial Bank Ltd. (NIC)	16	21

Machhapuchhre Bank Limited (MPBL)	18	31
Kumari Bank Limited (KBL)	12	15
Laxmi Bank Limited (LXBL)	13	19
Siddhartha Bank Limited (SBL)	7	10
Agriculture Development Bank (ADBL)	65	86
Global Bank Limited (GBL)	7	16
Citizens Bank International Limited	9	10
Prime Bank Limited	1	8
Sunrise Bank Limited	6	21
Bank of Asia Nepal Limited (BOA)	5	21
DCBL Bank Limited (DCBL)	3	5
NMB Bank Limited (NMB)	1	9
Kist Bank Limited	-	26
Total	**555**	**752**

Source: Banking and Financial Statistics (Mid-July 2009, No.53)

From the table above, it is seen that, the banks with the largest number of branches are public banks: Rastriya Banijya Bank, Nepal Bank Limited and Agriculture Development Bank Limited (ADBL) with 123, 100 and 86 branches respectively. In terms of branch expansion, ADBL remained top in fiscal year 2008/09, which opened 21 branches. The number of branches of the private banks is on the rise, and the trend is towards going to the growing cities outside valley.

Large concentration of the branches is seen in Kathmandu. Most banks are looking to increase their number of branches in Kathmandu, which is a major economic hub of Nepal. Kathmandu, Kaski and Rupandehi are three districts with highest number of bank branches, which respectively are 182, 41 and 42. Cities with high branch concentration are Kathmandu, Lalitpur, Pokhara, Butwal, Birgunj, Biratnagar, Bhairahawa, Nepalgunj and Dhangadhi.

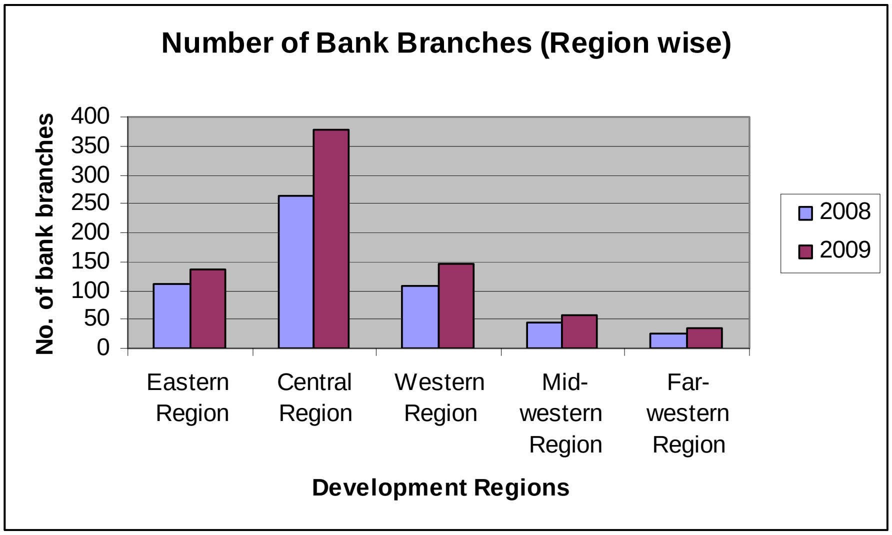
Table 1.5: Region wise distribution of Branches (Mid July 2009)

S. N.	Development Region	2008	2009
1	Eastern Development Region	111	135
2	Central Development Region	265	379
3	Western Development Region	107	147
4	Mid-western Development Region	46	57
5	Far-western Development Region	26	34
	Total	**555**	**752**

Source: Banking and Financial Statistics (Mid-July 2009, No.53)

Similarly, region wise, Central Development Region has the largest concentration of 379 branches with the major economic centers like Kathmandu, Lalitpur and Birgunj followed by the Western and the Eastern region. The regional distribution of the branches seemed to be much skewed.

Chart No.4: Number of Bank Branches (Region wise)



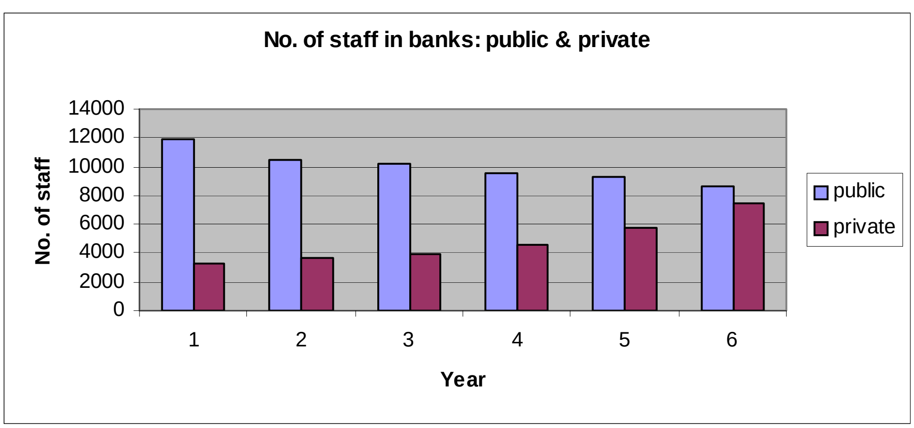
Source: Banking and Financial Statistics (Mid-July 2009, No.53)

1.8 Employment in the Banking Industry

As on mid July 2009, the total number of employees in the banking industry was 16148. The three public banks generate the majority of the employment and their operations are largely based 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 significant number. At the end of fiscal year 2008/09, the number of employees in the three public sector banks was 8656 whereas the private sector banks had 7492, which as on mid July 2008 were 9278 and 5701 respectively. The growth in number of staff in private sector bank is due to the massive increment in their branches.

However, the private banks, meanwhile, are steadily increasing their number of staff in direct alignment with the proliferation in the business. Since the large portion of their system and procedure are automated, the number of staff employed by these banks is relatively small.

Chart No. 5: Employment Private Vs Public (Mid July 2009)



1.9 Review of the Banking Legislation

Nepalese financial system is under regulated environment. Banks are given autonomy to allocate their resources in the most efficient manner. At the same time, they are also required to abide by the mandatory circulars and directives issued in different areas. The underlying philosophy is that banks should be free to allocate their resources according to market forces and shall be entitled to set terms and conditions for their operations in a competitive environment. However, strict regulatory norms 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; while promoting confidence in the financial system through the implementation of policies and standards that are considered best in international practices.

It's on the part of Nepal Rastra Bank to strengthen and ensure the stability and soundness of the banking system. Further the bank is also equally responsible, together with banks and financial institutions to raise public confidence in the banking system. For this, the Bank Supervision Department is performing on-site examinations, off-site surveillance & analysis and policy and guidelines formulations in different issues for the achievement of the department's objectives.

In performing the above role, the Bank, through the Banking Supervision Department strives to ensure compliance with the Bank and Financial Institutions Act-2006 (BAFIA-2063) by banking institutions under its jurisdiction. In order to achieve the role of protecting the interests of depositors, Nepal Rastra Bank 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 to other prevailing laws of the country, the main legislative framework for supervision function includes:

- Nepal Rastra Bank Act, 2002 (2058)
- Bank and Financial Institutions Act, 2006 (2063)
- Company Act, 2006 (2063)
- Supervision By-laws, 2002(2059)
- Directives to commercial banks and financial institutions
- New Capital Adequacy Framework, 2007

NRB has continued to review the relevant legislations and regulations in 2008/09 in order to put in place up-to-date regulatory framework that meets international standards and resolves the issues of the banking industry.

CHAPTER 2

Supervision Function

2.1 Banks and Supervision

Banks deal with other people's money. They hold a huge volume of resources collected from general public and institutions. They are regarded as special institutions in the financial market. Banks are the institutions operating with very high leverage ratio. In other words, they have a low ratio of shareholders' funds to borrowed funds. For example: 8.9 percent accounted shareholders fund (tier I capital) in total assets of Nepalese commercial banks in mid-July 2009. This inherent imbalance between 'own' funds and 'borrowed' funds in total capital structure is a peculiar feature of banking institution that to be addressed by supervisory authority. Banks' shareholders have only a small amount of their own funds at stake. Therefore, there is an underlying incentive for banks to tend toward risk taking activities with the fund of depositors and outsiders. Therefore, supervision is necessary to protect the interest of depositors. In the absence of close supervision of banks, there may be a chance of shareholders' position to be like if head, I win, if tail, you lose.

Banks are an important source of liquidity for an economy. 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. A bank failure may have a very bad impact in the financial system, which can interfere the operation of the payments system as well as it could impact on monetary management. The contagion effects of a bank failure cannot be imagined.

Due to the special nature of activities, financial institutions are being supervised all over the world by the supervisory authority. Supervisory function is also a costly one. Although the cost of supervision is high, the cost of no supervision or 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). Depositors are generally not well informed to monitor the portfolio behavior of banks nor to enforce compliance as they have got negligible covenant regarding control of the bank.

Some of the major validations behind bank 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 prudent way and they hold sufficient capital to support the risks that arise in the 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.

These reasons call for an independent and autonomous supervisory authority to conduct direct assessment of the overall banking system.

2.2 The Bank Supervision Department (BSD)

The Bank Supervision Department of Nepal Rastra Bank performs the banking supervisory functions. The department is responsible for carrying out inspection and supervision of all the commercial banks. The responsibility of the Department is accomplished via its following units:

- On-site Inspection
- Off-site Supervision
- Policy Planning and Analysis and;
- Internal Administration.

2.3 Methodology used for Supervision

Bank Supervision Department has been following the international supervisory practices along with tailor-made Nepalese relevant laws while supervising the commercial banks. BSD has been following compliance based supervision practice; but its efforts are directed to move towards Risk Based Supervision.

The cornerstone of supervisory review is through, regularly scheduled, on-site examinations. These examinations focus on six components of bank safety and soundness, known together as CAMELS. The banks are assigned 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 and ratings are kept confidential and used for supervisory response.

The component of bank's management cannot be assessed only in terms of the returns submitted by the bank. Thus, the off-site supervision does not analyze the using CAMELS rating. 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. On the basis of these components, Off-site supervision ranks the banks regularly. The result of the ranking remains confidential and used as supervisor's information.

2.4 Organization of Bank Supervision Department

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 committees and working groups. High level Coordination Committee (HLCC) is a committee for sharing of information among regulatory authorities of Nepal. Similarly Accord Implementation Group (AIG) is a group formed for the implementation of New Capital Adequacy Framework in Nepal which is based on Basel II. The group meets and discusses on the issues of New Capital Adequacy Framework.

2.4.1 Onsite/Enforcement Unit

Functions of onsite inspection and enforcements are assigned to the onsite desks of the BSD. The onsite desks are responsible to conduct the on-site examination of the banks in accordance with the annual plan of the department. BSD is conducting onsite visit at least once a year in each commercial bank. More than two thirds of the department's human resource is involved in these activities. Onsite inspection is guided by the Onsite Manual. 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 function of the department includes independent on-site assessment of banks' corporate governance, internal control system, reliability of information provided, etc.

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, trade finance etc.

d) Special inspection, which is carried out as the need may arise

The On-site examination unit conducts periodic examination and special inspection in the banks. 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, which involve examination of financial performance, corporate governance, internal control and risk management practices of the bank.

2.4.2 Off-site Supervision Unit

This division carries out the off-site surveillance of all Nepalese commercial banks. 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 for the off-site supervision. The inspection and supervision By-law, 2002 (amended 2004) identifies the following key objectives of off-site supervision unit in 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.
- To serve as an Early Warning Device

The Off-site Supervision Unit reviews and analyses the financial performance 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.

The Off-site Supervision unit reviews the financial returns submitted by the banks for checking compliance status of the Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR) and Deprived Sector Lending (DSL). This unit recommends for the penalty whenever there is a shortfall in the CRR, SLR and DSL. Furthermore, this unit collects and compiles information required for liquidity monitoring of the commercial banks on a daily basis.

The Off-Site Supervision unit monitors, reviews, and analyzes returns of the financial institutions and prepares reports based on said returns and makes use of early warning device as an attempt to detect emerging problems. 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 Capital Adequacy Enforcement Unit

This unit, as part of the off-site surveillances, is performing the duties of enforcement, follow up and periodic review as per the New Capital Adequacy Framework 2007(updated July 2008). This unit is coordinating and managing proper implementation of the New Capital Adequacy Framework, which is designed on the basis of capital adequacy requirements under BASEL II. New Capital Adequacy Framework has following objectives:

To ensure that each commercial banks maintain a level of capital, which;

- Is adequate to protect its depositors and creditors;
- Is commensurate with the risk associated activities and profile of the commercial banks;
- Promotes public confidence in the banking system.

2.4.4 Policy, Planning and Analysis Unit

Technological innovation has accelerated the size and complexities of the financial services offered by banks. Global financial market is narrowing down its distance day by day. With the rapid pace of development in the financial sector, there is a need of continuous improvements and development in the supervisory tools and techniques. But supervisory function of Nepal Rastra Bank is still in the stage of evolution. In this context, it is necessary to develop and maintain relation with international supervisory agencies. It is expected that the relationship will bring into the force new techniques and developments in the field of supervision. The policy, planning and analysis unit is entrusted to maintain such relationship and to notify the department of new developments in the international arena, on a periodic basis.

This unit of the BSD is performing the tasks of formulation and periodic review the annual plan of the department. This unit is also responsible for coordinating the interaction programs, seminars, and workshops in issues relevant to the supervision function, with participation of the external stakeholders, as well. Supervisory policies and guidelines are developed in an interactive & consultative way where industry participants and the stakeholders are allowed to comment on policy documents before they are finalized.

2.4.5 Internal Administration Unit

There is an internal administration unit within the Bank Supervision Department. The unit is performing the functions related to human resources within the department; like placement, travel orders, leave records, and also serves as the back office. This unit also looks after the procurement function such as supply of office equipments and stationery in the department in coordination with the General Services Department of the bank.

CHAPTER 3

Current Issues in Banking Supervision

3.1 Background

With the advancement in technology and supervisory practices around the globe, the supervision pedagogies in Nepal Rastra Bank have also been changing. So far, it has been following compliance based supervision where supervisors review the credit files and returns produced by the banks in order to identify how much they have complied with the existing laws and guidelines. It is more focused on detecting any deviation from existing legal provisions rather than overall financial soundness and risk management aspect of the banks. It provides a snapshot of an institution's condition at a point of time and supervisions are normally periodic.

The global financial crisis appeared in the year 2007/08 has raised a global concern in the field of financial sector stability and become the central challenge to bank regulators and supervisors. 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.

In our context, the year 2007/08 was the year of Parallel Run of the New Capital Adequacy Framework based on Basel II. The framework, which came into effect after meticulous impact studies and frequent discussions with different stakeholders, requires banks to maintain their capital based on different risk exposure. The Parallel run of Basel II was successful in orienting the banks to identify, classify and assess various risks in order to put their effect on capital. 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 inapplicable in the present context. Thus, the prescribed approaches have been customized and thereby simplified to suit the need of our market condition. With this and other, the NRB recorded success in its supervisory efforts, particularly in the banking sector reform.

Further, the NRB is developing an overall plan for moving towards risk-based supervision (RBS) and for this purpose NRB is preparing Risk Management

Guidelines. 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 to all commercial banks uniformly. The current approach is largely on-site inspection driven and 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 etc. are reviewed keeping in mind 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 any particular 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. No legal framework exists for the external auditors to report to the supervisor their adverse findings on issues having supervisory implications; however a special purpose report namely the Long Form Audit Report (LFAR) has to be submitted by the auditor to the supervisor.

Risk-based supervision saves supervisory resources and helps to promote a more safe and sound financial system. It saves resources because it focuses regulatory resources on areas of higher 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 may not be transaction based. It will be systems based inspection. 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 is necessary to quantify the problems in order to assess the adequacy of capital and liquidity.

RBS is a proactive and efficient supervisory process, which enables the supervisor to prioritize and focus supervisory efforts and resources on areas of significant risks and/or banks that have high-risk profiles. It entails a shift from a rigid rules/compliance-based supervisory and regulatory approach to a more risk sensitive one, which seeks to encourage a bank to develop and continuously update its internal risk management system to ensure that it is commensurate with the scope and complexity of its operations.

Objectives of RBS are to;

- Identify those banks in which risks are higher
- Identify the areas which are exposed to higher risk
- Allocate scarce supervisory resources to those identified risky area

3.3 Basel Core Principles

The Core Principles for Effective Banking Supervision, promulgated by the Basel Committee on Banking Supervision, set out the minimum standards that are considered necessary for effective supervision. However, 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.

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, every 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 effectively, there should exist a strong public infrastructure, including:

- Financial transparency and effective corporate governance in the 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, Deposit Insurance Fund and
- Laws on Controlling Financial Crime and Conflicts of Interest.

3.4 New Capital Adequacy Framework and its implication in Nepal

With a view of adopting the international best practices, NRB has already implemented New Capital Adequacy framework in commercial banks. The complexity and sophistication of the Nepalese financial market don't warrant advanced approaches like the IRB Approach or the Standardized Approach. Considering the market development, Nepal Rastra Bank adopted the simplified standardized approach for credit risk, Basic Indicator Approach for Operational Risk and Net Open Position Approach for the Market Risk.

In line with the international development and thorough discussion with the stakeholders, evaluation and assessment of impact studies at various phases, this framework 2007 (updated 2008 July) has been implemented. This framework provides the guidelines for the implementation of New Capital Adequacy framework in Nepal. In line with 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 market discipline.

The first pillar requires minimum capital requirements for credit, operational and market risks. In concept, the first pillar is similar to the existing capital framework, in that, it provides a measure of capital relative to risk and also calculate operational and market risk to the total risk weighed exposure to credit risk.

The second pillar – supervisory review process - requires banks assessment of capital and allows supervisors to evaluate a bank's assessment 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 market participants to better reward well-managed banks and penalize poorly managed ones.

Accord Implementation Group (AIG) was formed for overseeing the implementation of New capital adequacy framework in Nepal. The Accord Implementation Group consisted 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 were also included in the Accord Implementation Group.

In order to ensure a smooth transition to new approach prescribed by this framework, the whole fiscal year 2007/08 was considered as parallel run.

3.4.1 Internal Capital Adequacy Assessment Process (ICAAP)

Banks need to assess the minimum capital requirement ensuring that their boards of directors understand material risks of the banks. Since the banking is a risk taking business, the significant activities of the banks and the risk inherent in the activities need to be identified by the board. Banks should have appropriate risk management practices to identify, measure, monitor and control the risks associated with the business. New capital adequacy framework requires the banks to have a comprehensive process focusing on board and senior management oversight, monitoring, reporting and internal control reviews at regular intervals to ensure the alignment of regulatory capital requirement with the risk profile of the bank and thus ensure long-term safety and soundness of the bank. ICAAP emphasizes the importance of risk management practices, sound capital assessment and control environment in the banks.

3.4.2 Prompt Corrective Actions (PCA)

Over the past years, several countries have adopted a system of prudential prompt corrective action (PCA) binding capital adequacy standards and the ability to take substantial actions against banks that failed to meet the standards. On the first appearances, the adoption of PCA in the US, UK, European Union, Hong Kong, Canada, Mexico, Korea, Indonesia, India, Bangladesh, Malaysia and Brazil appears to have been successful. The PCA approach of supervisor realizes that early steps in preventing banks are always better than caring troubled banks. For example, a regulator becomes aware that a bank is failing. Should the regulator immediately intervene and take corrective measure including liquidation of the bank's assets to provide payment to the depositors and bank's owners? Or should the regulator let the bank continue operating? The first type of regulatory response is related with prompt corrective action (PCA).

According to the PCA, immediate actions need to be taken to those banks whose capital adequacy ratio falls short of the stipulated limit. Actions include restrictions on branch expansion and dividend payments; loan disbursement and deposit mobilization; and increase in salary and allowances are taken on the basis of the level of shortfalls in the regulatory capital adequacy ratio.

Basel core Principle no. 6 (Capital adequacy) has clearly urged the needs of capital requirement and enforcing PCA. It states "Supervisors must set prudent and appropriate minimum capital adequacy requirements for banks that reflect the risks that the bank undertakes, and must define the components of capital, bearing in mind its ability to absorb losses." It has also emphasized supervisors to require all banks to calculate and consistently maintain a minimum capital adequacy ratio. The supervisor defines the components of capital, ensuring that emphasis is given to those elements of capital available to absorb losses. The supervisor should be equipped with the power to impose a specific capital charge and/or limits on all material risk exposures.

Similarly, Basel core Principle no. 23 (Corrective and remedial powers of supervisors) states Supervisors must have at their disposal an adequate range of supervisory tools to bring about timely corrective actions, if for example, a bank is not complying with laws, regulations or supervisory decisions, or is engaged in unsafe or unsound practices, or when the interests of depositors are otherwise threatened. These tools include the ability to require a bank to take prompt remedial action and to impose penalties.

The supervisors and regulators in the least developed countries are being encouraged to adopt PCA by policy analysts who explicitly call for its adoption. However, some preconditions needed for the adoption of an effective PCA include conceptual elements such as a prudential supervisory focus on minimizing public deposit losses and mandating supervisory action as capital declines. These preconditions also include institutional aspects such as greater supervisory independence and authority, more effective resolution mechanisms, better methods of measuring capital, and enhancing supervisory capabilities.

3.5 Present Status of E-banking in Nepalese Commercial Banks

E-banking is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels. E-banking includes the systems that enable bank and financial institution customers, individuals or businesses, to access accounts, transact business, or obtain information on financial products and services through a public or private network, including the Internet. Customers access e-banking services using an intelligent electronic device, such as a Personal Computer (PC), Personal Digital Assistant (PDA), Automated Teller Machine (ATM), kiosk etc. ATM transactions and telephone transactions are considered e banking. However, the newest e-banking trend is the Internet. The digitization of transaction (E-banking) can help for the standardization of banking products where by substantial reduction in cost is possible. Enhancement of efficiency in banking services is another prime objective of e-banking by creating the opportunity of penetrating new market and expansion of banking activities across the borders. Electronic banking increase the banking risks in one hand and it increase transparency and competition in banking services on other hand.

Therefore, it is necessary to implement e-banking services with adequate risk management practices.

The brief overview of present status of e-banking in Nepalese commercial banks are presented below.

Internet Banking

Internet banking has been the most momentous development of e-banking in Nepal. It was first introduced in Nepal by Kumari Bank Limited in the year 2002. This system allows individuals to perform banking activities from any place at any time from any where via the Internet.

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.

Table 3.1: ***Internet Banking***

Total No. of Internet Banking Users	79,790
No. of Banks offering Transactional Services	12
No. of Banks offering Informative Services only	7

Up to the end of fiscal year 2008/09, out of 26 commercial banks 19 banks are offering Internet Banking services. Among them 12 banks are offering transactional services and 7 banks are offering informational Internet banking services. There are 79,790 Internet banking users of commercial banks up to the end of fiscal year 2008/09.

Short Message Service (SMS) Banking

SMS banking allows the bank customers to get limited banking services through their cell phone registered to the bank. Laxmi Bank Limited first introduced it in Nepal in the year 2004. Banks are providing services like balance inquiry, mini statement, last transactions information, withdrawal alerts, cheque book inquiry/request, fund transfer, utility bill payments etc. through SMS. As on mid July 2009, there are 19 banks offering SMS banking services and there are 11,11,55 users of SMS banking. Most of the Nepalese commercial banks are offering non-transactional services and only one bank is offering transactional service through SMS.

Table 3.2: *SMS Banking*

Number of SMS Banking Users	1,11,155
Number of Banks offering Transactional Services	1
Number of Banks offering Informative Services only	23

Debit Card and ATM

A Debit Card is a payment card, which enables the bank customer with the option of making purchases at merchant locations as well as cash withdrawal from ATMs. All commercial banks except Agricultural Development Bank have provided debit card to their customers and are provided with facilities to view balance and to withdraw cash from ATM machine. There are 8,88,587 debit card users of the commercial banks throughout the country in mid July 2009.

Table 3.3: *Number of ATMs*

Inside Valley	280
Outside Valley	205
Total	485

In Nepal, ATM was first introduced by Himalayan Bank Limited in the year 1995. Now, there are 280 ATMs installed within Kathmandu valley and 205 ATMs installed outside Kathmandu valley respectively of commercial banks.

Most of the ATMs are installed in city areas. The shared network of ATM is also connected to a network in India. Most of the banks have shared ATM network enabling the customers to access their account from machines other than the own bank. There are number of Point of Sale (POS) machine enabling customers to purchase commodities in a number of departmental stores.

Credit Card

Credit card is a type of plastic card containing identifying information about a credit account established by a customer with a bank or other institution. Credit account is a pre-approved line of unsecured credit offered to the customer. The information on the credit card is readable by automated teller machines (ATMs), store readers, banks and Internet computers. Credit card facility in Nepal, was first introduced by NABIL bank in the early 1990s. Very few numbers of banks are offering credit card services to their customers. As on mid July 2009, out of 26 commercial banks only 5 commercial banks are offering credit card facilities through 27301 credit cards in Nepalese currency and 3608 Credit cards in USD to their customers. The total credit card limit of 5 banks seems to be Rs. 1445331 thousands and 9967 thousands in USD respectively.

Table 3.4: *Credit Cards*

Particulars	Domestic	International
Number of Cards Issued	27301	3608
Credit Limit	Rs 1,44,53,31,000	USD 99,67,005

Prepaid Card

Prepaid cards are the plastic cards that can be availed by any person without having to open an account in the bank. As on mid July 2009, there were 7 banks offering prepaid cards to their customers. They issued 27728 domestic prepaid cards and 4338 international prepaid cards.

Table 3.5: *Prepaid Cards*

Particulars	Domestic	International
Number of Cards Issued	27,728	4,338

Major weaknesses identified in e-banking service management are:

- Most of the banks rely on third party organization for their major IT services but they lack comprehensive outsourcing risk management policies and practices.
- Most of the commercial banks have formulated Information Technology and Information Security policy but significant number of banks lack effective implementation of the policy.
- Most of the banks have their security measures for transactional Internet banking and SMS banking, which is still inadequate.
- Significant numbers of banks have not practiced strong access control mechanism to adequately secure their Information System resources from their internal employees.
- Although some banks have implemented strong Disaster Recovery plans but significant number of commercial banks lack adequate planning to overcome the disasters.

CHAPTER 4

Supervisory Activities of 2008/09

4.1 Annual Bank Supervision Action Plan 2008/09

Bank Supervision Department prepares annual action plans every year for the upcoming year. Such plans need to be reviewed regularly so as to ensure the implementation is in line with the plan to achieve the desired objectives. In the same manner, BSD reviews the plans at a regular interval. The annual action plans for the fiscal year 2008/09 and its implementation status is presented in the table below:

Table 4.1: Annual Action Plans of Bank Supervision Department for F.Y.2008/09

S. N.	Work Plans	Implementation Status
1	**On-site Inspection**	Yes
1.1	Corporate level on-site inspection of all commercial banks.	Yes
1.2	Preparation of Inspection Reports	Yes
1.3	Special inspection of commercial banks and branches as per requirement	Yes
2	**Off-site Supervision**	Yes
2.1	Preparation of quarterly consolidated offsite supervision report incorporating financial analysis and compliance to prevailing directives and regulations, within the specified timeframe.	Yes
2.2	Preparation of consolidated annual offsite supervision report of all commercial banks.	Yes
2.3	Annual clearance of all commercial bank	Yes
2.4	CRR and directed lending monitoring	Yes
2.5	Capital adequacy ratios monitoring	Yes
2.6	Daily liquidity monitoring	Yes
3	**Enforcement**	
3.1	Enforcing the directions given by Nepal Rastra Bank during on-site examination or off-site supervision	Yes
3.2	Monitoring implementation status of directions given by Nepal Rastra Bank during on-site examination or off-site supervision	Yes
3.3	Preparation of quarterly enforcement reports reflecting implementation status of each bank within the specified deadline.	Yes
4	**Policy, planning Unit**	
4.1	Publication of annual report of Bank Supervision Department.	Yes
4.2	Coordination of various interaction Programs, seminar, workshops, and trainings etc during the fiscal year.	Yes
4.3	Preparation of Annual Bank Supervision Action Plan for 2009/10	Yes

The Bank Supervision Department has performed all activities premeditated in the Annual Supervision Action Plan of 2008/09.

4.2 Corporate Level On-site Inspection programs

The corporate level on-site examinations of all 25 banks (except Kist bank which was upgraded in the last quarter of the fiscal year) were carried out during the year 2008/09. The schedule of the on-site examinations distributed in four quarters was as follows:

Table 4.2: Distribution of corporate level on-site examination in 2008/09

S. No.	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1	Lumbini Bank Ltd.	Everest Bank Ltd	Nepal Bank Ltd.	Standard Chartered Bank Nepal Ltd.
2	NCC Bank Ltd.	Nepal Investment Bank Ltd..	Rastriya Banijya Bank	Bank of Asia Nepal Ltd.
3	Kumari Bank Ltd.	Himalayan Bank Ltd.	Nabil Bank Ltd.	Prime Commercial Bank Ltd.
4	Machhapuchchre Bank Ltd.	Bank of Kathmandu	Development Credit Bank Ltd.	Sunrise Bank Ltd.
5	NIC Bank Ltd.	Siddhartha Bank	Citizens Bank International Ltd.	-
6	Nepal SBI Bank Ltd.	Laxmi Bank Ltd.	NMB Bank Ltd.	-
7	Nepal Bangladesh Bank Ltd.	Global Bank Ltd.	Agriculture Development Bank Ltd.	-
Total	**7**	**7**	**7**	**4**

Several forms of discrepancies were identified in due course of inspections in terms of compliance with NRB directives, BAFIA-2006 and other relevant Acts and statutes. Similarly, shortcomings were also observed in corporate governance and risk management practices. Bank Supervision Department has issued both specific and general directions/instructions to the banks in order to resolve the shortcomings observed in the inspection periods. Based on these observations, Nepalese banking system is still characterized as having poor governance. Hence, this requires frequent onsite visits for the timely correction of such practices.

The major shortcomings as well as non-compliance observed in the banks during the on-site examinations of 2008/09 were as follows:

Area of Inspections	Major areas where deviation and non-compliances were observed
Capital	➢ Heavy accumulated loss and Capital below prescribed limit in Public banks ➢ Capital Plan not implemented ➢ Cases on accounting of Debt Instruments ➢ Improper calculation of risk weighed exposure ➢ Redemption reserve not created
Asset Quality	➢ Lack of sound credit risk management practice (e.g., Credit department lacking separate line of reporting for sales and control) & Credit

	Documentation Issues (e.g. CICL report, tax clearance, audited financial statements of the borrower, stock inspection report, valuation report, inadequate Insurance of collateral and assets etc.) ➢ Formulation and implementation of Write-Off policy. ➢ Non-compliance of the terms and conditions mentioned in the offer-letter. ➢ Irregular credit monitoring. ➢ Inadequate loan loss provisioning. ➢ Inadequate borrower's information. ➢ Limits exceeding the SOL. ➢ Borrowers separation on the basis of legal separation only for SOL purpose- credit concentration issues ➢ Issues on borrower's future cash flows for the repayment of loan ➢ Valuation of fixed assets ➢ Overdraft limit overdrawn ➢ Securities not insured ➢ Credit limits provided to other Banks and Financial Institutions ➢ Creation of new loan limit to repay existing loans. ➢ Consortium meetings not regular ➢ Non-compliance of Company Act ➢ Issues on Loan Restructuring ➢ Net worth statement of borrower in loan against personal guarantee ➢ Non-compliance of NRB Directives on Blacklisting. ➢ Segregation of Investment Portfolio ➢ Discretionary power to CEO to override CPG ➢ Bank's policy to provide loan to speculative and gambling activities
Management	• Compliance of Personnel Policy Guidelines of the bank (Issues on job description, authority delegation, transfer and promotion) • Compliance of BAFIA 2006 regarding the number of BOD meetings • Formulation of disclosure policy • Formulation of Strategic and business plan • Issues arise by high staff turnover and staff retention policy. • Independence and importance of Audit Committee • BOD's monitoring on sectoral concentration • Inadequate MIS, IT, Disaster Recovery, information security policy, Weak data access control
Earning	➢ Adverse classification and provisioning ➢ Income recognition
Liquidity	• Agendas and frequency of ALCO meeting and discussed • Monitoring of liquidity profile and gap analysis • High credit to deposit ratio • Low liquid assets to total deposit ratio
Sensitivity To Market	➢ Poor Analysis of rate sensitive assets and liabilities ➢ ALCO lacking regular meeting ➢ Investment Policy not formulated/implemented

The comments/issues on inspection reports, to a great extent, are being repeated for last few years. The comments generally happened to be in the field of corporate governance, compliance and collateral issues. With regard to the effectiveness of enforcement, most of the banks are complying with the instructions given by the supervisor and appropriate correction take place in time. At the same time some banks seem to be more or less reluctant to address some issues put forth on inspection reports that require more supervisory attention.

Special On-site Inspection

During the year 2008/09, Bank Supervision Department conducted 20 special on-site examinations, one each in 10 banks, and maximum 4 times in Nepal Bangladesh Bank, relating to various issues. These inspections were initiated on the basis of information provided by Off-site Division of the department, and turned instrumental to resolve the main issues of such inspections.

Table 4.3: Special on-site Inspection in 2008/09

S.N	Banks	No of inspection
1	NMB Bank Ltd.	3
2	Global Bank Ltd.	1
3	DCBL Bank Ltd.	1
4	Agriculture Development Bank Ltd.	1
5	Nepal Credit and Commerce Bank Ltd.	3
6	Nepal Bangladesh Bank Ltd.	4
7	Himalayan Bank Ltd.	1
8	Rastriya Banijya Bank	1
9	Kumari Bank Ltd.	1
10	Nepal Bank Ltd.	1
11	Bank of Kathmandu Ltd.	1
12	Siddhartha Bank Ltd.	1
13	Lumbini Bank Ltd.	1
	Total Number of Inspections	**20**

4.3 Off-site Supervision

4.3.1 Cash Reserve Ratio (CRR) and Daily Liquidity Monitoring

Commercial banks are the backbone of the payment systems and are the main conduit of monetary policy. As an indirect monetary instrument, Nepal Rastra Bank uses CRR to control money supply in the economy, which is 5.5% of total local currency deposit liabilities in the review period. Banks, who fail to maintain such reserves, are levied financial penalties based on the bank rate. The penalty rate escalates every time when there is a repetition in non-compliance of CRR. During the fiscal year 2008/09, following banks were penalized in terms of non-compliance of cash reserve ratio.

Table 4.4: Penalty for non-compliance of Cash Reserve Ratio in 2008/09

Banks	Quarter I	Quarter II	Quarter III	Quarter IV	Total Rs.
Bank of Kathmandu Ltd.	25873.75	69,720.00	-	-	95,593.75
Siddhartha Bank Ltd.	-	188177.5	17,741.25	-	205,918.75
Prime Commercial Bank Ltd.	-	55,680.00	-	-	55,680.00
Nepal Industrial & Commercial Bank Ltd.	-	18,956.25	-	-	18,956.25
Nabil Bank Ltd.	-	-	75,036.25	-	75,036.25
Rastriya Banijya Bank Ltd.	-	-	-	182147.5	182,147.50
Nepal Bank Ltd.	-	-	-	1,508.75	1,508.75
Agriculture Development Bank Ltd.	-	-	-	14822.5	14,822.50
Total	**25873.75**	**332,533.75**	**92,777.50**	**198,478.75**	**649,663.75**

The offsite unit acquires data from all commercial banks to monitor and review weekly average CRR position of the banks. It aims to identify the balance of (excess or deficit) reserves maintained in central bank. It helps to monitor daily movement in deposits and loan portfolio of all banks.

4.3.2 Directed Lending

Banks are required to disburse at least 3% of their total loan portfolio in the deprived sector as directed lending. Failure to meet such an obligation resulted in the financial penalty for the bank, computed on the basis of highest published lending rate of the bank. During the fiscal year 2008/09, following banks were penalized in terms of non-compliance of directed lending.

Table 4.5: Penalty for non-compliance of Directed lending in 2008/09

Banks	Quarter I	Quarter II	Quarter III	Quarter IV	Total Rs.
Nepal Bangladesh Bank	1850178.75	607477.50	868350.00	-	3326006.25
Lumbini Bank Ltd.	-	-	21612.50	-	21612.50
Rastriya Banijya Bank Ltd.	-	-	12485463.75	-	12485463.75
Total	**1850178.75**	**607477.50**	**13375426.25**		**15833082.50**

4.3.3 Capital Adequacy Ratio

New Capital Adequacy Framework requires the banks to maintain minimum capital requirements. As per the framework, Nepalese commercial banks need to maintain at least 6% Tier I capital and 10% Total (Tier I & Tier II) Capital. These minimum capital adequacy requirements are based on the basis of the risk-weighted exposures (RWE) of the banks. The capital adequacy ratios of banks are monitored on a monthly basis. Table presented below shows the capital position of the banks as on mid July 2009 (table).

Table 4.6 Capital Adequacy Ratio

Capital Adequacy Ratio						
		Rs in Million			%	
S. N.	Bank	Tier I Capital	Total Capital	RWE	Tier I	Total Capital
1	Nepal Bank Limited (NBL)	-5061.44	-5061.44	36305.75	-13.94	-13.94
2	Rastriya Banijya Bank (RBB)	-12296.00	-12296.00	36215.00	-33.95	-33.95
3	Nabil Bank Ltd(NABIL)	3044.34	3727.08	34816.50	8.74	10.70
4	Nepal Investment Bank Ltd (NIBL)	3879.97	5095.35	45312.27	8.56	11.24
5	Standard Chartered Bank Ltd. (SCBL)	2832.76	3190.37	21703.16	13.05	14.70
6	Himalayan Bank Ltd (HBL)	3074.44	3845.21	34905.89	8.81	11.02
7	Nepal Bangladesh Bank Ltd (NBBL)	571.66	717.77	12932.49	4.42	5.55
8	Nepal SBI Bank Ltd (NSBI)	1692.37	2012.04	16872.72	10.03	11.92
9	Everest Bank Ltd (EBL)	1981.58	2703.87	25619.75	7.73	10.55
10	Bank of Kathmandu Ltd (BOK)	1683.59	2005.70	17167.52	9.81	11.68
11	NCC Bank Ltd (NCC)	881.34	994.52	8983.85	9.81	11.07
12	Lumbini Bank Ltd (LUBL)	946.91	998.38	5614.20	16.87	17.78
13	NIC Bank Ltd (NIC)	1649.01	1954.93	15741.61	10.48	12.42
14	Machhapuchhre Bank Ltd (MPBL)	1676.86	1811.87	15298.22	10.96	11.84
15	Kumari Bank Ltd (KBL)	1612.80	2050.91	17743.24	9.09	11.56
16	Laxmi Bank Ltd (LXBL)	1269.74	1721.18	14997.27	8.47	11.48
17	Siddharth Bank Ltd (SBL)	1257.07	1625.46	15210.56	8.26	10.69
18	Agriculture Dev. Bank Ltd (ADB)	7788.56	11066.66	70553.37	11.04	15.69
19	Global Bank Ltd (GBL)	1041.11	1140.44	11056.29	9.42	10.31
20	Citizens Int'l Bank Ltd (CTZBL)	1033.38	1116.18	9580.09	10.79	11.65
21	Prime Commercial Bank Ltd (PCBL)	1029.20	1127.51	10862.94	9.47	10.38
22	Bank of Asia Nepal Ltd (BANL)	1014.81	1093.08	9178.13	11.06	11.91
23	Sunrise Bank Ltd (SUBL)	1379.60	1470.40	11606.43	11.89	12.67
24	NMB Bank Ltd (NMB)	1587.02	1639.77	8616.80	18.42	19.03
25	DCBL Bank Ltd (DCBL)	1859.86	1925.31	9173.94	20.27	20.99
26	Kist Bank Ltd (Kist)	2022.93	2091.58	9979.77	20.27	20.96
Total		**27926.46**	**38241.11**	**526499.76**	**5.30**	**7.26**
Private Sector banks		39022.33	46058.89	382973.64	10.19	12.03
Public Sector banks		-11095.88	-7817.78	143526.12	-7.73	-5.45

4.3.4 Annual Accounts Clearance

Banks are required to obtain clearance from Nepal Rastra Bank prior to publishing their annual accounts. In this process, off-site surveillance of each of the bank is conducted based on the various documents like the final accounts submitted by the banks, preliminary audit report, management reply, long form audit report, auditors final report and the preceding on-site examination report. The banks' financial position, compliance of the relevant laws and issues raised by the external auditors are analyzed at length to determine whether any supervisory intervention is required. Annual accounts of 25 banks were cleared during 2008/09; except RBB.

4.4 Enforcement Activities

The Enforcement Units, which are also called the Desks, are responsible for ensuring the directions of the Nepal Rastra Bank with respect to the on-site examinations and off-site supervision are adhered 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.

4.5 Policy Planning Activities

During review period, the Policy Planning and Analysis unit formulated an Action Plan for the upcoming year. The unit conducted a periodic review of the Annual Supervision Action Plan of 2008/09 and the report was executed in accordance with the Inspection and Supervision By-laws. Policy, planning and analysis unit also acts as the secretariat for High Level Co-ordination Committee. Similarly the unit conducted various training, seminars and interaction programs.

4.5.1 Trainings, Seminars, and Interaction Programs

- A two-days departmental interaction program on Bank Supervision including Risk Based Supervision
- An interaction program with external auditors of Commercial Banks
- An Interaction with the Chief Executive Officers and Board members of commercial Banks on current issues.
- A one-day Interaction program with commercial banks on implementation of New capital adequacy framework.
- A four-days international workshop on "Stress Testing."

4.5.2 Secretariat for High Level Co-ordination Committee

High level Co-ordination Committee comprises of regulators of various economic segments. The committee is co-ordinated by the Deputy Governor of the NRB. Policy planning Unit of BSD acts as a secretariat for High level Co-ordination Committee.

The committee's meeting is sought specially to address issues that have major impact on the financial system and are in the common jurisdiction of all regulators. At present, the committee includes representatives from Securities Board of Nepal, Company Registrar's office, Ministry of Finance, Insurance Board and Nepal Rastra Bank. The committee, if deemed necessary, invites members from Nepal Stock Exchange and other departments of the NRB.

In the review year, the committee meeting was held for four times. Major discussions held at that period related to the issues of Initial Public Offering (IPO) and providing Investors' Identity Number, managing right share issuance of Banks and financial institutions, conversion of promoters share to ordinary share, merger/acquisition, upgradation of financial institutions, mutual funds etc. The meetings were felt to be very much instrumental in clarifying the cross-jurisdictional issues and biases and leading the financial system in profound stability.

4.6 Special Monitoring of commercial banks

Nepal Rastra Bank placed two private sector commercial banks, Nepal Bangladesh Bank Ltd. and Lumbini Bank Ltd., in the close monitoring in the review year. Since these banks were having some major problems in corporate governance and connected lending, it was deemed necessary to monitor their operation especially on credit and investments. Likewise, a management team was constituted to look after the daily operation of a government-owned bank, Nepal bank Limited.

Chapter 5

Performance of the Banking Sector in 2008/09

5.1 Assets of the banking industry

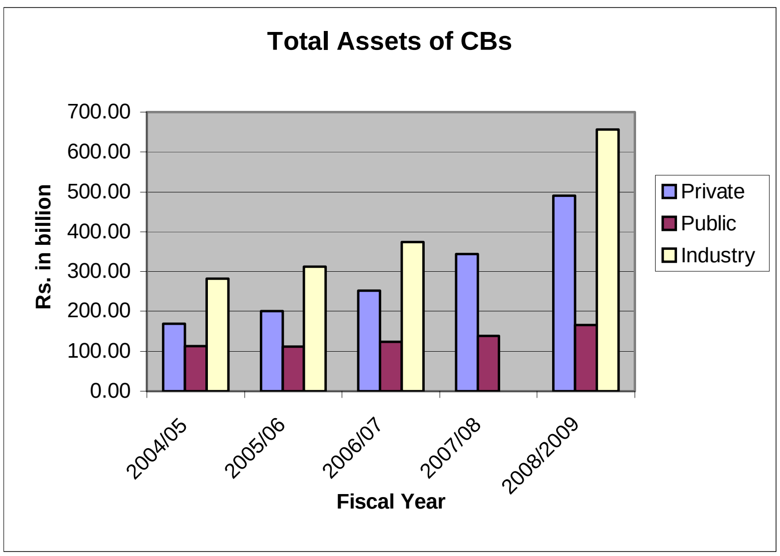
Total assets of the banks increased by 35.80 percentages in the year 2008/2009 compared to 28.84 percent in the fiscal year 2007/08. The total assets increased by 19.60 percent in the public banks and by 42.45 percent in the private banks in the same year. The growth of total assets in private banks is higher than public banks and is in increasing trend for last 5 years, but it is volatile in case of public banks.

Table 5.1: Total Assets of the Banking Industry

(Rs. in billion)

Banks	2004/05	Change %	2005/06	Change %	2006/07	Change %	2007/08	Change %	2008/09
Public	113.46	-5.67	107.02	59.23	120.70	12.53	139.05	19.60	166.26
Private	169.06	18.89	200.99	25.00	251.23	36.86	343.85	42.45	489.58
Industry	282.51	9.03	308.13	34.37	371.93	28.84	482.89	35.80	655.85

Chart No. 6: Total Assets of the Banking Industry

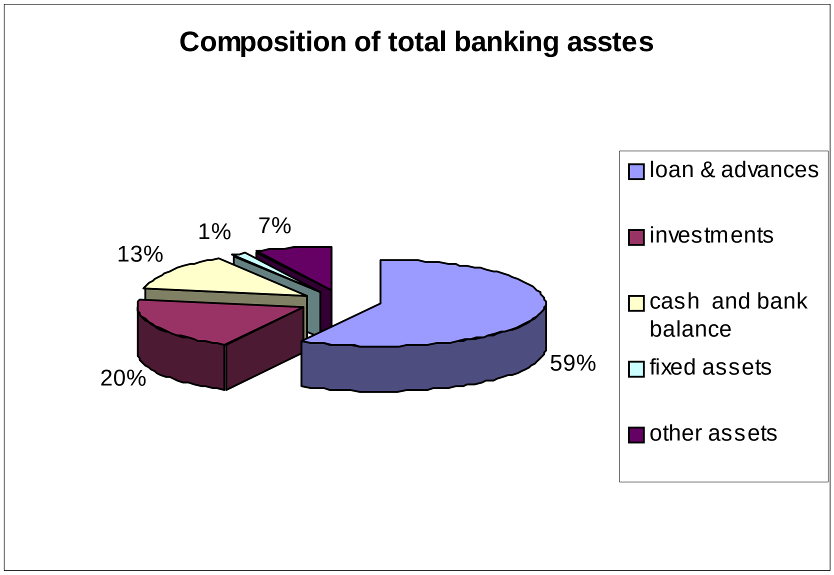


The increase in the total assets was mainly on account of the increase in the loan portfolio of the banks Rs 102.18 billion in 2008/09. Such assets had increased by approximately Rs.73.96 billion and by 64.03 billion in 2007/08 and 2006/07 respectively. The loan portfolio of the public banks had increased by Rs.14.70 billion in the year 2008/2009, while the private banks had posted an increase of Rs.87.48 billion during the period.

5.2 Composition of Assets

Commercial banks have a variety of assets, however loans and advances accounted more than half of the total assets followed by investment and cash and bank balance. As on mid July 2009, the proportion of loans, investment and cash and bank balance to total assets was 59 percent, 20 percent and 13 percent respectively.

Chart No. 7: Composition of Assets (Mid July, 2009)



5.3 Composition of Liabilities

The bank's liability and capital side of balance sheet consisted of various sources of funds like share capital and reserves, deposits and borrowings. The largest source of fund of commercial banks as on mid July 2009 was deposit, which amounted Rs. 564.14 billion, of which Rs. 415.62 billion was shared by private banks and rest by the public banks. The second largest source, share capital amounted Rs.40.92 billion in the whole banking industry. As evident from the following table, the reserves of the private banks (Rs.12.09 billion) remained important source of funding, but due to the huge volumes of negative reserves (Rs.20.31 billion) of the public banks and three private banks, it had negated the reserves of the entire banking industry.

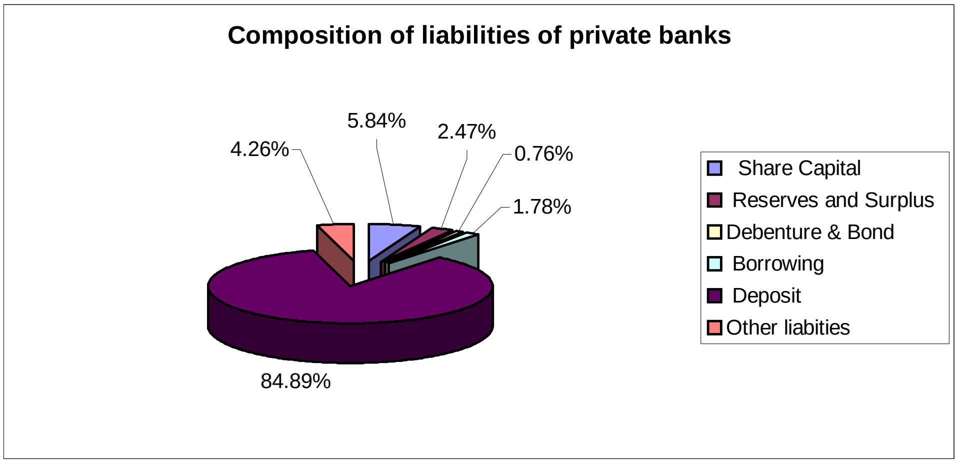
The year on year comparison indicated a positive change in the liabilities of the banking sector. Commercial banks were able to mobilize an additional deposit of Rs.131.51 billion in 2008/09, and by Rs.91.60 in the previous year. Out of the total growth in deposit of the banking industry in the review year, Rs.121.58 billion was from private sector.

Table 5.2: Composition of Liabilities (Mid July 2009)

(Rs. in billion)

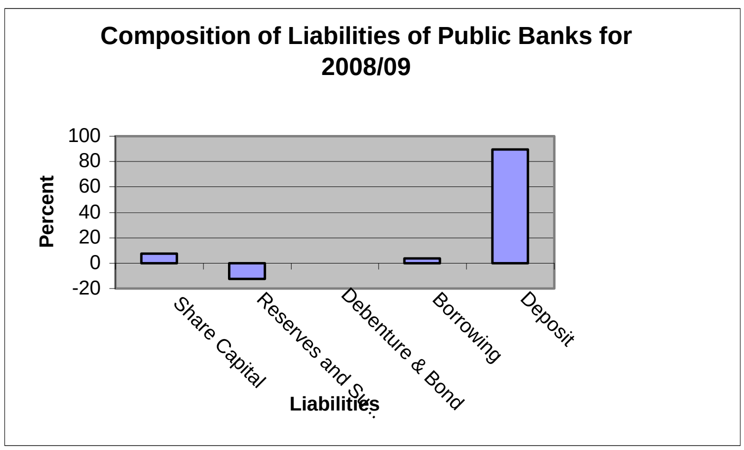
Capital and Liabilities	Public	Private	Industry
Share Capital	12.33	28.57	40.92
Reserves and Surplus	-20.31	12.09	-8.23
Debenture & Bond	-	3.73	3.72
Borrowing	6.042	8.70	14.75
Deposit	148.51	415.62	564.14
Other Liabilities	19.704	20.84	40.55
Total Liabilities	**166.26**	**489.58**	**655.84**

Chart No. 8: Composition of Liabilities of Private Banks (Mid July 2009)



The analysis of the composition of liabilities of the private banks indicated a heavy concentration of 84.89 percent in the form of deposits while the capital, borrowings and others account for 5.84 percent, 1.78 percent and 7.49 percent respectively.

Chart No. 9: Composition of Liabilities of Public Banks (Mid July 2009)



The composition of liabilities of the public banks indicated a concentration of 89.33 percent in the form of deposits while the paid up capital, Reserves and others account for 7.42 percent, -12.23 percent and 15.49 percent respectively. The public banks had no funding from debenture capital and hybrid instruments during the review period.

5.4 Capital

The consolidated capital of the Nepalese banking industry showed positive trend during the review year. The capital increased from Rs.9.38 billion in 2007/08 to Rs.32.67 billion in 2008/09. In the same year; the growth in capital of private banks increased by 59.40 percent to Rs.40.67 billion, whereas, it improved from negative Rs.16.13 billion to negative Rs.8 billion in public banks. However, due to the large volume of negative reserves of the two public banks, the capital base still is a long way to achieve minimum capital requirement.

Table 5.3: Total Capital Fund of the Banking Industry

(Rs. in billion)

Banks	2004/05 (Rs.)	2005/06		2006/07		2007/08		2008/09	
		Change %	Rs.	Change %	Rs.	Change %	Rs.	Change %	Rs.
Private	11.89	-8.8	10.85	31.4	14.25	79.1	25.51	59.4	40.67
Public	-33.61	-23.1	-25.86	-14.2	-22.19	-27.3	-16.13	-50.4	-8.00
Industries	-21.72	-7.2	-20.16	-60.6	-7.94	-218.1	9.38	248.2	32.67

Due to the inherent problems and big chunk of NPA, the public sector banks suffered from massive losses in the past, which had heavy impact on their capital adequacy. Although, the public banks had started to improve their financial condition, it is a far cry from an acceptable standard. The two public banks, due to their size, had a relatively significant degree of sensitivity to the entire industry's capital.

The review of the individual banks capital adequacy, as on mid July 2009, reflected that most of the banks had complied with the statutory capital adequacy ratio of 10 percent. The banks with non-compliance were Rastriya Banijya Bank (-38.37%), Nepal Bank Ltd (-13.94%) and Nepal Bangladesh Bank Ltd. (5.55%).

Table 5.4: Capital Adequacy Ratio of Banks (Mid July 2009)

(in percent of RWE)

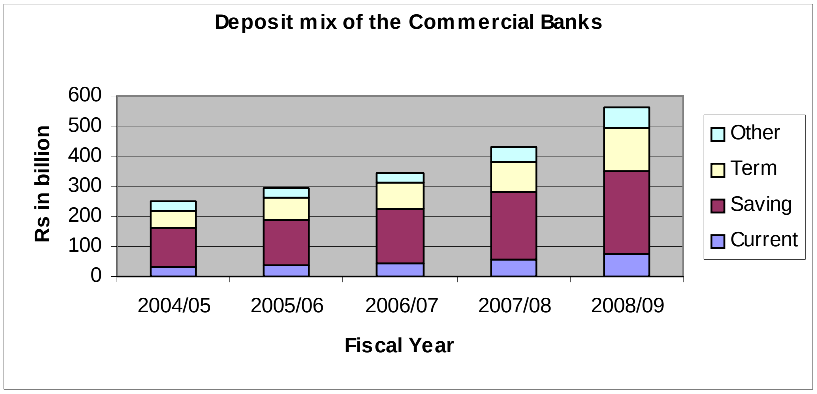
Capital	NBL	RBB	Nabil	NIB	SCBNL	HBL	NSBI	NBB	EBL
Core Capital	-13.94	-33.95	8.74	8.56	13.05	8.81	10.03	4.42	7.73
Total Capital Fund	-13.94	-33.95	10.70	11.24	14.70	11.02	11.92	5.55	10.55
Capital	**BOK**	**NCC**	**LBL**	**NIC**	**MBL**	**KBL**	**LXBL**	**SBL**	**ADBN**
Core Capital	9.81	9.81	16.87	10.48	10.96	9.09	8.47	8.26	11.04
Total Capital Fund	11.68	11.07	17.78	12.42	11.84	11.56	11.48	10.69	15.69
Capital	**GBL**	**CTZN**	**PCBL**	**BOAN**	**SRBL**	**DCBL**	**NMB**	**Kist**	
Core Capital	9.42	10.79	9.47	11.06	11.88	20.27	18.42	20.27	
Total Capital Fund	10.31	11.65	10.38	11.91	12.66	20.99	19.03	20.96	

The capital of the Nepalese banking industry depicted a favorable trend during 2008/09. There were various reasons for this improvement. The banks, during the period, on an average performed well and some of them raised capital from the market, which improved the overall capital position of the industry. All banks were able to post handsome profits. Some banks were able to distribute cash dividends and bonus shares to their shareholders. At the same time, some banks raised funds from the market through the issuance of right shares during the year.

5.5 Deposit

Total deposit of the banking sector increased by 30.40 percent to Rs.564.14 billion as on mid July 2009.

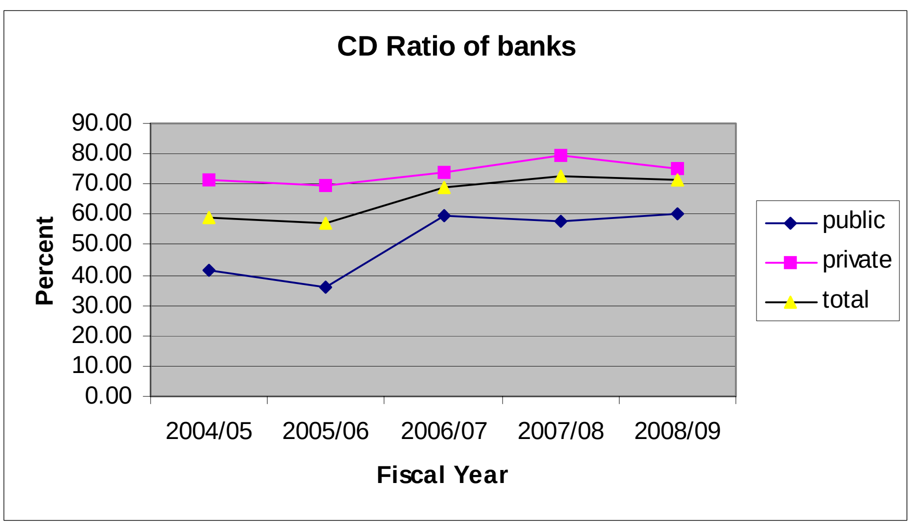
Chart No. 10: Deposits Mix of the Banking Industry on Mid July 2009



The deposit of the banking industry has been dominated by the savings deposit and term deposits. The share of private banks' deposit on total deposit was in increasing trend for past five years. The private banks hold 73.67 percent of total deposit on mid July 2009, which was 67.95 percent in the previous year.

The savings deposit accounted for around 50 percent of total deposits followed by term deposits (25.21 percent) in the overall banking industry as on mid July 2009.

Chart No. 11: Trend of Credit to Deposit Ratio (mid July 2009)



The Credit Deposit (CD) ratios of private banks were higher relative to public banks in last five years. The CD ratio of public banks and private banks were 60.14 percent and 75.19 percent respectively, forming overall CD ratio to be 71.23 percent as on mid July 2009.

5.6 Loans and Advances

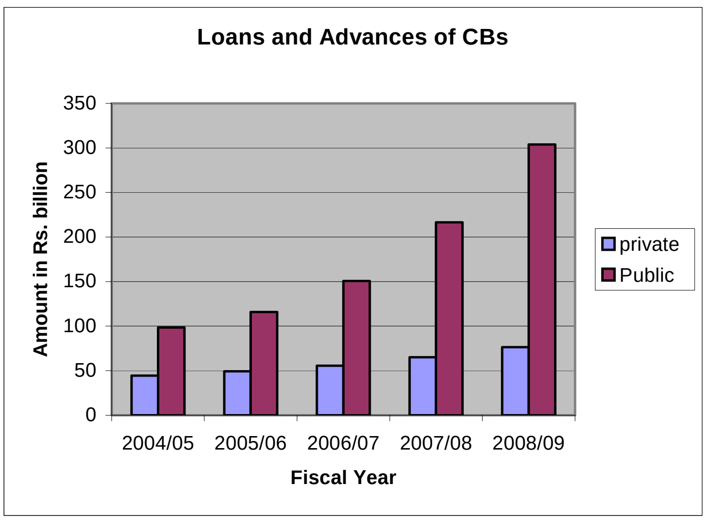
As per the consolidated balance sheets of the commercial banks, the loans and advances of the banking industry increased by 35.23 percent reached to Rs.380 billion in 2008/09. The loan and advances of public banks increased by 16.92 percent reached to Rs. 76 billion and private banks by 40.74 percent to Rs.304 billion respectively. The credit flow of private commercial banks caught an increasing trend in the review year.

Table 5.5: Loans and Advances of the Commercial Banks

(Rs .in billion)

Banks	2004/05 (Rs.)	2005/06		2006/07		2007/08		2008/09	
		Change %	Rs.	Change %	Rs.	Change %	Rs.	Change %	Rs.
Private	98	18.37	116	30.17	151	43.05	216	40.74	304
Public	44	11.36	49	14.29	56	16.07	65	16.92	76
Industry	142	16.20	165	25.45	207	35.75	281	35.23	380

Chart No. 12: Loans and Advances of Commercial Banks (Mid July 2009)



5.6.1 Sector wise Classification of Loans and Advances

Total Loan and Advances disbursed in the various sectors of economy are compiled on the basis of the returns submitted by the commercial banks. As at mid July 2009, Sector wise Classification of Total Loan and advances of commercial banks are as following table:

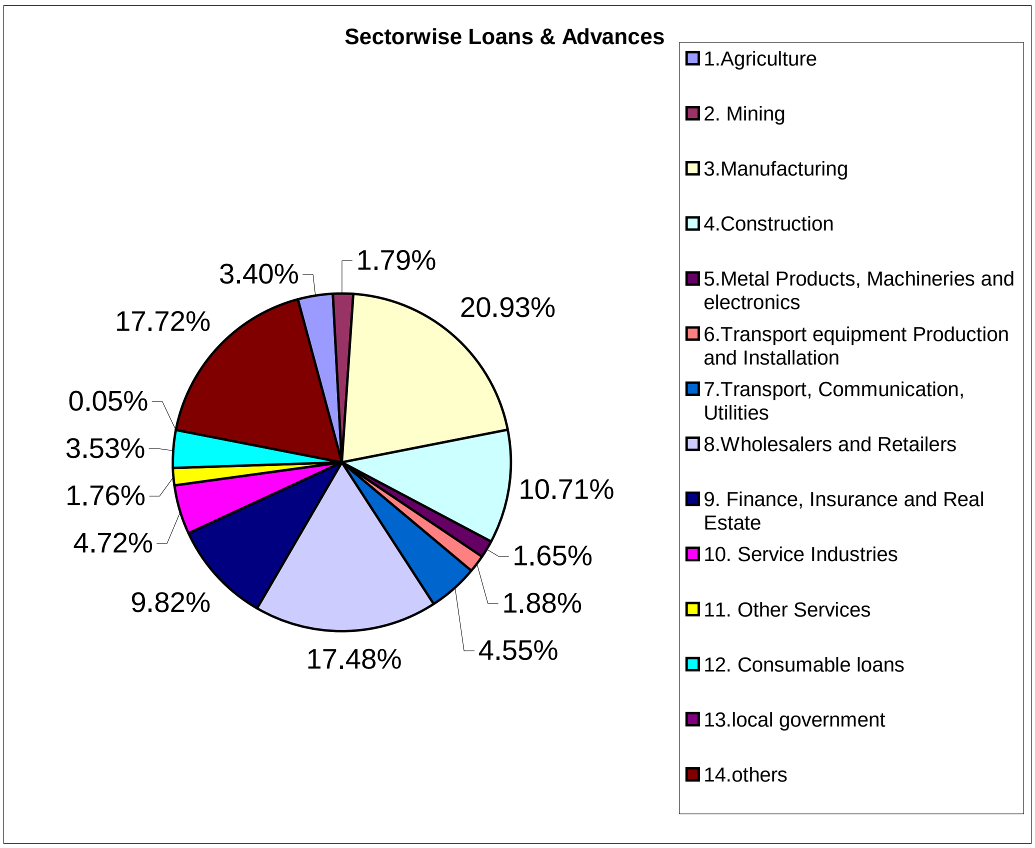
Table 5.8: Sector wise Classification of Loans and Advances

Sector wise Classification of Loan & Advances	Percent of Total Loan
1. Agriculture	3.40
2. Mining	1.79
3. Manufacturing	20.93
4. Construction	10.71
5. Metal Products, Machineries and electronics	1.65
6. Transport equipment Production and Installation	1.88
7. Transport, Communication, Utilities	4.55
8. Wholesalers & Retailers	17.48

9. Finance, Insurance and Real Estate	9.82
10. Service Industries	4.72
11. Other Services	1.76
12. Consumable loans	3.53
13. Local government	0.05
14. Others	17.72
Total loan	**100.00**

Loans and Advances disbursed in the manufacturing sectors is 20.93% of the Total loan and advances as at mid July 2009. Similarly Sectorwise concentration in Wholesalers & Retailers and Others sectors are 17.48% and 17.72% respectively.

Chart No.13: Sector wise Loans and Advances



5.6.2 Security wise Classification of Loans & Advances

Total Loans and Advances disbursed by the commercial banks are secured by the various securities. Following table shows that the security wise classification of loans & advances. As at mid July 2009, highest percentage of loans and advances were secured by Assets, which includes fixed assets and current Assets. 85.90% of total loans and advances were secured by assets guarantee.

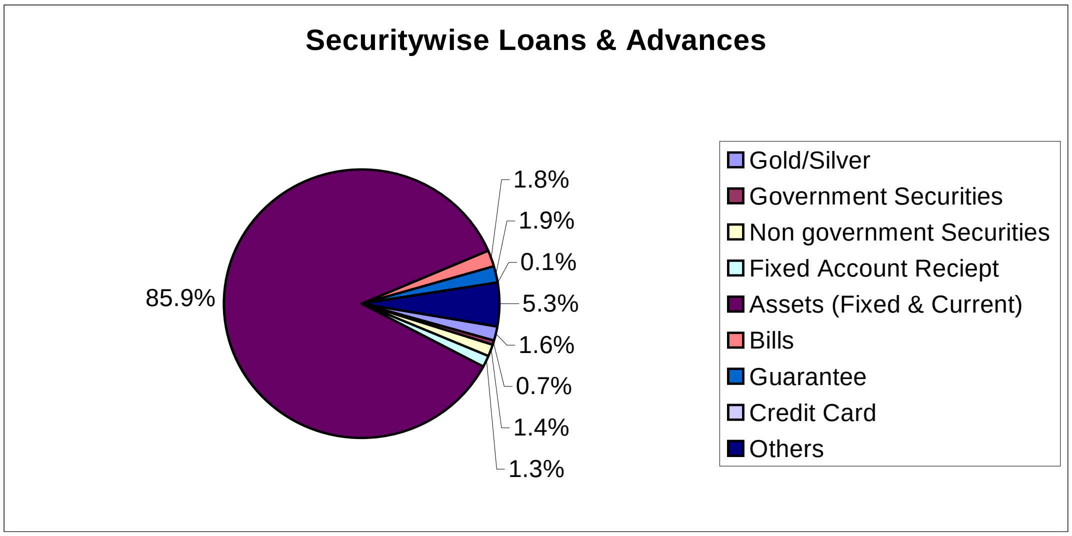
Table 5.9: Security wise Classification of Loans and Advances

S.N.	Security	Percent of Total Loan
1	Gold/Silver	1.61
2	Government Securities	0.74
3	Non government Securities	1.37
4	Fixed Account Receipt	1.33

5	Assets (Fixed & Current)	85.90
6	Bills	1.80
7	Guarantee	1.87
8	Credit Card	0.08
9	Others	5.31
	Total Loan and Advances	100.00

Chart below shows that loan and advances secured by assets (fixed & current) covers the highest portion i.e. 85.9 percent of the total area. Similarly securities like others and guarantee take second and third position respectively.

Chart No. 14: Security wise Loans & Advances



5.6.3 Product wise Classification of Loans & Advances

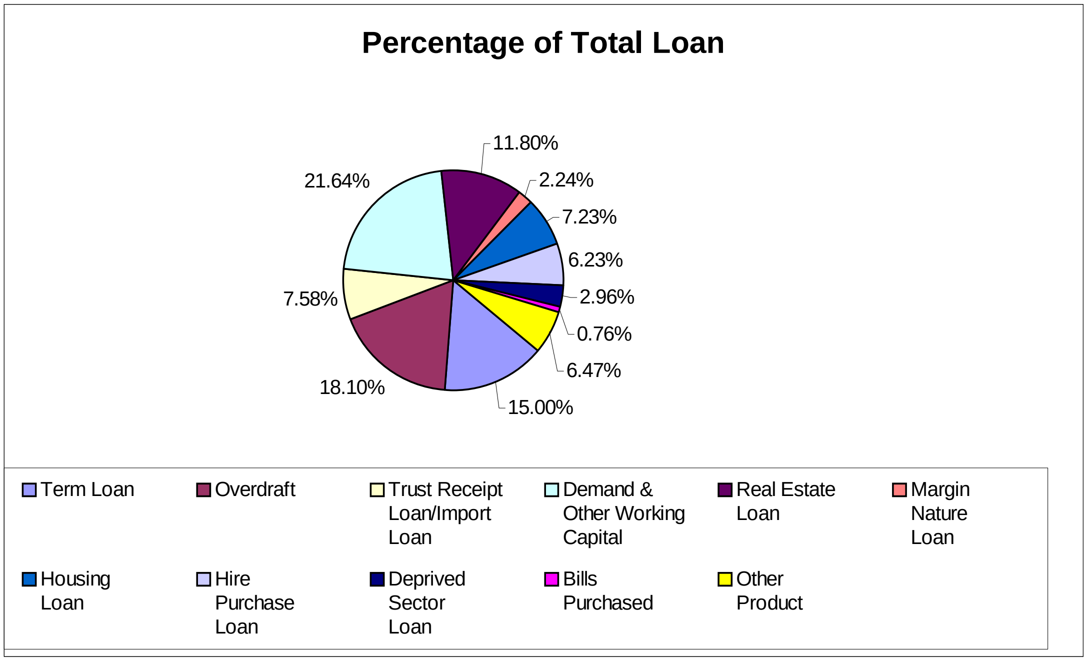
Nepal Rastra Bank has defined and classified the total loans and advances of the commercial banks on the basis of their loan products offered in the market. As on mid July 2009, product wise classification of total loans and advances is as following table:

Table 5.10: Product wise Classification of Loans and Advances

Loan Products	Percent of Total Loan
Term Loan	15.00
Overdraft	18.10
Trust Receipt Loan/Import Loan	7.58
Demand & Other Working Capital	21.64
Real Estate Loan	11.80
Margin Nature Loan	2.24
Housing Loan	7.23
Hire Purchase Loan	6.23
Deprived Sector Loan	2.96
Bills Purchased	0.76
Other Product	6.47
Total	100.00

Above table shows that Demand and Other working capital loan products occupy (21.64%) the highest percentage of total loan and advances. Similarly Overdraft and Term Loan are in the second and third position having 18.1 percent and 15 percent of the total loan and advances respectively.

Chart No. 15: Product wise Loans & Advances



Above chart shows the product wise classification of loan and advances. Demand and other working capital category cover the major portion of the chart, overdraft and term loan being second and third respectively.

5.7 Non-performing Assets

The Nepalese Banking system was riddled with a significant amount of non-performing assets (NPA). The total volume of NPA as on mid July 2009 was Rs14.60 billion. The NPA declined by Rs.4.76 billion in 2008/09 compared to a decline of Rs.4.67 billion in the year 2007/08. Though the volume of non-performing assets declined, total loan outstanding was continuously increasing, thus resulting to a favorable proportion of NPA.

Table 5.6: Non –Performing Loans of the CBs

(Rs in billion)

Banks	2004/05	2005/06	2006/07	2007/08	2008/09
Private	5.82	8.38	8.89	7.22	4.96
Public	22.06	17.2	15.13	12.14	9.64
Industry	27.88	25.58	24.03	19.36	14.60

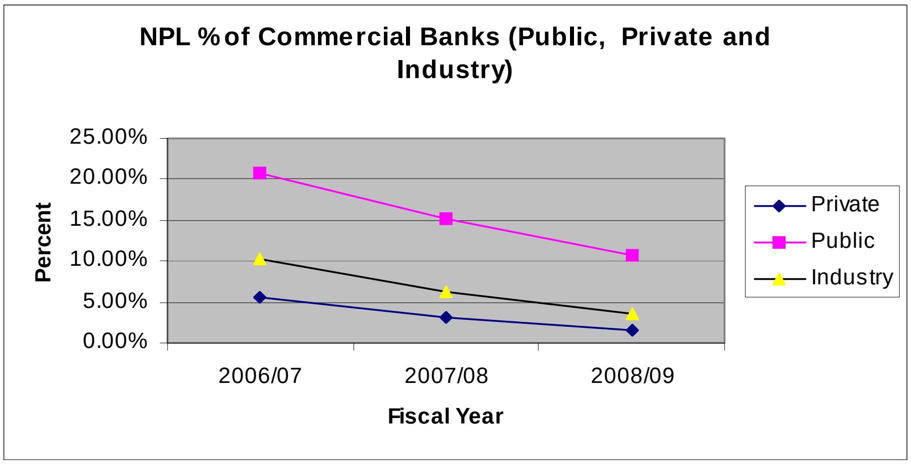
The non-performing loans of private banks was Rs.4.96 billion whereas that was Rs.9.64 billion in case of public banks in 2008/09. Still, public banks constituted the largest portion of total NPA in the whole banking industry. With regard to quality of the loan portfolio of the individual banks, Agriculture Development

Bank Ltd. was the worst closely followed by Nepal Bangladesh Bank Ltd., Rastriya Banijya Bank Ltd, Nepal Bank Ltd and Himalayan Bank Ltd.

Table 5.7: NPL Ratio of Public and Private Banks (Gross Loan Based)

Banks	2006/07		2007/08		2008/09	
	Gross Loan	NPL %	Gross Loan	NPL %	Gross Loan	NPL %
Private	162.18	5.48	233.69	3.09	312.53	1.59
Public	72.97	20.73	79.94	15.19	89.32	10.79
Industry	235.15	10.22	313.62	6.17	401.85	3.63

Chart No. 16: NPL Ratio of Public and Private Banks (Gross Loan Based)



The volume of Non Performing assets was largely on account of the portfolio of the public banks. The volume of NPA, thus, needed 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 was 10.79 percent in 2008/09, though it had shown some sign of improvement in the last couple of years. Meanwhile, the NPA ratio of the private banks on mid July 2009 was 1.59 percent. This ratio had been below 5 percent for last five years and was in decreasing trend. The declining volume of NPA in both the banks had reflected a better NPA ratio in the industry, which had come down from appalling 30.41 percent in 2001/02 to 3.63 percent in 2008/09.

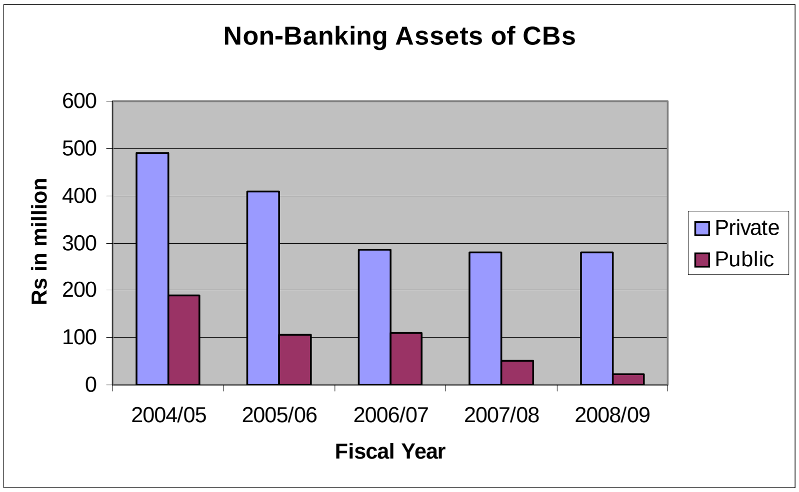
According to the Nepal Rastra Bank's directives issued to the banks, they are required to create loan loss provisions on the gross value of all outstanding loans in accordance with the quality of their loan portfolios. So, the public banks with large volumes of NPA maintained higher provisions in their balance sheets while the provisions of the private banks were relatively lower.

5.8 Non-Banking Assets

The assets that are taken over by the bank towards the recovery in respect of the default by the borrowers are classified as non-banking assets. Non banking assets of commercial banks declined by 27.62 percent to Rs 303.21 million in 2008/09.

The large chunk of these assets relate to the public banks, which was also a reflection of better recovery procedures than last years. The non banking assets of public banks decreased by 54.68 Percent than previous year (2007/08).

Chart No. 17: Composition of Non Banking Assets of the Industry

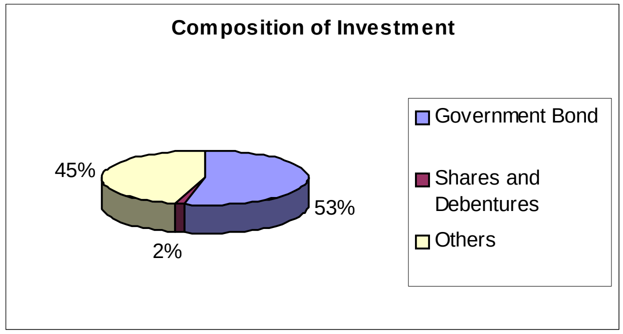


5.9 Investment

The investment activity of the Nepalese commercial banks is limited. The banks have been predominantly investing in the government securities like the treasury bills and government bonds. This investment in government securities provides liquidity benefits to the banks. The other areas of investment include inter-bank placement and investment in shares and debentures.

The investment of banking industry increased by Rs. 21.83 percent to Rs.130.78 billion in 2008/09. The analysis of the composition of the investment of the banking industry indicates a heavy concentration of 53.07 percent on government bonds while the share and debenture and others account for 1.67 percent and 45.26 percent respectively. Banks are not allowed to invest in the shares and debentures of the banks and the financial institutions licensed by the NRB. This phenomenon has continuously propelled the proportion of investment in other investment as well as the total investment, upward.

Chart No. 18: Investment Portfolio of Banking Industry (Mid July 2009)



The analysis of the composition of the investment of the public banks indicated a heavy concentration on government bond i.e., 70 percent of total investment. Similarly, the share of shares and debenture in the public banks was 3 and other investment was 27 percent. While in private sector banks, the proportion of investment on government bond was 47 percent of total investment. Similarly, investment on shares and debentures were 1 percent and 52 percent in other investment.

Chart No. 19: Investment Portfolio of Public Banks (Mid July 2009)

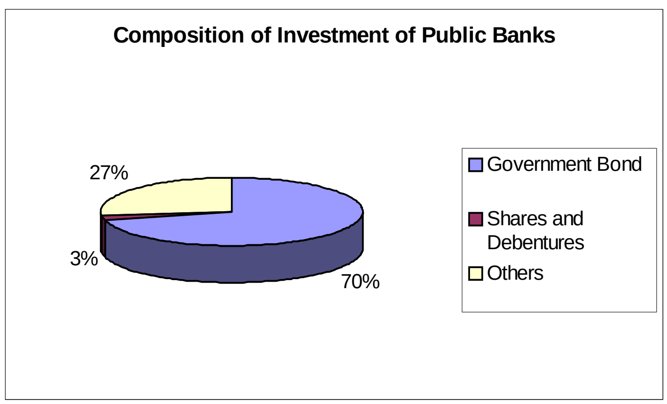
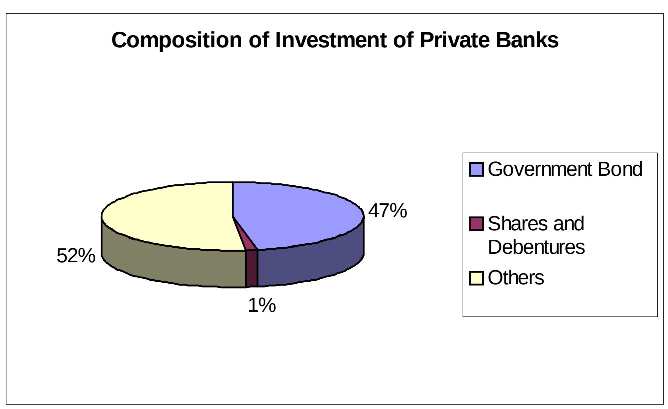


Chart No. 20: Investment Portfolio of Private Banks (Mid July 2009)



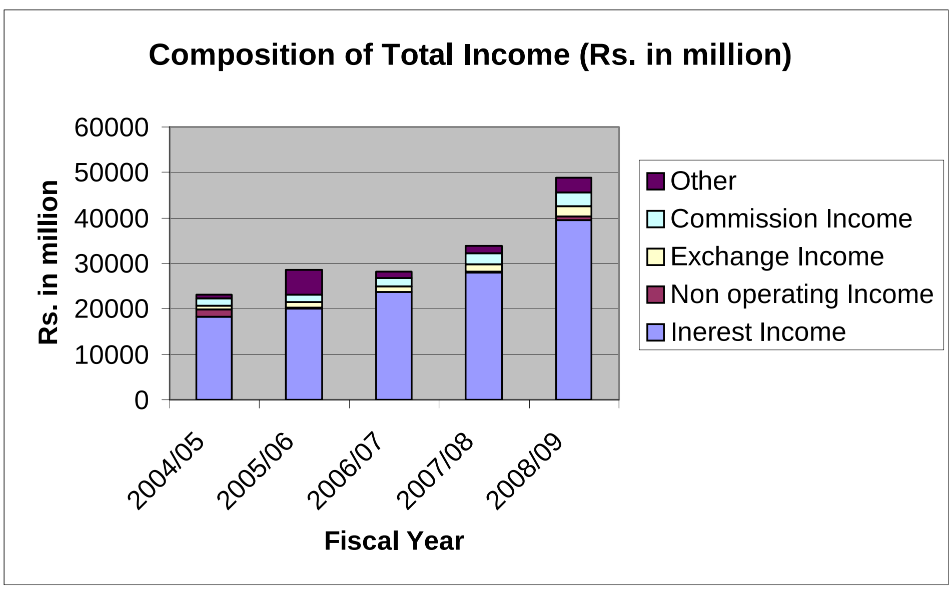
5.10 Earnings

The total income of the banking industry increased by 44 percent to Rs.48.86 billion in 2008/09. Interest income, the significant proportion of income, constituted 81 percent of total income in the review year. Thereafter comes other incomes, and then followed by income from commission, exchange income and non-operating income respectively.

All banks, managed to earn profits during the year. Nepal Bangladesh Bank Ltd booked the highest profit of Rs.2.16 billion during the year. The write back of loan loss provision contributed 83.31 percent of net profit in Nepal Bangladesh Bank Ltd. 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 (RBB and ADBN).

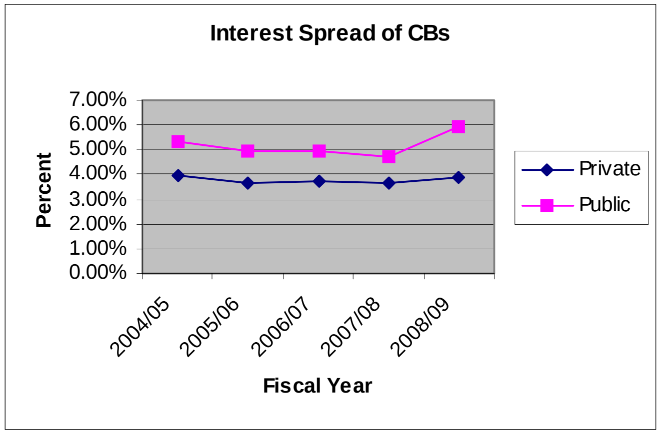
Till 2002/03, the Nepalese banking industry was unprofitable because of the poor performance of two public banks. However, their performance after the reform process provided favorable results in terms of their profitability and the profitability of the industry, as a whole. The banks managed to achieve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

Chart No. 21: Composition of Total Income



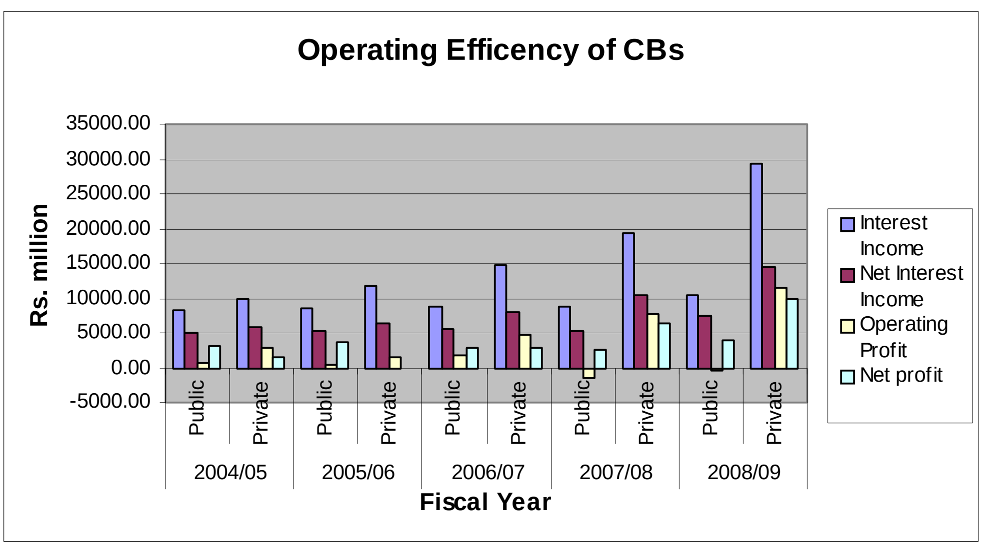
The major contributing factor to profitability is the net interest income of the banks, computed as the surplus of interest income over the interest expenses. All of the banks, during 2008/09, were able to attain positive net interest income. All banks except ADBN had positive operating profits, which was an effective measure of efficiency of banks operations. The ADBN had substantial amount of staff expenses (Rs.2.48 billion) and loan loss provision (Rs.2.18 billion) leading bank to a huge operating loss. The weighted average interest rate spread of the public sector banks climbed to 5.96 percent from 4.75 percent of previous year. The weighted average interest rate spread of the private sector banks increased to 3.85 percent from 3.66 percent of previous year. The inclining spread meant either the lower interest on deposit or higher interest on lending. In both cases, the banks should be competitive enough to maintain or enhance profitability. The weighted average interest spread was observed in the range of minimum 2.41 percent to maximum 6.45 percent in the review year.

Chart No. 22: Interest Spread of Banks in 2008/09



The net profit of the banking industry increased to Rs.13.85 billion in 2008/09 from Rs.9.07 billion in 2007/08. Out of the total net profit Rs.9.84 billion was contributed by private banks and remaining 4.01 billion by public banks.

Chart No. 23: Operating Efficiency of Banks



5.11 Liquidity

The banks should be able to honor the demand for payment to its depositors and its other commitments. In order to do so, banks should 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) registered a growth of Rs.41.74 billion in 2008/09. Deposit liabilities and total assets of the industry increased by 30.40 percent and 37.44 percent respectively in 2008/09. The proportion of liquid assets to total deposits, as on Mid July 2009, was 29.75 percent, which was 29.79 percent as at mid July 2008 and 32.05 percent as at mid July 2007. The proportion of liquid assets to total assets, as on mid July 2009, was 25.59 percent, which was 26.70 percent in 2007/2008, and 29.18 percent in 2006/07. The decreasing trend of the ratio in the past five years shows the weakening liquidity of the banking industry and banks' intention to earn more profit.

Table 5.11: Movement in the Liquid Assets and Deposit of the Banks

(Rs. in billion)

Components	2004/05	2005/06	2006/07	2007/08	2008/09
Liquid Assets	87.40	83.56	108.46	128.88	167.81
Deposit	253.26	262.35	338.39	432.63	564.14
Liquid Assets/Deposit	34.51%	31.85%	32.05%	29.79%	29.75%

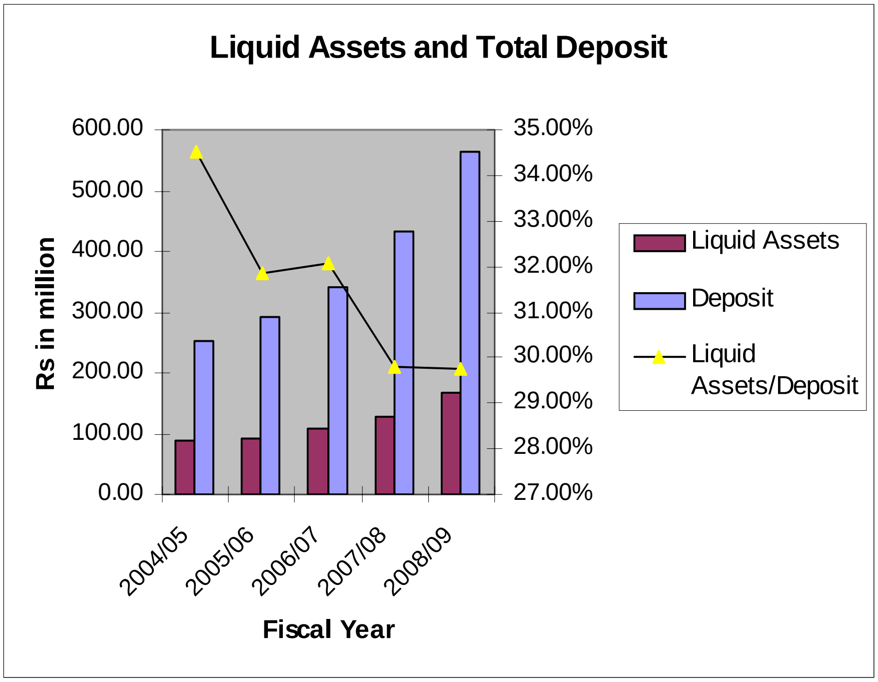
Table 5.12: Movement in the Liquid Assets and Total Assets of the Banks

(Rs. in billion)

Components	2004/05	2005/06	2006/07	2007/08	2008/09
Liquid Assets	87.40	92.23	109.35	128.92	167.81
Total Assets	282.51	312.09	374.79	482.89	655.85
Liquid Assets/Total Assets	30.94%	29.55%	29.18%	26.70%	25.59%

The figure below also shows the deteriorating liquidity of the banking industry. The deposit had drastically increased in the 2008/09. Similarly, the downward liquid assets to deposit curve also shows the degrading liquidity in a year 2008/09.

Chart No. 24: Liquidity Position of the Nepalese Banking Industry



5.12 Interest Rates of Commercial Banks

Interests Rates of the commercial banks as on mid July 2009 are shown in the following table. Saving rates offered by the commercial banks were in the range from 2% per annum to 7.5% per annum at the end of mid July 2009. Deposit rates in saving and term deposits were observed to be in the range from 2% per annum to 9.5% per annum. Similarly Lending rates offered by the commercial banks were in the range from 6.5% to14.0% per annum.

Table 5.13 : Interest Rates of Commercial Banks

Deposit Rates (% per annum)	
Savings Deposits	2.0-7.5
Time Deposits	
1 Month	1.5-5.25
3 Months	1.50-6.0
6 Months	1.75-7.0
1 Year	2.5-9.0
2 Years and Above	2.75-9.5
Lending Rates(% per annum)	
Industry	8.0-13.50
Agriculture	9.5-12.0
Export Bills	6.50-11.50
Commercial Loans	8.0-14.0
Overdrafts	6.5-13.5

CHAPTER 6

Emerging Challenges in Banking Supervision

6.1 The role of bank supervisors becomes increasingly challenging

The banking today is becoming more complex and challenging. With introduction of new technologies, products and landscapes in the financial system, the complications are also escalating, thus increasing the roles of financial market players as well. In the last two decades, we have witnessed dramatic changes in banking practices, banking regulation and supervision. Globally, there have been more banking crises in the last two decades than ever before and their consequences have been more far-reaching.

The sub prime mortgage crisis, which started in 2007 in United States, being continued for more than almost three years worldwide, finally letting the economy recovered in the latter part of 2008/09, is still a big financial agenda in almost all major countries in the world. The crisis had exposed and justified the prevalence of great weaknesses in financial industry regulation and the global financial system. Due to the financial crisis, banks and financial institutions suddenly lost a large part of their value thereby experiencing panics, stock market crashes, bursting of financial bubbles, currency crisis, sovereign defaults and consequently creating many challenges to the supervisors and regulators around the globe. After many ups and downs, eventually, the world economy is close to recovery now.

Banks have always dominant position in the financial system. They are the backbone of the payment systems and main conduit of monetary policy. The huge leverage with which they operate and the nature of their balance sheet, comprising short term liabilities and relatively longer term assets, expose them to a variety of risks, including credit, liquidity, interest rate and currency risks. They are also subject to operational risks like fraud and abuse. Above all, because banks operate on trust, a slip in confidence could generate huge contagion effect and trigger runs and failures with disruptive consequences for the whole economy.

Nepal Rastra Bank is in a crucial stage so far in its history. There has been a paradigm shift in the banking industry. The system is becoming more sophisticated in terms of innovation, service delivery and incessant change. In this changing landscape, developing a secure, healthy and efficient payment mechanism; ensuring stability in the system, promoting healthy competition, making effective banking supervision, and raising public confidence are the major challenges to Nepal Rastra Bank. This section outlines some of the trends seen in the Nepalese banking industry and the challenges posed to the NRB as the regulator and supervisor.

6.2 Effective implementation of New Capital Adequacy Framework and moving towards more advanced approaches

In line with the international developments, Nepal Rastra Bank has issued a New Capital Adequacy Framework 2007. Ensuring compliance with the New Capital Adequacy Framework is a bit challenging to commercial banks. Many computations on this framework require manual intervention by banks due to insufficient features in their software. Similarly, the human resources of commercial banks working on new framework are not adequately trained and still there are so many confusions on classification and other. It is also important that Nepal Rastra Bank should make sure that the financial system at large operates stably with adequate provisions and allowances for future risks, ensuring less disruption in the system in case of disaster and financial stress.

One of the key challenges for the NRB is to move towards more advanced approaches of capital measurement. As we have adapted very simplified approaches to measure different risks, still there is a long way to go across specially to implement this framework completely. It requires substantial improvements in the market practices and high commitment from senior management of both the NRB as well as commercial banks to make the way for advanced approaches of capital determination. It necessitates well-calibrated rules, active supervision and judgment.

6.3 Reforms of government owned banks and providing level playing field

It is challenging for the NRB to improve the position and overall functioning of public banks. The human resources of these banks need to be trained and upgraded. The number of staff relative to profitability and deposits is very high which shows a big deal of inefficiency inherent.

These banks are under financial sector reform program and are treated differently. The capital requirement, provision of penalties, and other compliance issues of these banks are in the different level in compare to other banks. Within the same industry, if special treatment were given to some institutions, then obviously the full operating efficiency in the financial system could not be possible. Therefore, it is challenging on the part of the NRB to provide same level playing field to all the commercial banks and ensure competitiveness via indiscriminate behavior.

6.4 Strengthening supervisory capacity commensurate with increasing number of Banks

For assuming effective roles of supervisors and regulators, enhancing the supervisory image, and the effective implementation of the directives to banks, additional resources need to be devoted to attain good enhancement of expertise and skills among staff of supervisory authorities. The number of banks and financial institutions is increasing in the financial system. The complexity in the system is also increasing due to different innovations and adaptation. But the supervisory capacity is not increasing in the same pace. Therefore, it is eminent to increase the capacity of supervisors both in terms of number and quality. The supervisors need to be adequately trained and well equipped with necessary resources and tools in order to be effective supervisors and regulators in the context.

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 level. The capacity building is a continuous exercise and efforts should be made to ensure that supervisors are not just adept to meet the challenge today, but for tomorrow as well. Nepal Rastra Bank has a challenge to improve the capacity of supervisors to monitor risks while curbing excessive leverage and level of risk taking.

6.5 Moving towards Risk Based Supervision (RBS)

One of the important challenges before supervisors is moving towards risk based supervision. Currently, the bank is following compliance-based supervision, which is the reactive approach. RBS is a technique where the financial system as a whole and the banks in individual are supervised very closely in an ongoing basis. In order to identify the impact of individual bank on systemic risks, regular study of the banking activities and the trend in the industry need to be studied and measures are taken proactively.

6.6 Over reliance of commercial banks on the NRB regarding policy issues

Commercial banks in our country are not yet been able to be competitive and market oriented. Their efficiency is somehow constrained due to their reluctance in facing the big borrowers when it comes to demand the required documents or procedures. They hesitate to be market leaders in terms of introducing changes in trends of practices. With the fear of losing market share, some banks seem to be deviated from prudent banking practices and they expect the NRB to issue circulars in that regard. Some cases are; Paripassu deed in case of multiple banking and joint collateral, net worth declaration of the borrowers, information on Know Your Customers (KYC) guidelines etc.

6.7 Rapid growth of non-banking sector

A sizeable chunk of deposit in the financial sector seems to be sliding towards non-banking channel. One such emerging sector is cooperatives. Today, the cooperatives keep capacity to do major business transactions and financing without going to the banking sector. This is creating lots of problems to the system especially when it comes to the effectiveness of the policy implementation. Growth of non-banking sector is gradually introducing the great challenges for controlling macroeconomic fundamentals. It is because of the lack of control in the non-banking sector, which is becoming dominant in the latter days.

6.8 Consumer credit and personal loans

Major chunk of banking assets has been directed towards this sector. From the productivity perspective, it is not contributing much to the improvement in the macroeconomic indicators of the country. At the same time, this also serves inversely to the fundamental of banking business, which suggests the lending to be directed towards meeting clearly defined borrowing causes.

6.9 Multiple banking issues

The multiple banking practices by a client is not prudent as it does not let the banks or financial institutions know their customers fully. The KYC Guidelines, which requires banks or financial institutions to keep maximum information of the customers would be violated when we encourage multiple banking practices. Banking is not only making deposits or taking loans. It is much more than that. The bank has to play the role of strategic partner; a lender, custodian, advisor, agent and much more. In order to accomplish these roles and discouraging money-laundering practices, it is very essential to discourage multiple banking practices.

Not only that but also in case of liability discharge, it may create lots of problems to banks. The borrowers may enjoy various facilities from different banks without having clear demarcation on security. It may generate Systemic risk if any borrower enjoying multiple banking facilities with same security defaults in payments.

6.10 Defining big borrowers

Many supervisory issues are related to big borrowers of commercial banks. But Nepal Rastra Bank has not been able to maintain the database of big borrowers incorporating their financial details. The issues like connected lending, single obligor limit (SOL) etc. to reduce concentration risk would be effective only if we have good track records of the big borrowers. The software (spreadsheet) has been provided to commercial banks incorporating the details relating to big borrowers but it could not be effectively monitored.

6.11 Liquidity Shortage in banking sector

The liquidity problem in the banking industry is being apparent due to the assets liability mismatch by the banks. It is on the part of bank and financial institutions to manage their balance sheet and be responsible to pay off the liability as upon committed. But due to the aggressive growth of assets of the banks, at the cost of liquidity distress, they kept on increasing their credit deposit (CD) ratio to ensure profitability. But one should not forget, by increasing the proportion of lending in the total deposit at the cost of liquidity, the profit is always not guaranteed. Sometimes, such practice leads the banks to the bank run and thereafter towards bankruptcy.

Box 1: Global Financial Crisis and Nepalese Financial Sector

Recent global financial crisis had an immense impact on the economies of the developed part of the world. As a result of the US Subprime mortgage crisis, the economies of USA, UK, Germany and France were severally affected by the financial crisis. Several banks were collapsed, bailout packages were introduced and interest rates were slashed down. Indicators of global economic activity declined at an alarming rate.

There were two possible ways of transmission of the effect of global financial crisis in Nepal. The effect could be transmitted through contagion effect of the banks and financial institutions. Secondly, economic downturn in the developed countries could negatively influence our macro-economic variables like trade, Balance of Payments, inward remittances etc.

Nepalese Banks and Financial Institutions have no significant exposures of loan, advances and investments in the banks and financial institutions of crisis-affected region. Similarly our banks and financial institutions were not involved in the acquiring and trading of the complex types of financial instruments developed in those parts like Mortgage Backed Securities (MBS), Collateralized Debt Obligation (CDO), Credit Default Swaps (CDS). Moreover, there is no full capital account convertibility in Nepal. Therefore, the direct and immediate impact of the global financial crisis was not felt in our financial system. But the indirect and long-term impact of the crisis may be reflected in our macro-economic variables. Resource mobilizations of the bank and financial institution can be influenced by the negative effect in the remittance, trade and finally balance of payments.

Box 2: Recent Issue: Liquidity Strain in Few Banks

Nepalese banking system has been growing at a rapid pace since last few years. Not only the number of players in the system but also the financial services and performance indicators are gaining a faster pace. Recently, Some Nepalese banks are facing a problem of liquidity shortfall. There was a good start of the fiscal year 2009/10 for Nepalese banking. But at the end of first half of fiscal year 2009/10, the banks' liquid assets declined gradually.

Deposit mobilization of commercial banks increased by 3.9 percent while private sector credit of commercial banks increased by 18.2 percent during the first seven months of 2009/10. Similarly, credit to real sector increased to Rs 15 billion at the end of the period compared to Rs 7.2 billion at the end of the same period a year before. Moreover, liquid assets of the commercial banks declined substantially (10.4%) during the period, which was in increasing trend (3.4 percent) during the corresponding period of pervious year. There were huge volumes of inter-bank transaction (Rs.175.5 billion) and Standing Liquidity Facility (Rs 83.8 billion) during the first seven months of 2009/10. Recent data on CD Ratio (credit to local Currency Deposit) of the commercial banks shows that the some of the banks are having higher CD Ratio.

Table 6.1 CD Ratio of Commercial Banks

S.No.	Banks	Credit to Deposit Ratio (in %)
1	Agriculture Dev. Bank Ltd.	124.59
2	Nepal Bangladesh Bank Ltd.	107.79
3	DCBL Bank Ltd.	105.88
4	Lumbini Bank Ltd.	102.06
5	Nepal Industrial & Commercial Bank Ltd.	102.05
6	Nepal Investment Bank Ltd.	100.37
7	Prime Commercial Bank Ltd.	100.17
8	Siddhartha Bank Ltd.	100.14
9	Himalayan Bank Ltd.	99.17
10	Laxmi Bank Ltd.	97.19
11	Sunrise Bank Ltd.	96.88
12	NMB Bank Ltd.	95.28
13	Bank of Asia Nepal Ltd.	94.76
14	Bank of Kathmandu Ltd.	94.63
15	Machhapuchhre Bank Ltd.	94.00
16	Nabil Bank Ltd.	91.58
17	Kumari Bank Ltd.	91.24
18	Global Bank Ltd.	91.17
19	Nepal Credit & Commerce Bank Ltd.	90.22
20	Kist Bank Ltd.	88.47
21	Nepal SBI Bank Ltd.	85.90
22	Citizens Bank International Ltd.	83.25
23	Everest Bank Ltd.	83.18
24	Standard Chartered Bank Nepal Ltd.	74.04
25	Nepal Bank Limited	56.46
26	Rastriya Banijya Bank	51.07
Total		**87.35**

Daily Data: as on March 19, 2010

Due to the excessive growth in credit extended by the commercial banks in relative to their resource mobilization, the commercial banks are facing the problem of shortfall in their liquidity position. Credit growth exceeded the growth rate of deposit. The credit to deposit ratio is increasing. By contrast, liquid assets to deposit ratio of the commercial banks is declining.
Nepal Rastra Bank is closely monitoring the financial health of the banking system. NRB has taken initiation for the correction of the unhealthy situation prevailed in the market. There is a need of sound risk management practices in the banks as well. Banks should have a strong liquidity risk management & ALM practice within the institutions to overcome such problems. To overcome present problem, NRB has open its different windows to facilitate the needy banks.

6.12 Proliferated services in banking industry

With the rising number of market players, the competition has been obviously growing in the banking industry. Banks are gradually expanding their service products and 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. In recent years, banking products have multiplied and banking operations have become much more complex; combinations of banking, capital market operations and insurance under common ownership have become more and more frequent; new technologies have changed banking practices globally.

Nepalese banks will have more complicated edge after foreign banks 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. While carrying two different objectives of control and growth, NRB as the monetary authority and supervisor has to address the banks and financial institutions to conduct their business within manageable level of their risk appetite.

In order to remain competitive and profitable, they should continually search for new services that will attract more customers and should explore new ways to cut off the operating costs. The spread in the banking industry is getting squeezed due to the harsh competition and finding out the ways to curtail the non-value-added costs has become one of the critical success factors to the banks.

6.13 Implementation of Basel core principles

Nepal Rastra Bank, as the supervisor of banks and financial institutions in Nepal, has conducted a self-assessment of Basel core principles for effective supervision. Still, there are some conditions where the NRB has to make effort to be fully complied with. For complying fully with Basel core principles, the assessment report has given some preconditions, including a sound legal system with strong enforcement of laws and directives associated thereto, bankruptcy, collateral and loan recovery, financial transparency, effective corporate governance in Nepalese banking industries, establishment of institutions such as Credit Rating Agencies, Deposit Protection Scheme.

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.

6.14 Enhancing coordination among various economic sectors

The prime challenge to the regulators and supervisors today is to have common understanding of the problems interlinked. Many issues today are emerging that are of common interest to different regulators. Therefore, it is prime responsibility to have an understanding among the regulators sharing the same ground to act in the direction of maintaining sound, prudent and functioning financial system. NRB has been coordinating the High Level Coordination Committee, which comprises of the top management from Nepal Rastra Bank, Securities Board of Nepal, Nepal Stock Exchange Ltd., Insurance Board, Ministry of Finance and Company Registrar's Office. This needs to work together more effectively and proactively to address the problems in the financial system, raise the public confidence and revive the investors' spirit.

The goal of the NRB as a financial regulator is to ensure that financial institutions operate in a safe and sound manner in conducting their business. Regulators and supervisors, like the NRB, need a macro-prudential approach focusing on whole system risks, rather than only on risks at the individual institution level. This will require regulators of all sectors in economy to work in partnership, both at national and international level, to analyze trends in credit growth in whole system and the inter-linkages between the different parts in banks and financial institutions. However, this is the time for the regulators of all sectors to meet more frequently assuming higher responsibility and with a broadened scope of such committee.

6.15 Public banks and dual banking system

One of the challenges faced by supervisors in the developing economy like ours is the Government's ownership and control over banks. The government owned banks have been performing dual banking services: commercial and development. Wide spread of their branches have helped to promote banking in the remote villages of this country, which has helped a lot to provide financial access to the poor. Since the deposit of only these banks is nearly one third of the deposit of the whole banking industry, these banks are too big to fail. Lack of adequate internal control, traditional way of management, government intervention in the management, poor MIS etc are some other challenges to these banks. These banks are suffered from heavy accumulated loss and negative networth.

6.16 Lack of rating agency

Credit Rating Agencies compile information and issue public credit ratings for a large number of companies. Credit ratings are used by investors, issuers, banks, broker-dealers, and governments. For investors, credit rating agencies increase the range of investment alternatives and provide independent, easy-to-use measurements of relative credit risk; this generally increases the efficiency of the market, lowering costs for both borrowers and lenders. This, in turn, increases the supply of capital in the economy, leading to stronger growth. It also opens the capital markets to categories of borrower who might otherwise be shut out. Regulators use credit ratings as well, or permit ratings to be used for regulatory purposes. However, the lack of credit rating agency in Nepal has minimized the sharing of credit information and rating of the borrower and other relevant issues, which is useful to the supervisor to achieve financial stability.

6.17 Ensuring corporate governance

Corporate governance is about commitment to values, ethical business conduct and making a distinction between personal and corporate funds in the management of a company. As banks are the institutions doing business with the public deposit, they need to develop a culture of strong corporate governance.

Basel core principles for effective banking supervision requires that banks needs to have in place a comprehensive risk management framework to identify, measure, monitor and control all other material risks. It emphasizes the board and senior management oversight for the sound risk management practices in the banks. The board needs a range of skills and understanding to be able to deal with banking business issues and have the ability to review the performance of management. Board needs to have an appropriate level of commitment to fulfill its responsibilities and duties. To ensure appropriate level of corporate governance in the bank, directors need to have equipped with adequate knowledge and experience. Following table shows the experiences of directors of Nepalese commercial banks.

Table 6.2: Experience of the Board of Directors (BOD) of Nepalese Banks

S.N.	Experience in the field of	No. Directors	Percent
1	Banking	55	29.89
2	Business	89	48.37
3	Government Services	17	9.24
4	Academic affairs	10	5.43
5	Politics	5	2.72
6	Others	8	4.35
	Total	184	100.00

Source: Onsite Inspection Reports of commercial banks

The above table depicts that among 184 directors of 26 commercial banks, 48.37 percent directors were mainly from the business community (trade and industry). The directors having experiences of banking and government employee hold the second and third position. Similarly there are few numbers of directors having experience in the field of academia, politics and others. Almost half of the directors were from the business sector. As, they are the largest fund user of the commercial banks it posses the challenges to ensure corporate governance.

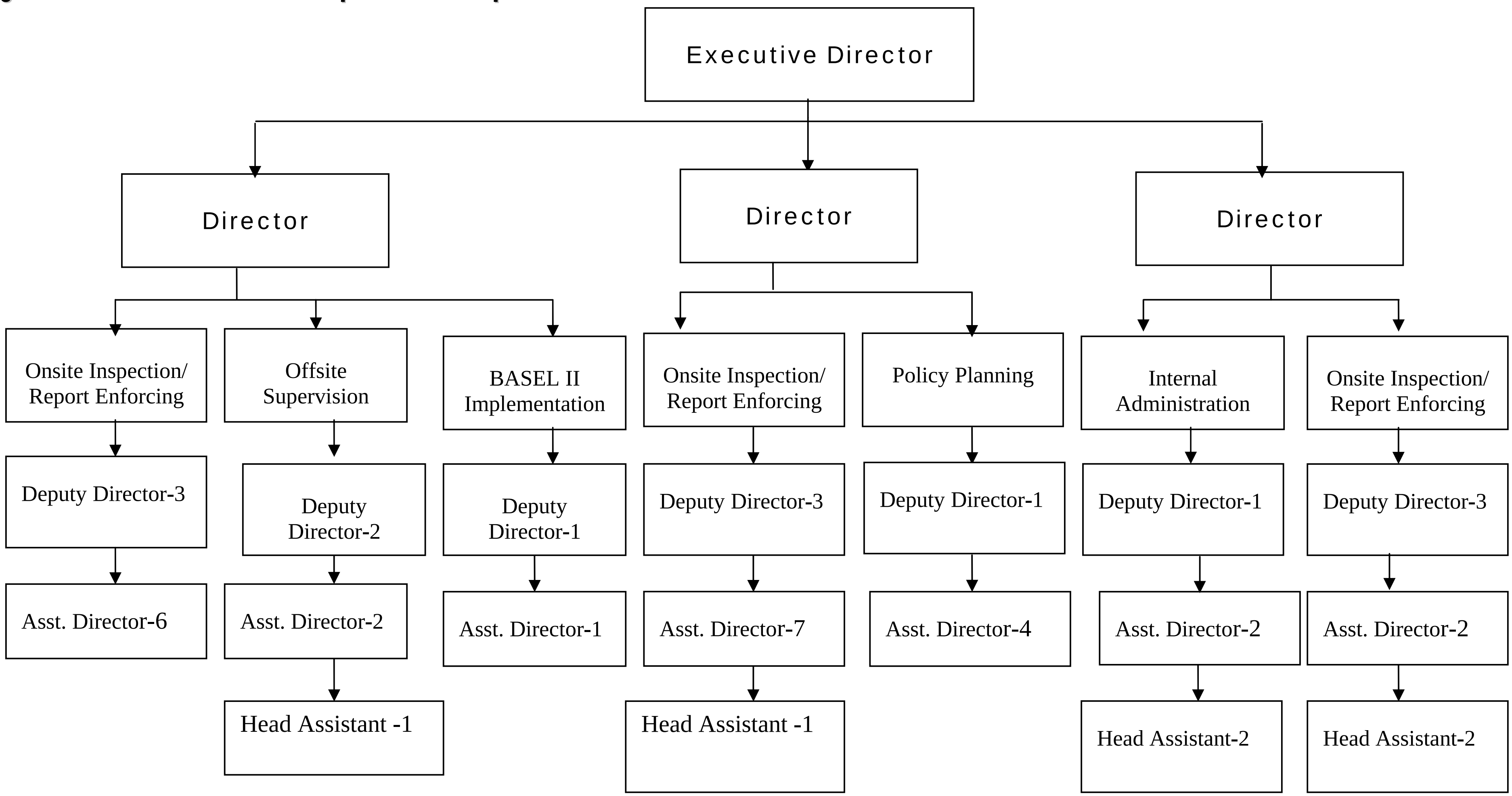
Appendix: 1

Trainings and Seminars for Bank Supervisors in 2008/09

S. No.	Program	Organizer	Participants	Duration	Country
1	Regional Seminar on Liquidity Risk	SEACEN	1	13 Days	Philippines
2	Banking Supervision	MAS	1	16 Days	Singapore
3	Economic Polices for Financial Stability	SEACEN	1	10 Days	Philippines
4	Basel -II: Supervisory Review Process	SEANZA	1	6 Days	Thailand
5	Risk Focused Supervision and Risk Assessment	ADB	1	13 Days	Indonesia
6	Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review Process)	SEACEN	2	9 Days	Taiwan
7	Regional Seminar on Bank Rehabilitation	ADB	1	9 Days	Philippines
8	Advanced Course on Banking Supervision	SEACEN	1	9 Days	Philippines
9	Leadership Seminar for Senior Bank Management of Central Banks on Financial System Oversight	SEACEN	1	10 Days	Malaysia
10	Banking Supervision under Basel II	Deutsche Bundesbank	1	5 Days	Germany
11	Conference on Regulation Seminar on Bank Analysis & Examination School	RBI	1	9 Days	India
12	Regulation Supervision & Stress Testing	State Bank of Pakistan	3	6 Days	Pakistan
13	Banking Supervision and Financial Stability	SEACEN	1	9 Days	Malaysia
14	MAS Information Technology Supervision Workshop for Financial Regulators	MAS	1	9 Days	Singapore
15	Micro Economic Management & Fiscal Policy	IMF & RBI	1	12	India
16	Basel II with Focus on Pillar II	RBI	1	7 Days	India
17	FRS Intermediate Course on Principles of ALM	SEACEN	1	10 Days	Taiwan
18	Central Bank Regulation and Supervision	AIT	4	8 Days	Thailand
	Total		**24**		

Appendix: 2

Organization Chart of Bank Supervision Department



Appendix: 3
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	www.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
Office of the Comptroller of the Currency, USA	www.occ.treas.gov
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 4

Excerpts of Audited Financial Statements of Commercial Banks

1. Nepal Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	380,383	380,383	380,383	380,383	380,383
Reserves and Surplus	(7,805,928)	(6,681,838)	(6,627,898)	(6,388,684)	(5,234,694)
Debenture & Bond	-	-	-	-	-
Borrowing	1,247,065	1,717,442	1,604,868	1,820,089	1,970,675
Deposit	35,934,163	35,829,765	39,014,204	41,829,391	45,194,232
Bills Payable	417,788	100,984	60,726	52,342	12,016
Proposed & Payable dividend	1,121	1,115	2,083	2,067	2,065
Tax Liabilities	-	-	-	-	-
Other Liabilities	16,870,562	4,571,054	4,824,427	4,357,856	5,234,433
Total Liabilities	**47,045,154**	**35,918,905**	**39,258,793**	**42,053,444**	**47,559,110**
Cash Balance	1,069,614	1,110,953	1,086,067	1,181,792	1,515,655
Balance with NRB	4,508,554	5,353,964	5,224,859	4,430,641	6,619,700
Balance with Banks	581,170	709,140	806,367	1,004,559	1,036,435
Money At call	550,000	-	200,000	-	400,000
Investment	14,199,216	14,490,247	16,072,180	16,570,755	13,397,559
Loan and Advances	8,218,909	9,756,163	11,058,478	13,251,963	17,614,899
Fixed Assets	187,085	191,706	205,768	207,528	249,393
Non- Banking Assets	1,948	7,982	-	-	-
Other Assets	17,728,658	4,298,750	4,605,074	5,406,206	6,725,469
Total Assets	**47,045,154**	**35,918,905**	**39,258,793**	**42,053,444**	**47,559,110**
Interest Income	1,987,119	2,049,030	1,848,612	2,094,906	2,690,058
Interest Expenses	748,953	774,325	772,644	772,657	791,710
Net Interest Income	**1,238,166**	**1,274,705**	**1,075,968**	**1,322,249**	**1,898,348**
Commission and discount	188,421	177,784	181,019	229,724	273,106
Other Operating Income	134,725	140,843	287,648	157,432	156,757
Exchange Income	1,369	121,337	-	119,407	89,209
Total Operating Income	**1,562,681**	**1,714,669**	**1,544,635**	**1,828,812**	**2,417,420**
Employees Expenses	1,064,352	1,067,634	1,125,224	1,346,824	1,640,565
Other Operating Expenses	206,419	428,651	258,554	259,786	297,015
Exchange Loss	-	-	46,279	-	-
Operating Profit Before Provision	**291,910**	**218,384**	**114,578**	**222,202**	**479,840**
Provisions for possible losses	180,541	607,483	80,376	258,572	334,315
Operating Profit	**111,369**	**(389,099)**	**34,202**	**(36,370)**	**145,525**
Non-Operating Income/ Expenses	1,451,459	22,905	50,389	67,942	57,526
Return From Loan Loss Provision	408,199	1,813,642	-	134,362	676,372
Profit From Ordinary activities	**1,971,027**	**1,447,448**	**84,591**	**165,934**	**879,423**
Extra ordinary Income /Expenses	(240,897)	(119,457)	165,057	179,996	165,144
Net Profit including all activities	**1,730,130**	**1,327,991**	**249,648**	**345,930**	**1,044,567**
Provision For Staff Bonus	-	120,726	22,695	31,448	94,960
Provision For Income Tax	-	-	-	75,268	55,353
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**1,730,130**	**1,207,265**	**226,953**	**239,214**	**894,254**
Financial Indicators					
Core Capital to Risk Weighted Assets	-25.06%	-40.44%	-37.97%	-33.05%	-13.94%
Capital Fund to Risk Weighted Assets	-29.53%	-43.09%	-38.83%	-35.46%	-13.94%
Non-Performing Loan to Total Loan	49.64%	18.18%	13.49%	12.38%	4.94%
Weighted Average Interest Spread	4.40%	3.16%	4.51%	4.82%	6.45%
Net Interest Income (Rs. in thousand)	1,238,166	1,274,705	1,075,968	1,322,249	1,898,348
Return on Assets	3.68%	3.36%	0.58%	0.57%	1.88%
Credit to Deposit	46.94%	34.72%	35.26%	37.69%	43.28%
Liquid Assets to Total Assets	38.23%	65.69%	47.56%	42.94%	42.41%
Liquid Assets to Total Deposit	50.06%	65.86%	47.86%	43.17%	44.63%

2. Rastriya Banijya Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	1,172,300	1,172,300	1,172,300	1,172,300	1,172,300
Reserves and Surplus	(21,371,738)	(19,890,877)	(18,391,801)	(16,632,278)	(14,644,042)
Debenture & Bond	-	-	-	-	-
Borrowing	4,217,813	4,357,727	2,219,603	2,517,009	3,873,598
Deposit	43,016,063	46,195,482	50,464,128	64,340,951	68,160,927
Bills Payable	39,718	40,721	63,707	68,180	68,605
Proposed & Payable dividend	31,480	39,350	47,220	55,090	62,960
Tax Liabilities	-	-	-	-	-
Other Liabilities	8,083,312	7,964,916	10,564,489	1,783,670	8,188,936
Total Liabilities	**35,188,948**	**39,879,619**	**46,139,646**	**53,304,922**	**66,883,284**
Cash Balance	1,621,786	1,202,152	1,897,762	8,640,723	2,014,077
Balance with NRB	3,325,243	3,867,105	3,708,616	3708616	8,204,351
Balance with Banks	606,165	159,565	197,157	197157	1,232,429
Money At call	-	-	20,000	550,000	-
Investment	8,415,882	11,555,358	12,650,196	14,443,378	15,418,032
Loan and Advances	13,430,932	14,633,545	17,328,731	21,202,987	26,187,931
Fixed Assets	393,082	420,849	439,505	465,553	452,209
Non- Banking Assets	186,939	97,945	110,137	51,453	23,317
Other Assets	7,208,919	7,943,100	9,787,542	7,950,828	13,350,938
Total Assets	**35,188,948**	**39,879,619**	**46,139,646**	**53,304,922**	**66,883,284**
Interest Income	2,328,821	2,282,825	2,356,940	2,708,764	3,441,388
Interest Expenses	1,004,722	850,136	942,751	1,025,586	1,067,778
Net Interest Income	**1,324,099**	**1,432,689**	**1,414,189**	**1,683,178**	**2,373,610**
Commission and discount	287,753	289,578	343,561	430,618	576,334
Other Operating Income	115,669	109,675	123,249	157,070	193,065
Exchange Income	13,612	73,950	-	-	32,869
Total Operating Income	**1,741,133**	**1,905,892**	**1,880,999**	**2,270,866**	**3,175,878**
Employees Expenses	739,455	745,187	789,042	875,656	1,390,268
Other Operating Expenses	234,349	288,625	357,753	329,090	379,876
Exchange Loss	-	-	12,933	30,484	-
Operating Profit Before Provision	**767,329**	**872,080**	**721,271**	**1,035,636**	**1,405,734**
Provisions for possible losses	137,415	662,879	386,922	425,542	478,660
Operating Profit	**629,914**	**209,201**	**334,349**	**610,094**	**927,074**
Non-Operating Income/ Expenses	44,266	27,233	31,334	13,872	60,887
Return From Loan Loss Provision	719,841	1,515,763	1,224,604	1,134,290	1,331,959
Profit From Ordinary activities	**1,394,021**	**1,752,197**	**1,590,287**	**1,758,256**	**2,319,920**
Extra ordinary Income /Expenses	(71,127)	(33,390)	155,976	152,018	138,356
Net Profit including all activities	**1,322,894**	**1,718,807**	**1,746,263**	**1,910,274**	**2,458,276**
Provision For Staff Bonus	-	127,319	129,353	141,502	182,094
Provision For Income Tax	-	-	-	-	215,000
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**1,322,894**	**1,591,488**	**1,616,910**	**1,768,772**	**2,061,182**
Financial Indicators					
Core Capital to Risk Weighted Assets	-34.12%	-56.25%	-44.40%	-38.17%	-38.37%
Capital Fund to Risk Weighted Assets	-33.76%	-55.54%	-43.53%	-37.19%	-38.37%
Non-Performing Loan to Total Loan	50.70%	37.09%	28.63%	21.43%	15.64%
Weighted Average Interest Spread	4.91%	5.81%	4.55%	4.91%	5.57%
Net Interest Income (Rs. in thousand)	1,324,099	1,432,689	1,414,189	1,683,178	2,373,610
Return on Assets	1.87%	3.37%	3.14%	2.99%	2.84%
Credit to Deposit	62.77%	50.32%	49%	47.26%	46.37%
Liquid Assets to Total Assets	16.92%	35.33%	34.35%	36.71%	31.73%
Liquid Assets to Total Deposit	13.84%	30.53%	31.00%	30.41%	31.13%

3. Nabil Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	491,654	491,654	491,654	689,216	965,747
Reserves and Surplus	1,165,984	1,383,340	1,565,395	1,747,983	2,164,494
Debenture & Bond	-	-	-	240,000	300,000
Borrowing	17,062	173,202	882,573	1,360,000	1,681,305
Deposit	14,586,609	19,347,399	23,342,285	31,915,047	37,348,256
Bills Payable	119,753	112,607	83,515	238,422	463,139
Proposed & Payable dividend	361,221	435,084	509,418	437,373	361,325
Tax Liabilities	15,345	34,605	0	38,777	80,232
Other Liabilities	428,702	352,080	378,553	465,941	502,900
Total Liabilities	**17,186,330**	**22,329,971**	**27,253,393**	**37,132,759**	**43,867,398**
Cash Balance	146,353	237,819	270,407	511,426	674,395
Balance With NRB	389,705	318,359	1,113,415	1,829,471	2,648,596
Bank Balance with Banks	23,323	74,061	16,003	330,244	49,521
Money At call	868,428	1,734,902	563,533	1,952,361	552,888
Investment	4,267,233	6,178,533	8,945,311	9,939,771	10,826,379
Loan and Advances	10,586,170	12,922,543	15,545,779	21,365,053	27,589,933
Fixed Assets	361,235	319,086	286,895	598,039	660,989
Non- Banking Assets	-	-	-	-	-
Other Assets	543,883	544,668	512,050	606,394	864,696
Total Assets	**17,186,330**	**22,329,971**	**27,253,393**	**37,132,759**	**43,867,398**
Interest Income	1,068,747	1,309,999	1,587,759	1,978,696	2,798,486
Interest Expenses	243,544	357,161	555,710	758,436	1,153,280
Net Interest Income	**825,203**	**952,838**	**1,032,049**	**1,220,260**	**1,645,206**
Commission and discount	128,883	138,294	150,608	156,234	179,693
Other Operating Income	55,934	82,898	87,574	97,444	144,164
Exchange Income	184,879	185,484	209,926	196,487	251,920
Total Operating Income	**1,194,899**	**1,359,514**	**1,480,157**	**1,670,425**	**2,220,983**
Employees Expenses	199,516	219,781	240,161	262,907	339,898
Other Operating Expenses	190,299	182,696	188,183	220,750	265,158
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**805,084**	**957,037**	**1,051,813**	**1,186,768**	**1,615,927**
Provisions for possible losses	243,357	3,770	14,206	64,055	45,722
Operating Profit	**561,727**	**953,267**	**1,037,607**	**1,122,713**	**1,570,205**
Non-Operating Income/ Expenses	72,241	735	5,281	24,084	2,190
Return From Loan Loss Provision	-	7,729	10,926	11,101	10,618
Profit From Ordinary activities	**633,968**	**961,731**	**1,053,814**	**1,157,898**	**1,583,013**
Extra ordinary Income /Expenses	(31,133)	26,074	40,736	39,991	43,522
Net Profit including all activities	**602,835**	**987,805**	**1,094,550**	**1,197,889**	**1,626,534**
Provision For Staff Bonus	84,198	89,800	99,504	108,899	147,867
Provision For Income Tax	-	262,741	321,087	342,522	447,615
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**518,637**	**635,264**	**673,959**	**746,468**	**1,031,053**
Financial Indicators					
Core Capital to Risk Weighted Assets	**11.35%**	**10.78%**	**10.40%**	**8.75%**	**8.74%**
Capital Fund to Risk Weighted Assets	12.44%	12.31%	12.04%	11.10%	10.70%
Non-Performing Loan to Total Loan	1.32%	1.38^	1.12%	0.74%	0.80%
Weighted Average Interest Spread	5.01%	4.90%	4.15%	3.94%	4.16%
Net Interest Income (Rs. in thousand)	825,203	952,838	1,032,049	1,220,260	1,645,206
Return on Assets	3.06%	6.23%	2.72%	2.32%	2.55%
Credit to Deposit	75.05%	68.63%	68.13%	68.18%	73.87%
Liquid Assets to Total Assets	22.35%	20.90%	24.85%	25.07%	17.40%
Liquid Assets to Total Deposit	26.34%	24.12%	29.01%	29.17%	20.43%

4. Nepal Investment Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	587,738	590,586	801,353	1,203,915	2,407,069
Reserves and Surplus	592,435	824,854	1,076,771	1,482,871	1,500,771
Debenture & Bond	-	550,000	800,000	1,050,000	1,050,000
Borrowing	350,000	-	-	-	38,800
Deposit	14,254,574	18,927,306	24,488,856	34,451,726	46,698,100
Bills Payable	15,008	18,820	32,401	78,839	82,338
Proposed & Payable dividend	79,353	121,627	43,650	93,468	485,454
Tax Liabilities	-	9,319	295	24,083	38,297
Other Liabilities	394,956	287,626	347,519	488,404	709,975
Total Liabilities	**16,274,064**	**21,330,138**	**27,590,845**	**38,873,306**	**53,010,803**
Cash Balance	374,266	562,560	763,984	1,464,483	1,833,462
Balance With NRB	780,244	1,526,067	1,381,352	1,820,006	4,411,133
Bank Balance with Banks	185,971	247,894	296,178	470,453	1,673,408
Money At call	140,000	70,000	362,970	-	-
Investment	3,934,189	5,602,869	6,505,680	6,874,024	7,399,812
Loan and Advances	10,126,056	12,776,208	17,286,428	26,996,652	36,241,207
Fixed Assets	320,592	343,450	759,456	970,092	1,060,752
Non- Banking Assets	1,537	-	1,125	750	375
Other Assets	411,209	201,090	233,672	276,846	390,653
Total Assets	**16,274,064**	**21,330,138**	**27,590,845**	**38,873,306**	**53,010,803**
Interest Income	886,800	1,172,742	1,584,987	2,194,275	3,267,941
Interest Expenses	354,549	490,947	685,530	992,158	1,686,973
Net Interest Income	**532,251**	**681,795**	**899,457**	**1,202,117**	**1,580,968**
Commission and discount	93,551	115,942	163,899	215,292	262,792
Other Operating Income	56,567	35,902	47,319	66,377	87,575
Exchange Income	102,518	125,748	135,355	165,839	185,327
Total Operating Income	**784,887**	**959,387**	**1,246,030**	**1,649,625**	**2,116,662**
Employees Expenses	97,004	111,054	145,371	187,150	225,721
Other Operating Expenses	182,915	200,215	243,430	313,154	413,884
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**504,968**	**648,118**	**857,229**	**1,149,321**	**1,477,056**
Provisions for possible losses	140,409	103,808	129,719	135,989	166,201
Operating Profit	**364,559**	**544,310**	**727,510**	**1,013,332**	**1,310,855**
Non-Operating Income/ Expenses	6,192	391	1,426	7,048	2,953
Return From Loan Loss Provision	-	10,704	66,777	101,577	114,653
Profit From Ordinary activities	**370,751**	**555,405**	**795,713**	**1,121,957**	**1,428,461**
Extra ordinary Income /Expenses	-	-	-	-	-
Net Profit including all activities	**370,751**	**555,405**	**795,713**	**1,121,957**	**1,428,461**
Provision For Staff Bonus	37,075	50,491	72,337	101,996	129,860
Provision For Income Tax	101,529	154,378	221,977	323,229	397,982
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**232,147**	**350,536**	**501,399**	**696,732**	**900,619**
Financial Indicators					
Core Capital to Risk Weighted Assets	8.52%	7.97%	7.90%	7.71%	8.56%
Capital Fund to Risk Weighted Assets	11.58%	11.97%	12.17%	11.28%	11.24%
Non-Performing Loan to Total Loan	2.69%	2.07%	2.37%	1.12%	0.58%
Weighted Average Interest Spread	4.30%	3.90%	3.99%	4.00%	3.94%
Net Interest Income (Rs. in thousand)	532,251	681,795	899,457	1,202,117	1,580,968
Return on Assets	1.42%	1.61%	1.79%	1.77%	1.68%
Credit to Deposit Ratio	73.33%	69.63%	72.56%	79.91%	78.86%
Liquid Assets to Total Assets	21.07%	23.11%	21.97%	17.78%	19.71%
Liquid Assets to Total Deposit	24.06%	26.04%	24.70%	20.06%	22.38%

5. Standard Chartered Bank Nepal Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	374,640	374,640	413,255	620,784	931,966
Reserves and Surplus	1,207,775	1,379,498	1,703,098	1,871,764	2,120,503
Debenture & Bond	-	-	-	-	-
Borrowing	55,926	-	400,000	-	300,000
Deposit	19,335,095	23,061,032	24,647,021	29,743,999	35,871,721
Bills Payable	56,298	55,751	36,168	87,397	72,942
Proposed & Payable dividend	461,338	499,980	341,744	506,367	476,296
Tax Liabilities	-	-	5,599	2,051	4,263
Other Liabilities	680,168	405,431	1,049,804	503,426	809,777
Total Liabilities	**22,171,240**	**25,776,332**	**28,596,689**	**33,335,788**	**40,587,468**
Cash Balance	195,459	279,511	378,423	414,876	463,346
Balance With NRB	692,191	749,741	1,613,758	1,266,273	1,851,133
Bank Balance with Banks	223,467	246,989	28,841	369,094	822,685
Money At call	2,259,691	1,977,271	1,761,151	2,197,538	2,055,549
Investment	9,702,553	12,847,536	13,553,233	13,902,819	20,236,121
Loan and advances	8,420,869	8,935,418	10,502,637	13,718,597	13,679,757
Fixed Assets	71,413	101,302	125,591	117,272	137,293
Non- Banking Assets	-	-	-	-	-
Other Assets	605,597	638,564	633,055	1,349,319	1,341,585
Total Assets	**22,171,240**	**25,776,332**	**28,596,689**	**33,335,788**	**40,587,468**
Interest Income	1,058,677	1,189,602	1,411,982	1,591,195	1,887,221
Interest Expenses	254,126	303,198	413,055	471,730	543,787
Net Interest Income	**804,551**	**886,404**	**998,927**	**1,119,465**	**1,343,435**
Commission and discount	184,830	222,929	221,207	276,432	235,469
Other Operating Income	29,293	25,442	28,785	32,594	33,191
Exchange Income	266,865	283,472	309,086	345,653	480,031
Total Operating Income	**1,285,539**	**1,418,247**	**1,558,005**	**1,774,144**	**2,092,126**
Employees Expenses	148,586	168,231	199,778	225,256	253,056
Other Operating Expenses	256,649	221,087	228,451	230,571	276,327
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**880,304**	**1,028,929**	**1,129,776**	**1,318,317**	**1,562,743**
Provisions for possible losses	30,082	47,730	36,809	69,885	56,635
Operating Profit	**850,222**	**981,199**	**1,092,967**	**1,248,432**	**1,506,109**
Non-Operating Income/ Expenses	2,957	1,433	9,492	1,682	22,098
Return From Loan Loss Provision	33,652	53,090	20,160	90,635	101,075
Profit From Ordinary activities	**886,831**	**1,035,722**	**1,122,619**	**1,340,749**	**1,629,282**
Extra ordinary Income /Expenses	-	(2,411)	(4,915)	(28,039)	(15,356)
Net Profit including all activities	**886,831**	**1,033,311**	**1,117,704**	**1,312,710**	**1,613,926**
Provision For Staff Bonus	88,683	93,937	101,609	119,337	146,721
Provision For Income Tax	258,944	280,619	324,427	374,452	442,091
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**539,204**	**658,755**	**691,668**	**818,921**	**1,025,115**
Financial Indicators					
Core Capital to Risk Weighted Assets	13.99%	12.99%	13.77%	11.52%	13.05%
Capital Fund to Risk Weighted Assets	16.06%	14.93%	15.71%	13.15%	14.70%
Non-Performing Loan to Total Loan	2.69%	2.13%	1.83%	0.92%	0.66%
Weighted Average Interest Spread	3.70%	4.10%	3.95%	4.01%	3.98%
Net Interest Income (Rs. in thousand)	804,551	886,404	998,927	1,119,465	1,343,435
Return on Assets	2.46%	2.56%	2.42%	2.46%	2.53%
Credit to Deposit	43.49%	39.92%	43.78%	46.95%	38.70%
Liquid Assets to Total Assets	47.69%	46.16%	42.65%	40.25%	37.43%
Liquid Assets to Total Deposit	54.69%	51.60%	36.76%	35.91%	42.35%

6. Himalayan Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	643,500	772,200	810,810	1,013,512	1,216,215
Reserves and Surplus	915,190	993,975	1,335,690	1,499,479	1,903,666
Debenture & Bond	-	360,000	360,000	860,000	500,000
Borrowing	506,048	144,625	235,968	83,178	-
Deposit	24,814,012	26,490,851	30,048,418	31,842,789	34,681,345
Bills Payable	68,399	73,578	91,303	102,670	113,509
Proposed & Payable dividend	80,120	238,409	130,940	263,076	162,097
Tax Liabilities	3,251	-	11,913	19,131	10,163
Other Liabilities	832,364	386,751	494,099	491,696	733,327
Total Liabilities	**27,862,884**	**29,460,389**	**33,519,141**	**36,175,531**	**39,320,322**
Cash Balance	286,530	305,428	177,242	278,183	473,760
Balance With NRB	1,604,149	1,096,253	1,272,543	935,842	2,328,406
Bank Balance with Banks	123,792	315,671	307,556	234,118	246,361
Money At call	441,081	1,005,280	1,710,024	518,529	1,170,794
Investment	11,692,341	10,889,031	11,822,985	13,340,177	8,710,691
Loan and Advances	12,442,710	14,642,559	16,997,997	19,497,520	24,793,155
Fixed Assets	295,822	540,824	574,060	726,068	952,196
Non- Banking Assets	**31,930**	**21,733**	12,766	10,307	22,695
Other Assets	944,529	643,610	643,968	634,787	622,265
Total Assets	**27,862,884**	**29,460,389**	**33,519,141**	**36,175,531**	**39,320,322**
Interest Income	1,446,468	1,626,474	1,775,582	1,963,647	2,342,198
Interest Expenses	561,964	648,842	767,411	823,745	934,778
Net Interest Income	**884,504**	**977,632**	**1,008,171**	**1,139,902**	**1,407,420**
Commission and discount	132,816	165,448	193,224	202,888	284,302
Other Operating Income	41,300	52,324	40,329	62,104	46,343
Exchange Income	137,301	198,130	151,637	192,601	249,983
Total Operating Income	**1,195,921**	**1,393,534**	**1,393,361**	**1,597,495**	**1,988,048**
Employees Expenses	178,589	234,589	272,225	307,528	360,981
Other Operating Expenses	277,375	329,699	341,561	329,006	398,317
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**739,957**	**829,246**	**779,575**	**960,961**	**1,228,751**
Provisions for possible losses	55,709	145,154	90,689	58,431	68,806
Operating Profit	**684,248**	**684,092**	**688,886**	**902,530**	**1,159,945**
Non-Operating Income/ Expenses	2,795	1,887	3,493	9,700	3,810
Return From Loan Loss Provision	-	56,562	412,654	184,107	19,485
Profit From Ordinary activities	**687,043**	**742,541**	**1,105,033**	**1,096,337**	**1,183,240**
Extra ordinary Income /Expenses	(88,253)	(2,902)	(315,890)	(52,614)	(9,973)
Net Profit including all activities	**598,790**	**739,639**	**789,143**	**1,043,723**	**1,173,267**
Provision For Staff Bonus	59,879	67,240	71,740	94,884	106,661
Provision For Income Tax	213,692	214,941	225,580	312,970	313,771
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**325,219**	**457,458**	**491,823**	**635,869**	**752,835**
Financial Indicators					
Core Capital to Risk Weighted Assets	8.33%	8.65%	9.61%	9.64%	8.81%
Capital Fund to Risk Weighted Assets	11.01%	11.26%	11.13%	13.00%	11.02%
Non-Performing Loan to Total Loan	7.44%	6.60%	3.61%	2.36%	2.16%
Weighted Average Interest Spread	3.19%	3.80%	3.57%	3.66%	3.66%
Net Interest Income (Rs. in thousand)	884,504	977,632	1,008,171	1,139,902	1,407,420
Return on Assets	1.11%	1.55%	1.47%	1.76%	1.91%
Credit to Deposit	50.07%	55.27%	56.57%	61.23%	71.49%
Liquid Assets to Total Assets	28.44%	26.70%	29.60%	26.09%	21.44%
Liquid Assets to Total Deposit	31.95%	29.70%	33.02%	29.64%	24.31%

7. Nepal Bangladesh Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	719,852	719,852	719,852	744,126	1,860,315
Reserves and Surplus	(485,276)	(2,282,436)	(3,344,015)	(2,935,574)	(748,073)
Debenture & Bond	-	-	-	-	-
Borrowing	-	71,000	230,000	30,000	-
Deposit	12,125,578	13,015,136	9,461,535	10,883,652	9,997,697
Bills Payable	41,662	44,109	39,410	30,012	12,629
Proposed & Payable dividend	1,502	1,352	1,299	1,301	1,398
Tax Liabilities	-	-	30,332	-	6,729
Other Liabilities	873,832	140,268	116,135	637,509	833,857
Total Liabilities	**13,277,150**	**11,709,281**	**7,254,548**	**9,391,026**	**11,964,552**
Cash Balance	300,849	354,456	391,686	612,025	459,402
Balance With NRB	794,166	1,157,838	614,432	1,005,830	1,869,815
Bank Balance with Banks	306,752	182,391	157,935	304,993	242,200
Money At call	-	30,029	50,000	1,000	1,000
Investment	2,411,720	2,661,833	1,034,560	1,389,901	2,222,432
Loan and Advances	7,787,690	6,460,246	4,409,013	5,457,809	6,704,943
Fixed Assets	189,307	172,325	140,807	147,747	139,198
Non- Banking Assets	270,340	205,466	111,925	37,087	-
Other Assets	1,216,326	484,697	344,190	434,634	325,562
Total Assets	**13,277,150**	**11,709,281**	**7,254,548**	**9,391,026**	**11,964,552**
Interest Income	876,508	758,132	982,197	828,276	1,337,112
Interest Expenses	547,943	518,094	432,219	397,997	409,776
Net Interest Income	**328,565**	**240,038**	**549,978**	**430,279**	**927,336**
Commission and discount	92,998	85,298	85,219	105,300	122,393
Other Operating Income	73,997	47,846	117,653	190,767	125,074
Exchange Income	39,671	63,957	40,962	90,111	80,549
Total Operating Income	**535,231**	**437,139**	**793,812**	**816,457**	**1,255,353**
Employees Expenses	95,884	140,662	112,547	140,837	138,424
Other Operating Expenses	161,344	119,905	114,326	121,863	123,306
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**278,003**	**176,572**	**566,939**	**553,757**	**993,623**
Provisions for possible losses	905,153	1,882,278	1,502,798	379,304	283,319
Operating Profit	**(627,150)**	**(1,705,706)**	**(935,859)**	**174,453**	**710,303**
Non-Operating Income/ Expenses	(22,393)	(11,105)	24,200	18,239	22,934
Return From Loan Loss Provision	-	271,575	34,277	1,343,374	1,905,860
Profit From Ordinary activities	**(649,543)**	**(1,445,236)**	**(877,382)**	**1,536,066**	**2,639,097**
Extra ordinary Income /Expenses	-	(271,575)	-	(697,887)	(14,990)
Net Profit including all activities	**(649,543)**	**(1,716,811)**	**(877,382)**	**838,179**	**2,624,108**
Provision For Staff Bonus	-	-	-	76,198	238,555
Provision For Income Tax	100,000	80,348	184,198	165,494	227,446
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**(749,543)**	**(1,797,159)**	**(1,061,580)**	**596,487**	**2,158,106**
Financial Indicators					
Core Capital to Risk Weighted Assets	1.51%	-13.48%	-23.55%	-18.17%	4.42%
Capital Fund to Risk Weighted Assets	3.35%	-13.48%	-23.55%	-18.17%	5.55%
Non-Performing Loan to Total Loan	19.04%	27.12%	39.76%	31.73%	19.80%
Weighted Average Interest Spread	2.84%	2.10%	4.90%	3.95%	3.92%
Net Interest Income (Rs. in thousand)	328,565	240,038	549,978	430,279	927,336
Return on Assets	-5.65%	-15.35%	-14.63%	6.35%	18.04%
Credit to Deposit	79.39%	75.27%	96.91%	87.01%	91.33%
Liquid Assets to Total Assets	27.22%	36.30%	28.13%	33.50%	35.84%
Liquid Assets to Total Deposit	29.81%	32.65%	21.57%	28.90%	42.89%

8. Nepal SBI Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	431,866	640,236	647,798	874,528	874,528
Reserves and Surplus	257,147	342,137	515,492	540,117	838,079
Debenture & Bond	-	200,000	200,000	200,000	200,000
Borrowing	469,629	612,428	815,365	1,627,480	727,466
Deposit	8,654,774	11,002,041	11,445,286	13,715,395	27,957,221
Bills Payable	31,123	46,239	48,856	75,115	62,947
Proposed & Payable dividend	3,878	35,470	91,024	12,229	24,905
Tax Liabilities	-	-	-	-	-
Other Liabilities	496,956	157,288	137,379	142,582	231,536
Total Liabilities	**10,345,373**	**13,035,839**	**13,901,200**	**17,187,446**	**30,916,682**
Cash Balance	143,750	244,188	287,530	308,102	652,027
Balance With NRB	390,026	626,123	556,678	403,810	444,139
Bank Balance with Banks	189,969	247,847	278,481	631,049	807,740
Money At call	123,112	363,200	350,000	304,013	-
Investment	2,607,680	3,610,775	2,659,453	3,088,887	13,286,182
Loan and Advances	6,213,879	7,626,736	9,460,451	12,113,698	15,131,748
Fixed Assets	66,452	66,712	97,219	120,222	253,581
Non- Banking Assets	**7,255**	**24,556**	3,847	-	-
Other Assets	603,250	225,702	207,541	217,665	341,265
Total Assets	**10,345,373**	**13,035,839**	**13,901,200**	**17,187,446**	**30,916,682**
Interest Income	578,372	708,719	831,117	970,513	1,460,446
Interest Expenses	258,430	334,770	412,262	454,918	824,700
Net Interest Income	**319,942**	**373,949**	**418,855**	**515,595**	**635,745**
Commission and discount	42,568	40,754	52,591	50,918	78,837
Other Operating Income	11,275	7,136	12,601	19,557	52,790
Exchange Income	32,357	43,060	49,464	51,989	61,294
Total Operating Income	**406,142**	**464,899**	**533,511**	**638,059**	**828,666**
Employees Expenses	37,582	50,539	53,232	74,890	121,989
Other Operating Expenses	90,629	99,214	120,112	152,380	223,966
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**277,931**	**315,146**	**360,167**	**410,789**	**482,712**
Provisions for possible losses	193,243	146,657	59,377	57,464	40,345
Operating Profit	**84,688**	**168,489**	**300,790**	**353,325**	**442,366**
Non-Operating Income/ Expenses	1,443	(2,926)	(257)	(271)	2,516
Return From Loan Loss Provision	52,973	54,178	78,515	29,782	198,673
Profit From Ordinary activities	**139,104**	**219,741**	**379,048**	**382,836**	**643,556**
Extra ordinary Income /Expenses	-	-	-	-	(156,221)
Net Profit including all activities	**139,104**	**219,741**	**379,048**	**382,836**	**487,335**
Provision For Staff Bonus	13,910	19,976	34,459	34,803	44,303
Provision For Income Tax	67,807	82,762	89,681	100,263	126,658
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**57,387**	**117,003**	**254,908**	**247,770**	**316,373**
Financial Indicators					
Core Capital to Risk Weighted Assets	8.68%	10.53%	10.53%	9.97%	10.03%
Capital Fund to Risk Weighted Assets	9.47%	13.57%	13.29%	12.32%	11.92%
Non-Performing Loan to Total Loan	6.54%	6.13%	4.56%	3.83%	2.02%
Weighted Average Interest Spread	3.68%	3.33%	3.01%	3.11%	2.84%
Net Interest Income (Rs. in thousand)	319,942	373,949	418,855	515,595	635,745
Return on Assets	0.55%	0.90%	1.83%	1.44%	1.02%
Credit to Deposit	77.87%	69.32%	82.66%	88.32%	55.84%
Liquid Assets to Total Assets	33.20%	38.92%	27.47%	27.24%	16.85%
Liquid Assets to Total Deposit	39.69%	46.11%	33.36%	34.14%	18.64%

9. Everest Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	455,000	518,000	518,000	831,400	838,821
Reserves and Surplus	314,617	444,808	683,515	1,089,837	1,364,804
Debenture & Bond	-	300,000	300,000	300,000	300,000
Borrowing	300,000	-	-	-	312,000
Deposit	10,097,691	13,802,445	18,186,254	23,976,298	33,322,946
Bills Payable	17,778	15,806	26,776	49,430	148,656
Proposed & Payable dividend	23,527	114,667	68,146	140,790	230,525
Tax Liabilities	3,312	-	15,278	41,143	20,522
Other Liabilities	580,201	763,559	1,634,605	720,444	378,575
Total Liabilities	**11,792,126**	**15,959,285**	**21,432,574**	**27,149,342**	**36,916,849**
Cash Balance	192,590	259,347	534,997	822,990	944,696
Balance With NRB	779,669	1,139,515	1,178,198	1,080,915	4,787,164
Bank Balance with Banks	77,730	154,105	678,225	764,068	432,512
Money At call	570,000	66,960	-	346,000	-
Investment	2,128,932	4,200,515	4,984,315	5,059,557	5,948,480
Loan and Advances	7,618,670	9,801,308	13,664,082	18,339,085	23,884,674
Fixed Assets	134,068	152,090	170,097	360,512	427,157
Non- Banking Assets	24,571	7,437	-	-	-
Other Assets	265,896	178,008	222,660	376,215	492,166
Total Assets	**11,792,126**	**15,959,285**	**21,432,574**	**27,149,342**	**36,916,849**
Interest Income	719,298	903,411	1,144,408	1,548,657	2,186,815
Interest Expenses	299,566	401,397	517,166	632,609	1,012,874
Net Interest Income	**419,732**	**502,014**	**627,242**	**916,048**	**1,173,941**
Commission and discount	78,130	96,839	117,718	150,264	202,094
Other Operating Income	31,479	48,902	67,967	79,134	106,404
Exchange Income	27,078	14,398	28,405	64,452	62,527
Total Operating Income	**556,419**	**662,153**	**841,332**	**1,209,898**	**1,544,966**
Employees Expenses	60,597	70,925	86,118	157,957	186,920
Other Operating Expenses	129,067	143,562	177,546	233,767	292,011
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**366,755**	**447,666**	**577,668**	**818,174**	**1,066,035**
Provisions for possible losses	88,927	70,466	89,696	99,340	93,085
Operating Profit	**277,828**	**377,200**	**487,972**	**718,834**	**972,950**
Non-Operating Income/ Expenses	2,974	2,959	1,315	4,519	5,005
Return From Loan Loss Provision	-	-	11,687	20,201	8,044
Profit From Ordinary activities	**280,802**	**380,159**	**500,974**	**743,554**	**986,000**
Extra ordinary Income /Expenses	-	-	(795)	(18,999)	(5,549)
Net Profit including all activities	**280,802**	**380,159**	**500,179**	**724,555**	**980,451**
Provision For Staff Bonus	28,080	34,560	45,471	65,869	89,132
Provision For Income Tax	81,914	108,309	158,299	207,468	252,586
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**170,808**	**237,290**	**296,409**	**451,218**	**638,733**
Financial Indicators					
Core Capital to Risk Weighted Assets	8.87%	8.21%	7.80%	9.04%	7.73%
Capital Fund to Risk Weighted Assets	13.54%	12.32%	11.20%	11.44%	10.55%
Non-Performing Loan to Total Loan	1.63%	1.27%	0.80%	0.68%	0.48%
Weighted Average Interest Spread	4.10%	3.99%	3.90%	4.30%	4.40%
Net Interest Income (Rs. in thousand)	419,732	502,014	627,242	916,048	1,173,941
Return on Assets	1.41%	1.49%	1.40%	0.02	1.73%
Credit to Deposit	78.24%	73.40%	77.40%	79.00%	73.43%
Liquid Assets to Total Assets	30.81%	32.39%	47.11%	28.82%	30.64%
Liquid Assets to Total Deposit	36.84%	37.45%	55.51%	32.64%	33.94%

10. Bank of Kathmandu Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	463,581	463,581	603,141	603,141	844,398
Reserves and Surplus	257,157	376,153	390,133	738,933	897,192
Debenture & Bond	-	200,000	200,000	200,000	200,000
Borrowing	6,000	553,180	730,000	100,000	100,000
Deposit	8,942,748	10,485,359	12,388,928	15,833,738	18,083,980
Bills Payable	19,874	11,622	25,777	51,576	51,125
Proposed & Payable dividend	81,477	98,712	135,575	32,804	77,333
Tax Liabilities	-	-	-	-	-
Other Liabilities	86,293	89,722	107,841	161,733	241,977
Total Liabilities	**9,857,130**	**12,278,329**	**14,581,395**	**17,721,925**	**20,496,005**
Cash Balance	161,470	184,020	219,043	536,747	565,066
Balance With NRB	417,867	349,296	883,496	606,049	1,324,108
Bank Balance with Banks	161,184	195,382	213,365	297,671	292,938
Money At call	328,874	594,047	259,278	72,680	243,352
Investment	2,598,253	3,374,712	2,992,434	3,204,068	2,783,599
Loan and Advances	5,912,579	7,259,083	9,399,328	12,462,637	14,647,297
Fixed Assets	95,231	110,745	320,846	387,274	417,041
Non- Banking Assets	24,088	7,356	3,626	453	-
Other Assets	157,584	203,688	289,979	154,346	222,606
Total Assets	**9,857,130**	**12,278,329**	**14,581,395**	**17,721,925**	**20,496,005**
Interest Income	607,096	718,121	819,004	1,034,158	1,347,755
Interest Expenses	241,639	308,156	339,181	417,543	563,113
Net Interest Income	**365,457**	**409,965**	**479,823**	**616,615**	**784,642**
Commission and discount	70,324	70,776	97,431	129,415	150,919
Other Operating Income	6,495	16,968	19,003	23,168	43,222
Exchange Income	72,115	78,955	80,826	93,764	136,036
Total Operating Income	**514,391**	**576,664**	**677,083**	**862,962**	**1,114,820**
Employees Expenses	53,822	59,120	69,740	90,602	146,495
Other Operating Expenses	99,190	117,591	138,430	170,481	233,668
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**361,379**	**399,953**	**468,913**	**601,879**	**734,658**
Provisions for possible losses	133,917	78,381	81,895	38,438	33,745
Operating Profit	**227,462**	**321,572**	**387,018**	**563,441**	**700,912**
Non-Operating Income/ Expenses	(469)	1,090	(2,780)	810	(2,027)
Return From Loan Loss Provision	209,129	103,871	37,104	61,833	21,577
Profit From Ordinary activities	**436,122**	**426,533**	**421,342**	**626,084**	**720,462**
Extra ordinary Income /Expenses	(209,129)	(95,205)	411	(45,396)	6,934
Net Profit including all activities	**226,993**	**331,328**	**421,753**	**580,688**	**727,396**
Provision For Staff Bonus	22,700	30,121	38,341	52,790	66,127
Provision For Income Tax	64,763	98,768	121,025	166,402	199,535
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**139,530**	**202,439**	**262,387**	**361,496**	**461,735**
Financial Indicators					
Core Capital to Risk Weighted Assets	10.02%	10.71%	9.43%	9.57%	9.81%
Capital Fund to Risk Weighted Assets	11.02%	14.52%	12.62%	11.94%	11.68%
Non-Performing Loan to Total Loan	4.99%	2.72%	2.51%	1.86%	1.27%
Weighted Average Interest Spread	3.95%	3.64%	4.04%	4.35%	4.72%
Net Interest Income (Rs. in thousand)	365,457	409,965	479,823	616,615	784,642
Return on Assets	1.42%	1.65%	1.80%	2.04%	2.25%
Credit to Deposit	6887.00%	71.42%	78.25%	80.51%	82.65%
Liquid Assets to Total Assets	32.63%	32.42%	26.80%	20.46%	20.35%
Liquid Assets to Total Deposit	35.96%	37.97%	31.54%	22.90%	23.06%

11. Nepal Credit and Commerce Bank Limited

(Rs. in '000)

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	693,554	698,415	699,117	1,399,558	1,399,558
Reserves and Surplus	(437,707)	(1,007,452)	(1,209,453)	(714,475)	(300,637)
Debenture & Bond	-		-	-	-
Borrowing	-	13,600	-	-	-
Deposit	6,630,943	6,619,581	6,500,343	7,320,236	9,127,749
Bills Payable	5,893	63,605	14,509	110,171	15,375
Proposed & Payable dividend	-	-	-	-	-
Tax Liabilities	-	-	-	2,643	-
Other Liabilities	592,603	39,951	32,160	123,201	348,803
Total Liabilities	**7,485,286**	**6,427,700**	**6,036,676**	**8,241,334**	**10,590,847**
Cash Balance	151,354	230,561	265,782	592,632	342,794
Balance With NRB	441,010	478,205	255,573	762,438	781,447
Bank Balance with Banks	70,338	75,190	236,808	122,763	62,764
Money At call	47,944	21,100	75,665	154,406	186,402
Investment	400,337	591,644	1,236,621	1,900,758	1,583,103
Loan and Advances	5,419,735	4,643,262	3,707,642	4,417,857	6,858,194
Fixed Assets	124,027	111,837	104,233	114,064	216,858
Non- Banking Assets	57,484	72,617	46,556	59,963	235,574
Other Assets	773,057	203,284	107,796	116,453	323,712
Total Assets	**7,485,286**	**6,427,700**	**6,036,676**	**8,241,334**	**10,590,847**
Interest Income	541,855	562,780	474,408	576,609	758,363
Interest Expenses	315,800	315,991	283,006	278,724	352,060
Net Interest Income	**226,055**	**246,789**	**191,402**	**297,885**	**406,303**
Commission and discount	37,866	37,470	31,773	34,235	55,454
Other Operating Income	26,134	20,098	36,257	75,763	76,173
Exchange Income	10,552	13,773	5,940	18,467	20,314
Total Operating Income	**300,607**	**318,130**	**265,372**	**426,350**	**558,243**
Employees Expenses	39,222	48,178	56,156	76,072	93,390
Other Operating Expenses	76,595	69,829	89,623	95,931	96,089
Exchange Loss	6,663		-	-	-
Operating Profit Before Provision	**178,127**	**200,123**	**119,593**	**254,347**	**368,764**
Provisions for possible losses	165,580	782,710	206,867	163,874	74,557
Operating Profit	**12,547**	**(582,587)**	**(87,274)**	**90,473**	**294,207**
Non-Operating Income/ Expenses	(1,819)	4,686	2,913	29,562	6,295
Return From Loan Loss Provision	-	95,783	50,901	733,488	300,767
Profit From Ordinary activities	**10,728**	**(482,118)**	**(33,460)**	**853,523**	**601,269**
Extra ordinary Income /Expenses	-	(72,144)	(42,420)	(222,019)	(36,202)
Net Profit including all activities	**10,728**	**(554,262)**	**(75,880)**	**631,504**	**565,067**
Provision For Staff Bonus	-	-	-	57,409	51,370
Provision For Income Tax	15,885	15,483	**40,049**	75,340	98,236
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**(5,157)**	**(569,745)**	**(115,929)**	**498,755**	**415,461**
Financial Indicators					
Core Capital to Risk Weighted Assets	3.48%	-5.05%	-9.14%	9.61%	9.81%
Capital Fund to Risk Weighted Assets	4.20%	-3.46%	-9.14%	10.53%	11.07%
Non-Performing Loan to Total Loan	8.60%	21.90%	31.40%	16.42%	8.60%
Weighted Average Interest Spread	4.29%	4.25%	3.40%	4.45%	4.29%
Net Interest Income (Rs. in thousand)	226,055	246,789	191,402	297,885	406,303
Return on Assets	-0.06%	-7.72%	-1.56%	5.48%	0.06%
Credit to Deposit	90.66%	89.12%	78.80%	72.14%	90.66%
Liquid Assets to Total Assets	13.83%	20.64%	33.00%	40.87%	26.45%
Liquid Assets to Total Deposit	15.61%	20.04%	30.65%	46.01%	30.69%

12. Lumbini Bank Limited

(Rs. In '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	500,000	500,000	600,000	995,710	1,096,079
Reserves and Surplus	(254,991)	(1,222,070)	(1,029,665)	(702,016)	(143,027)
Debenture & Bond	-	-	-	-	-
Borrowing	-	-	23,514	-	19,538
Deposit	4,031,221	4,786,440	6,024,598	5,703,734	6,444,904
Bills Payable	60,517	104,585	14,260	29,075	17,916
Proposed & Payable dividend	-	-	-	-	-
Tax Liabilities	7,496	-	-	-	-
Other Liabilities	150,658	90,388	72,318	124,975	112,461
Total Liabilities	**4,494,901**	**4,259,343**	**5,705,025**	**6,151,478**	**7,547,870**
Cash Balance	103,231	133,384	138,478	146,316	168,146
Balance With NRB	267,601	178,329	280,521	411,341	749,886
Bank Balance with Banks	48,181	90,421	81,808	84,945	76,828
Money At call	-	50,000	295,605	67,714	441,801
Investment	535,184	673,720	864,337	817,471	803,625
Loan and Advances	3,167,724	2,983,895	3,840,687	4,489,494	4,983,388
Fixed Assets	48,345	41,996	42,701	41,288	46,167
Non- Banking Assets	64,939	49,402	73,752	35,762	16,046
Other Assets	259,696	58,196	87,136	57,147	261,983
Total Assets	**4,494,901**	**4,259,343**	**5,705,025**	**6,151,478**	**7,547,870**
Interest Income	384,598	343,821	458,649	535,801	580,438
Interest Expenses	193,475	215,553	264,765	260,390	264,426
Net Interest Income	**191,123**	**128,268**	**193,884**	**275,411**	**316,012**
Commission and discount	13,935	16,582	24,025	22,253	23,490
Other Operating Income	14,349	14,578	49,649	39,185	104,228
Exchange Income	12,294	20,866	13,737	14,245	25,705
Total Operating Income	**231,701**	**180,294**	**281,295**	**351,094**	**469,434**
Employees Expenses	37,084	48,581	59,937	59,172	77,349
Other Operating Expenses	50,384	70,392	68,683	71,613	78,453
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**144,233**	**61,321**	**152,675**	**220,309**	**313,632**
Provisions for possible losses	303,412	855,593	217,859	164,628	66,182
Operating Profit	**(159,179)**	**(794,272)**	**(65,184)**	**55,681**	**247,449**
Non-Operating Income/ Expenses	(2,289)	(1,058)	1,233	(931)	(2,566)
Return From Loan Loss Provision	-	9,412	414,559	359,927	284,930
Profit From Ordinary activities	**(161,468)**	**(785,918)**	**350,608**	**414,677**	**529,813**
Extra ordinary Income /Expenses	(109)	(9,413)	(109,243)	5,359	(17,615)
Net Profit including all activities	**(161,577)**	**(795,331)**	**241,365**	**420,036**	**512,199**
Provision For Staff Bonus	-	-	21,942	38,185	46,564
Provision For Income Tax	35,196	10,731	27,018	54,202	133,429
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**(196,773)**	**(806,062)**	**192,405**	**327,649**	**332,206**
Financial Indicators					
Core Capital to Risk Weighted Assets	5.68%	-15.11%	-7.80%	4.73%	16.87%
Capital Fund to Risk Weighted Assets	6.93%	-15.11%	-7.80%	6.00%	17.78%
Non-Performing Loan to Total Loan	15.23%	30.99%	20.37%	14.92%	9.06%
Weighted Average Interest Spread	4.39%	2.54%	3.30%	4.24%	4.24%
Net Interest Income (Rs. in thousand)	191,123	128,268	193,884	275,411	316,012
Return on Assets	-4.38%	-18.92%	3.37%	5.36%	4.40%
Credit to Deposit	91.41%	90.29%	82.07%	94.10%	88.15%
Liquid Assets to Total Assets	18.55%	36.78%	27.91%	23.44%	28.56%
Liquid Assets to Total Deposit	20.68%	32.73%	26.43%	25.28%	33.45%

13. Nepal Industrial and Commercial Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	500,000	600,000	660,000	943,877	1,140,480
Reserves and Surplus	184,194	166,462	258,496	359,550	519,774
Debenture & Bond	-	200,000	200,000	200,000	200,000
Borrowing	450,371	457,705	352,129	335,000	660,405
Deposit	6,241,378	8,765,950	10,068,231	13,084,689	15,579,931
Bills Payable	28,329	91,508	31,691	32,564	265,107
Proposed & Payable dividend	54,011	10,954	11,380	12,475	11,000
Tax Liabilities	2,040	4,631	405	13,927	10,893
Other Liabilities	47,744	86,390	97,008	256,654	363,044
Total Liabilities	**7,508,067**	**10,383,600**	**11,679,340**	**15,238,736**	**18,750,633**
Cash Balance	69,778	139,186	181,607	235,246	337,349
Balance With NRB	837,301	455,769	262,735	634,115	970,981
Bank Balance with Banks	98,470	154,184	155,416	322,988	152,820
Money At call	89,881	353,515	163,009	160,000	-
Investment	1,572,902	2,479,912	1,599,481	2,311,469	3,026,022
Loan and Advances	4,711,712	6,655,964	8,941,398	11,264,678	13,679,394
Fixed Assets	59,496	39,864	153,679	194,500	259,325
Non- Banking Assets	3,465	2,645	1,164	674	703
Other Assets	65,062	102,561	220,851	115,066	324,038
Total Assets	**7,508,067**	**10,383,600**	**11,679,340**	**15,238,736**	**18,750,633**
Interest Income	457,610	579,979	725,819	931,400	1,283,521
Interest Expenses	225,992	340,222	421,375	505,996	767,197
Net Interest Income	**231,618**	**239,757**	**304,444**	**425,404**	**516,324**
Commission and discount	27,102	29,447	36,017	43,373	61,895
Other Operating Income	9,180	20,242	26,174	37,905	44,028
Exchange Income	24,606	25,388	44,277	39,658	97,673
Total Operating Income	**292,506**	**314,834**	**410,912**	**546,340**	**719,921**
Employees Expenses	39,003	45,494	54,920	72,073	84,545
Other Operating Expenses	51,629	57,356	64,631	81,203	109,784
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**201,874**	**211,984**	**291,361**	**393,064**	**525,592**
Provisions for possible losses	19,952	60,913	37,771	25,414	39,509
Operating Profit	**181,922**	**151,071**	**253,590**	**367,650**	**486,082**
Non-Operating Income/ Expenses	285	59	409	10,649	2,489
Return From Loan Loss Provision	5,086	10,359	94,457	18,450	3,913
Profit From Ordinary activities	**187,293**	**161,489**	**348,456**	**396,749**	**492,485**
Extra ordinary Income /Expenses	(4,262)	(10,359)	(94,457)	(6,037)	7,617
Net Profit including all activities	**183,031**	**151,130**	**253,999**	**390,712**	**500,102**
Provision For Staff Bonus	18,303	13,739	23,091	35,519	45,464
Provision For Income Tax	50,971	40,804	72,433	112,135	137,204
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**113,757**	**96,587**	**158,475**	**243,058**	**317,434**
Financial Indicators					
Core Capital to Risk Weighted Assets	12.36%	9.94%	9.21%	10.50%	10.48%
Capital Fund to Risk Weighted Assets	13.29%	13.54%	12.20%	13.11%	12.42%
Non-Performing Loan to Total Loan	3.78%	2.60%	1.11%	0.86%	0.23%
Weighted Average Interest Spread	3.33%	2.74%	2.87%	3.44%	3.50%
Net Interest Income (Rs. in thousand)	231,618	239,757	304,444	425,404	516,324
Return on Assets	1.69%	1.08%	1.36%	1.60%	1.69%
Credit to Deposit	78.66%	78.74%	90.67%	87.62%	89.32%
Liquid Assets to Total Assets	30.50%	27.54%	15.98%	19.02%	19.50%
Liquid Assets to Total Deposit	36.69%	32.62%	18.54%	22.15%	23.47%

14. Machhapuchchhre Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	550,000	715,000	821,651	901,339	1,479,270
Reserves and Surplus	87,739	216,091	185,641	262,008	220,928
Debenture & Bond	-	-	-	-	-
Borrowing	154,217	131,675	228,504	88,508	-
Deposit	5,586,803	7,893,298	9,475,452	11,102,242	15,596,791
Bills Payable	9,327	11,365	21,482	10,311	24,445
Proposed & Payable dividend	-	5,645	-	8,649	112
Tax Liabilities	874	10,462	7,372	3,037	11,765
Other Liabilities	67,500	86,294	70,228	122,454	157,472
Total Liabilities	**6,456,460**	**9,069,830**	**10,810,330**	**12,498,548**	**17,490,782**
Cash Balance	121,550	280,421	385,941	560,317	743,199
Balance With NRB	463,233	489,091	785,689	893,295	1,755,982
Bank Balance with Banks	146,350	44,412	112,451	134,951	267,468
Money At call	15,000	718,475	694,000	70,000	-
Investment	468,612	1,190,830	1,278,469	1,443,551	1,246,159
Loan and Advances	5,061,433	6,068,427	7,129,891	8,642,323	12,516,012
Fixed Assets	86,212	104,943	262,246	535,886	664,158
Non- Banking Assets	4,354	12,532	3,392	-	4,500
Other Assets	89,716	160,699	158,251	218,225	293,304
Total Assets	**6,456,460**	**9,069,830**	**10,810,330**	**12,498,548**	**17,490,782**
Interest Income	381,931	563,362	694,482	796,597	1,041,473
Interest Expenses	187,028	288,662	397,722	407,919	580,036
Net Interest Income	**194,903**	**274,700**	**296,760**	**388,678**	**461,437**
Commission and discount	21,391	33,401	34,305	35,616	38,017
Other Operating Income	13,206	13,691	49,039	30,072	57,136
Exchange Income	11,359	35,152	29,036	45,699	59,818
Total Operating Income	**240,859**	**356,944**	**409,140**	**500,065**	**616,408**
Employees Expenses	29,582	43,410	54,360	71,421	90,996
Other Operating Expenses	59,973	85,924	101,467	124,408	182,841
Exchange Loss	-	-	1,893	-	-
Operating Profit Before Provision	**151,304**	**227,610**	**251,420**	**304,236**	**342,571**
Provisions for possible losses	22,907	34,703	157,606	264,487	258,939
Operating Profit	**128,397**	**192,907**	**93,814**	**39,749**	**83,632**
Non-Operating Income/ Expenses	287	(9)	462	(48)	24
Return From Loan Loss Provision	345	20,149	48,185	135,405	110,738
Profit From Ordinary activities	**129,029**	**213,047**	**142,461**	**175,106**	**194,395**
Extra ordinary Income /Expenses	(346)	(1,530)	(14,319)	38	(500)
Net Profit including all activities	**128,683**	**211,517**	**128,142**	**175,144**	**193,895**
Provision For Staff Bonus	12,868	19,229	11,403	15,922	17,627
Provision For Income Tax	30,945	58,294	39,940	74,206	53,017
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**84,870**	**133,994**	**76,799**	**85,016**	**123,251**
Financial Indicators					
Core Capital to Risk Weighted Assets	10.52%	11.95%	10.68%	10.97%	10.96%
Capital Fund to Risk Weighted Assets	11.36%	12.79%	11.97%	12.29%	11.84%
Non-Performing Loan to Total Loan	0.39%	0.28%	1.16%	1.04%	2.33%
Weighted Average Interest Spread	3.97%	3.40%	3.38%	3.96%	3.60%
Net Interest Income (Rs. in thousand)	194,903	274,700	296,760	388,678	461,437
Return on Assets	1.31%	1.48%	0.69%	1.00%	1.00%
Credit to Deposit	91.83%	77.87%	77.25%	81.00%	83.00%
Liquid Assets to Total Assets	13.53%	26.87%	27.10%	19.89%	18.55%
Liquid Assets to Total Deposit	15.63%	30.87%	30.92%	22.39%	20.80%

15. Kumari Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	500,000	625,000	750,000	1,070,000	1,186,099
Reserves and Surplus	145,442	238,851	275,630	294,885	438,854
Debenture & Bond	-	-	-	400,000	400,000
Borrowing	401,761	251,400	212,970	100,000	293,420
Deposit	6,268,954	7,768,957	10,557,416	12,774,281	15,710,925
Bills Payable	7,339	11,919	16,554	65,297	70,087
Proposed & Payable dividend	-	6,579	-	-	6,584
Tax Liabilities	-	296	11,007	(9,650)	235
Other Liabilities	114,386	107,274	94,734	331,786	432,361
Total Liabilities	**7,437,882**	**9,010,276**	**11,918,311**	**15,026,599**	**18,538,565**
Cash Balance	111,249	135,795	190,748	565,641	549,109
Balance With NRB	219,830	210,553	384,845	244,576	1,120,761
Bank Balance with Banks	112,292	43,282	96,520	123,624	106,430
Money At call	90,000	145,000	372,215	55,360	30,000
Investment	1,190,271	1,394,948	1,678,418	2,138,797	1,510,828
Loan and Advances	5,590,926	6,891,855	8,929,013	11,335,088	14,593,347
Fixed Assets	82,984	91,933	189,324	222,001	247,833
Non- Banking Assets	-	**3,592**	2,395	**3,141**	-
Other Assets	40,330	93,318	74,833	338,371	380,258
Total Assets	**7,437,882**	**9,010,276**	**11,918,311**	**15,026,599**	**18,538,565**
Interest Income	499,918	605,527	791,284	957,246	1,374,722
Interest Expenses	240,130	337,056	397,053	498,734	816,203
Net Interest Income	**259,788**	**268,471**	**394,231**	**458,512**	**558,520**
Commission and discount	23,083	26,281	40,764	48,494	79,104
Other Operating Income	2,609	10,003	15,281	17,805	19,747
Exchange Income	14,989	26,374	20,294	41,807	59,002
Total Operating Income	**300,469**	**331,129**	**470,570**	**566,618**	**716,372**
Employees Expenses	42,395	59,820	74,244	89,570	115,985
Other Operating Expenses	71,812	88,683	104,079	148,143	186,502
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**186,262**	**182,626**	**292,247**	**328,905**	**413,885**
Provisions for possible losses	41,111	25,871	24,950	64,024	57,403
Operating Profit	**145,151**	**156,755**	**267,297**	**264,881**	**356,482**
Non-Operating Income/ Expenses	5	(39)	670	15,588	1,112
Return From Loan Loss Provision	-	5,117	6,264	7,241	47,021
Profit From Ordinary activities	**145,156**	**161,833**	**274,231**	**287,710**	**404,615**
Extra ordinary Income /Expenses	-	-	(817)	(4,531)	(876)
Net Profit including all activities	**145,156**	**161,833**	**273,414**	**283,179**	**403,739**
Provision For Staff Bonus	14,515	14,712	24,856	25,743	36,704
Provision For Income Tax	42,760	43,454	78,296	82,506	105,593
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**87,881**	**103,667**	**170,262**	**174,930**	**261,443**
Financial Indicators					
Core Capital to Risk Weighted Assets	10.20%	11.28%	10.26%	10.40%	9.09%
Capital Fund to Risk Weighted Assets	11.21%	12.36%	11.22%	14.41%	11.56%
Non-Performing Loan to Total Loan	0.95%	0.92%	0.73%	1.32%	0.44%
Weighted Average Interest Spread	3.85%	4.58%	4.67%	4.30%	4.17%
Net Interest Income (Rs. in thousand)	259,788	268,471	394,231	458,512	558,520
Return on Assets	1.18%	1.15%	1.43%	1.16%	1.41%
Credit to Deposit	90.62%	90.20%	85.84%	92.00%	94.17%
Liquid Assets to Total Assets	22.23%	18.30%	19.65%	16.36%	10.75%
Liquid Assets to Total Deposit	26.37%	21.22%	22.19%	19.24%	12.68%

16. Laxmi Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	609,839	609,917	729,697	913,196	1,098,086
Reserves and Surplus	33,731	69,116	134,696	243,179	245,133
Debenture & Bond	-	-	-	-	350,000
Borrowing	18,691	29,760	-	450,000	450,000
Deposit	3,051,759	4,444,351	7,611,653	10,917,232	16,051,303
Bills Payable	31,443	4,749	3,091	5,851	16,158
Proposed & Payable dividend	309	149	127	9,759	4,172
Tax Liabilities	1,450	-	-	-	5,001
Other Liabilities	62,554	47,148	103,424	155,804	166,559
Total Liabilities	**3,809,776**	**5,205,190**	**8,582,688**	**12,695,021**	**18,386,413**
Cash Balance	109,852	66,602	119,437	267,932	211,721
Balance With NRB	254,904	132,381	323,698	720,394	1,243,649
Bank Balance with Banks	104,788	26,140	26,587	249,834	377,407
Money at call	57,505	70,000	13,028	251,738	405,700
Investment	410,940	499,311	1,437,171	1,241,042	2,483,150
Loan and Advances	2,657,958	4,202,362	6,437,449	9,680,949	13,315,604
Fixed Assets	124,384	125,170	140,022	204,397	247,734
Non- Banking Assets	-	662	784	-	-
Other Assets	89,445	82,562	84,512	78,735	101,447
Total Assets	**3,809,776**	**5,205,190**	**8,582,688**	**12,695,021**	**18,386,413**
Interest Income	214,132	319,253	470,495	711,006	1,098,985
Interest Expenses	118,439	190,590	280,278	421,872	712,348
Net Interest Income	**95,693**	**128,663**	**190,217**	**289,134**	**386,637**
Commission and discount	11,254	15,039	15,156	20,943	29,635
Other Operating Income	4,427	9,789	15,710	25,482	70,917
Exchange Income	5,770	9,426	20,904	46,637	51,005
Total Operating Income	**117,144**	**162,917**	**241,987**	**382,196**	**538,194**
Employees Expenses	29,934	37,641	48,785	63,995	86,407
Other Operating Expenses	37,122	50,123	63,547	83,849	112,973
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**50,088**	**75,153**	**129,655**	**234,352**	**338,814**
Provisions for possible losses	18,226	15,626	22,756	36,407	41,360
Operating Profit	**31,862**	**59,527**	**106,899**	**197,945**	**297,454**
Non-Operating Income/ Expenses	(9,089)	(8,971)	(8,365)	(7,995)	(7,595)
Return From Loan Loss Provision	16,772	5,866	10,969	11,809	7,105
Profit From Ordinary activities	**39,545**	**56,422**	**109,503**	**201,759**	**296,964**
Extra ordinary Income /Expenses	912	(724)	(4,309)	(7,637)	(4,413)
Net Profit including all activities	**40,457**	**55,698**	**105,194**	**194,122**	**292,551**
Provision For Staff Bonus	3,678	5,064	9,563	17,647	26,596
Provision For Income Tax	10,315	15,250	30,052	56,444	76,956
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**26,464**	**35,384**	**65,579**	**120,031**	**188,999**
Financial Indicators					
Core Capital to Risk Weighted Assets	19.45%	13.71%	11.33%	10.10%	8.47%
Capital Fund to Risk Weighted Assets	20.88%	14.96%	12.43%	11.17%	11.48%
Non-Performing Loan to Total Loan	1.63%	0.78%	0.35%	0.13%	0.08%
Weighted Average Interest Spread	4.19%	3.24%	3.20%	3.40%	3.71%
Net Interest Income (Rs. in thousand)	95,693	128,663	190,217	289,134	386,637
Return on Assets	0.83%	0.79%	0.95%	1.13%	1.22%
Credit to Deposit	89.33%	96.30%	85.78%	89.72%	83.88%
Liquid Assets to Total Assets	23.86%	13.82%	17.02%	17.13%	16.98%
Liquid Assets to Total Deposit	30.41%	16.18%	19.19%	19.92%	19.45%

17. Siddhartha Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	350,000	500,000	600,000	828,000	952,200
Reserves and Surplus	37,889	103,141	193,710	240,346	326,545
Debenture & Bond	-	-	-	-	227,770
Borrowing	190,000	181,150	430,000	205,133	327,600
Deposit	2,461,922	3,918,076	6,625,078	10,191,441	15,854,798
Bills Payable	429	-	-	15,884	17,877
Proposed & Payable dividend	-	-	4,737	6,537	7,517
Tax Liabilities	17,083	1,113	5,203	11,155	4,846
Other Liabilities	41,673	53,455	95,936	169,860	162,597
Total Liabilities	**3,098,996**	**4,756,935**	**7,954,664**	**11,668,356**	**17,881,750**
Cash Balance	33,459	64,977	130,442	149,007	270,946
Balance With NRB	45,637	48,831	380,564	270,219	984,981
Bank Balance With Banks	51,633	2,138	6,220	18,199	291,757
Money At call	22,471	100,000	229,446	584,736	484,840
Investment	286,623	650,979	865,189	1,150,096	2,176,428
Loan and Advances	2,570,776	3,789,123	6,222,587	9,335,598	13,328,622
Fixed Assets	30,217	39,692	46,667	72,398	172,158
Non- Banking Assets	720	480	10,173	-	-
Other Assets	57,460	60,715	63,376	88,103	172,019
Total Assets	**3,098,996**	**4,756,935**	**7,954,664**	**11,668,356**	**17,881,750**
Interest Income	198,184	305,561	481,524	729,872	1,265,582
Interest Expenses	91,981	153,709	271,711	408,189	813,619
Net Interest Income	**106,203**	**151,852**	**209,813**	**321,683**	**451,963**
Commission and discount	7,553	13,775	20,178	21,454	32,548
Other Operating Income	7,982	9,701	18,659	31,294	46,354
Exchange Income	7,171	12,051	14,245	27,487	38,682
Total Operating Income	**128,909**	**187,379**	**262,895**	**401,918**	**569,547**
Employees Expenses	20,310	26,087	33,620	48,247	79,385
Other Operating Expenses	30,898	44,125	55,721	71,480	114,817
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision	**77,701**	**117,167**	**173,554**	**282,191**	**375,346**
Provisions for possible losses	-	16,473	20,544	48,048	39,842
Operating Profit	**77,701**	**100,694**	**153,010**	**234,143**	**335,503**
Non-Operating Income/ Expenses	-	3	35	506	-
Return From Loan Loss Provision	19,370	-	-	4,031	8,857
Profit From Ordinary activities	**97,071**	**100,697**	**153,045**	**238,680**	**344,361**
Extra ordinary Income /Expenses	-	-	-	-	(8,857)
Net Profit including all activities	**97,071**	**100,697**	**153,045**	**238,680**	**335,503**
Provision For Staff Bonus	9,707	9,154	13,913	21,698	30,500
Provision For Income Tax	17,083	26,290	43,826	73,808	87,087
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**70,281**	**65,253**	**95,306**	**143,174**	**217,916**
Financial Indicators					
Core Capital to Risk Weighted Assets	12.77%	13.29%	10.78%	10.19%	8.26%
Capital Fund to Risk Weighted Assets	13.65%	14.16%	11.84%	11.14%	10.39%
Non-Performing Loan to Total Loan	2.58%	0.87%	0.34%	0.69%	0.45%
Weighted Average Interest Spread	4.46%	4.07%	3.57%	3.71%	3.45%
Net Interest Income (Rs. in thousand)	106,203	151,852	209,813	321,683	451,963
Return on Assets	2.27%	1.37%	1.20%	1.23%	1.22%
Credit to Deposit	104.42%	98.75%	95.39%	93.03%	85.18%
Liquid Assets to Total Assets	13.87%	12.91%	17.25%	16.05%	20.84%
Liquid Assets to Total Deposit	17.46%	15.68%	20.72%	18.37%	23.50%

18. Agriculture Development Bank Limited Nepal

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	1,677,615	6,478,000	7,528,000	10,777,500	10,777,500
Reserves and Surplus	(7,666,883)	(7,313,358)	(6,254,909)	(5,442,189)	(452,327)
Debenture & Bond	-	-	-	-	-
Borrowing	3,589,299	513,532	373,947	257,373	198,250
Deposit	27,223,046	29,631,817	32,416,358	32,553,827	35,159,610
Bills Payable	-	-	-	-	-
Proposed & Payable dividend	-	-	-	-	276,000
Tax Liabilities	235,147	748,270	284,744	365,242	597,719
Other Liabilities	6,164,751	5,239,362	3,812,071	5,174,996	5,261,987
Total Liabilities	**31,222,975**	**35,297,623**	**38,160,211**	**43,686,749**	**51,818,739**
Cash Balance	680,844	746,812	749,552	905,235	1,413,971
Balance With NRB	1,730,302	3,018,299	2,001,144	1,806,731	2,717,813
Bank Balance With Banks	623,892	1,006,589	938,625	912,032	1,075,869
Money At call	-	-	161,599	49,995	2,244,198
Investment	1,355,833	1,511,330	3,177,461	4,757,097	4,896,062
Loan and Advances	22,638,255	24,900,914	27,252,333	30,589,428	32,603,096
Fixed Assets	816,192	882,083	788,868	781,149	803,333
Non- Banking Assets	-	-	-	-	-
Other Assets	3,377,657	3,231,596	3,090,629	3,885,082	6,064,398
Total Assets	**31,222,975**	**35,297,623**	**38,160,211**	**43,686,749**	**51,818,739**
Interest Income	3,915,225	4,095,069	4,623,096	3,961,131	4,231,143
Interest Expenses	1,487,499	1,501,368	1,605,867	1,641,207	1,157,071
Net Interest Income	**2,427,726**	**2,593,701**	**3,017,229**	**2,319,924**	**3,074,072**
Commission and discount	42,646	42,262	49,818	71,139	90,045
Other Operating Income	286,315	164,861	232,033	350,676	382,246
Exchange Income	-	2,834	-	11,955	22,096
Total Operating Income	**2,756,687**	**2,803,658**	**3,299,080**	**2,753,694**	**3,568,459**
Employees Expenses	963,176	1,775,337	1,306,805	1,849,133	2,486,716
Other Operating Expenses	447,881	254,889	277,546	288,020	300,691
Exchange Loss	11,937	-	14,061	-	-
Operating Profit Before Provision	**1,333,693**	**773,432**	**1,700,668**	**616,541**	**781,052**
Provisions for possible losses	1,505,105	149,285	337,783	2,677,476	2,184,688
Operating Profit	**(171,412)**	**624,147**	**1,362,885**	**(2,060,935)**	**(1,403,636)**
Non-Operating Income/ Expenses	92,780	117,765	7,419	18,336	634,989
Return From Loan Loss Provision	-	549,333	1,803,214	4,064,478	1,381,932
Profit From Ordinary activities	**(78,632)**	**1,291,245**	**3,173,518**	**2,021,879**	**613,284**
Extra ordinary Income /Expenses	-	(355,266)	(1,883,003)	(1,212,162)	1,106,749
Net Profit including all activities	**(78,632)**	**935,979**	**1,290,515**	**809,717**	**1,720,033**
Provision For Staff Bonus	-	69,332	95,594	59,979	127,410
Provision For Income Tax	-	148,270	136,473	80,499	535,023
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**(78,632)**	**718,377**	**1,058,448**	**669,239**	**1,057,600**
Financial Indicators					
Core Capital to Risk Weighted Assets	-15.50%	-2.08%	2.68%	6.09%	11.04%
Capital Fund to Risk Weighted Assets	-15.50%	-2.07%	4.84%	11.41%	15.69%
Non-Performing Loan to Total Loan	19.81%	20.59%	17.96%	11.69%	9.71%
Weighted Average Interest Spread	6.73%	5.85%	5.88%	4.52%	5.87%
Net Interest Income (Rs. in thousand)	2,427,726	2,593,701	3,017,229	2,319,924	3,074,072
Return on Assets	-	-	-	-	2.04%
Credit to Deposit	115.01%	112.42%	106.24%	112.44%	108.93%
Liquid Assets to Total Assets	11.00%	14.72%	14.70%	8.41%	21.08%
Liquid Assets to Total Deposit	12.62%	17.53%	17.31%	11.29%	31.07%

19. Global Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital			510,000	700,000	1,000,000
Reserves and Surplus			(38,612)	22,622	48,927
Debenture & Bond			-	-	-
Borrowing			30,000	100,000	499,460
Deposit			3,023,616	7,319,702	10,932,984
Bills Payable			2,534	30,637	76,459
Proposed & Payable dividend			-	-	-
Tax Liabilities			-	282	-
Other Liabilities			9,178	92,473	68,643
Total Liabilities			**3,536,716**	**8,265,716**	**12,626,473**
Cash Balance			66,728	576,459	326,273
Balance With NRB			304,184	604,812	914,399
Bank Balance With Banks			102,128	86,712	141,470
Money At call			-	457,760	36,643
Investment			389,480	1,187,415	1,620,121
Loan and Advances			2,564,140	5,084,730	9,063,092
Fixed Assets			52,509	105,386	224,351
Non- Banking Assets			-	-	-
Other Assets			57,547	162,442	300,124
Total Assets			**3,536,716**	**8,265,716**	**12,626,473**
Interest Income			65,103	357,911	683,933
Interest Expenses			40,325	218,947	459,784
Net Interest Income			**24,778**	**138,964**	**224,150**
Commission and discount			3,969	18,991	46,019
Other Operating Income			2,086	9,670	33,841
Exchange Income			6,479	26,541	30,210
Total Operating Income			**37,312**	**194,166**	**334,220**
Employees Expenses			12,706	41,962	66,322
Other Operating Expenses			24,794	60,107	132,894
Exchange Loss			-	-	-
Operating Profit Before Provision			**(188)**	**92,097**	**135,004**
Provisions for possible losses			38,425	16,917	70,218
Operating Profit			**(38,613)**	**75,180**	**64,785**
Non-Operating Income/ Expenses			-	-	-
Return From Loan Loss Provision			-	-	-
Profit From Ordinary activities			**(38,613)**	**75,180**	**64,785**
Extra ordinary Income /Expenses			-	-	-
Net Profit including all activities			**(38,613)**	**75,180**	**64,785**
Provision For Staff Bonus			-	6,834	5,890
Provision For Income Tax			-	7,112	3,291
-This Year			-	-	-
-Up to Last Year			-	-	-
Net Profit / Loss			**(38,613)**	**61,234**	**55,605**
Financial Indicators					
Core Capital to Risk Weighted Assets			14.00%	10.95%	9.42%
Capital Fund to Risk Weighted Assets			16.00%	11.80%	10.31%
Non-Performing Loan to Total Loan			-	-	0.09%
Weighted Average Interest Spread			3.25%	3.05%	3.05%
Net Interest Income (Rs. in thousand)			24,778	138,964	224,150
Return on Assets			-1.15%	0.75%	0.21%
Credit to Deposit			86.00%	70.22%	83.78%
Liquid Assets to Total Assets			16.90%	29.61%	21.90%
Liquid Assets to Total Deposit			19.77%	33.43%	25.30%

20. Citizens Bank International Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital			560,000	560,000	1,000,000
Reserves and Surplus			(15,420)	39,421	34,073
Debenture & Bond			-	-	-
Borrowing			1,372,569	476,074	250,000
Deposit			1,553,170	6,139,579	11,524,426
Bills Payable			1,297	4,209	4,166
Proposed & Payable dividend			-	-	100,000
Tax Liabilities			-	-	-
Other Liabilities			15,680	50,017	53,409
Total Liabilities			**3,487,296**	**7,269,300**	**12,966,074**
Cash Balance			46,111	316,759	366,875
Balance With NRB			76,725	299,590	1,134,215
Bank Balance With Banks			23,985	116,134	154,264
Money At call			-	442,682	900,400
Investment			1,221,389	1,174,029	2,027,338
Loan and Advances			2,026,210	4,750,342	8,128,114
Fixed Assets			73,809	126,104	121,659
Non- Banking Assets			-	-	-
Other Assets			19,067	43,660	133,211
Total Assets			**3,487,296**	**7,269,300**	**12,966,074**
Interest Income			26,955	396,842	758,256
Interest Expenses			14,830	252,028	508,802
Net Interest Income			**12,125**	**144,814**	**249,454**
Commission and discount			664	9,028	12,295
Other Operating Income			6,782	24,537	45,805
Exchange Income			582	8,900	8,825
Total Operating Income			**20,153**	**187,279**	**316,379**
Employees Expenses			6,030	29,049	40,219
Other Operating Expenses			9,026	51,719	91,673
Exchange Loss			-	-	-
Operating Profit Before Provision			**5,097**	**106,511**	**184,487**
Provisions for possible losses			20,517	27,466	34,119
Operating Profit			**(15,420)**	**79,045**	**150,368**
Non-Operating Income/ Expenses			-	244	273
Return From Loan Loss Provision			-	-	-
Profit From Ordinary activities			**(15,420)**	**79,289**	**150,641**
Extra ordinary Income /Expenses			-	-	-
Net Profit including all activities			**(15,420)**	**79,289**	**150,641**
Provision For Staff Bonus			-	7,208	13,695
Provision For Income Tax			-	17,240	41,137
-This Year			-	-	-
-Up to Last Year			-	-	-
Net Profit / Loss			**(15,420)**	**54,841**	**95,810**
Financial Indicators					
Core Capital to Risk Weighted Assets			21.07%	11.18%	10.79%
Capital Fund to Risk Weighted Assets			21.86%	12.08%	11.65%
Non-Performing Loan to Total Loan			-	-	-
Weighted Average Interest Spread			3.24%	4.46%	4.91%
Net Interest Income (Rs. in thousand)			12,125	144,814	249,454
Return on Assets			-0.44	0.75%	0.74%
Credit to Deposit			130.46%	78.15%	71.24%
Liquid Assets to Total Assets			4.21%	18.61%	22.31%
Liquid Assets to Total Deposit			9.45%	22.03%	25.10%

21. Prime Commercial Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital				700,000	863,755
Reserves and Surplus				28,007	165,449
Debenture & Bond				-	-
Borrowing				265,502	539,364
Deposit				5,275,649	11,779,989
Bills Payable				753	9,809
Proposed & Payable dividend				-	5,263
Tax Liabilities				-	-
Other Liabilities				118,586	93,259
Total Liabilities				**6,388,497**	**13,456,887**
Cash Balance				92,185	279,676
Balance With NRB				178,191	950,917
Bank Balance With Banks				27,891	148,733
Money At call				450,000	
Investment				378,563	2,097,042
Loan and Advances				5,104,412	9,732,585
Fixed Assets				40,333	108,064
Non- Banking Assets				-	-
Other Assets				116,922	139,870
Total Assets				**6,388,497**	**13,456,887**
Interest Income				224,530	822,685
Interest Expenses				121,365	564,655
Net Interest Income				**103,165**	**258,030**
Commission and discount				5,209	21,516
Other Operating Income				35,908	81,760
Exchange Income				3,403	10,961
Total Operating Income				**147,685**	**372,267**
Employees Expenses				21,954	34,320
Other Operating Expenses				29,197	68,315
Exchange Loss				-	-
Operating Profit Before Provision				**96,534**	**269,633**
Provisions for possible losses				51,559	46,749
Operating Profit				**44,975**	**222,883**
Non-Operating Income/ Expenses				-	-
Return From Loan Loss Provision				-	-
Profit From Ordinary activities				**44,975**	**222,883**
Extra ordinary Income /Expenses				-	-
Net Profit including all activities				**44,975**	**222,883**
Provision For Staff Bonus				4,089	20,265
Provision For Income Tax				12,879	59,936
-This Year				-	-
-Up to Last Year				-	-
Net Profit / Loss				**28,007**	**142,682**
Financial Indicators					
Core Capital to Risk Weighted Assets				12.31%	9.47%
Capital Fund to Risk Weighted Assets				13.18%	10.38%
Non-Performing Loan to Total Loan				-	-
Weighted Average Interest Spread				3.55%	3.57%
Net Interest Income (Rs. in thousand)				103,165	258,030
Return on Assets				0.44%	1.06%
Credit to Deposit				96.75%	82.62%
Liquid Assets to Total Assets				14.70%	15.59%
Liquid Assets to Total Deposit				17.80%	17.81%

22. Bank of Asia Nepal Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital				700,000	1,000,000
Reserves and Surplus				4,462	15,955
Debenture & Bond				-	-
Borrowing				500,000	1,409,657
Deposit				3,054,837	8,875,563
Bills Payable				3,380	153,198
Proposed & Payable dividend				-	50,000
Tax Liabilities				852	-
Other Liabilities				29,503	139,135
Total Liabilities				**4,293,034**	**11,643,508**
Cash Balance				73,150	236,519
Balance With NRB				254,304	496,654
Bank Balance With Banks				67,775	382,726
Money At call				369,776	915,050
Investment				703,081	1,727,036
Loan and Advances				2,727,703	7,635,757
Fixed Assets				61,058	167,870
Non- Banking Assets				-	-
Other Assets				36,187	81,897
Total Assets				**4,293,034**	**11,643,508**
Interest Income				190,517	584,258
Interest Expenses				127,236	378,200
Net Interest Income				**63,281**	**206,057**
Commission and discount				1,725	7,819
Other Operating Income				11,127	61,301
Exchange Income				2,663	10,904
Total Operating Income				**78,796**	**286,081**
Employees Expenses				18,800	53,665
Other Operating Expenses				25,279	87,832
Exchange Loss				-	-
Operating Profit Before Provision				**34,717**	**144,585**
Provisions for possible losses				27,553	49,785
Operating Profit				**7,164**	**94,800**
Non-Operating Income/ Expenses				-	1,833
Return From Loan Loss Provision				-	-
Profit From Ordinary activities				**7,164**	**96,633**
Extra ordinary Income /Expenses				-	-
Net Profit including all activities				**7,164**	**96,633**
Provision For Staff Bonus				651	8,785
Provision For Income Tax				2,051	26,354
-This Year				-	26,690
-Up to Last Year				-	(335)
Net Profit / Loss				**4,462**	**61,494**
Financial Indicators					
Core Capital to Risk Weighted Assets				21.24%	11.06%
Capital Fund to Risk Weighted Assets				22.08%	11.91%
Non-Performing Loan to Total Loan				-	0.01%
Weighted Average Interest Spread				2.85%	4.10%
Net Interest Income (Rs. in thousand)				63,281	206,057
Return on Assets				0.21%	0.77%
Credit to Deposit				90.19%	86.90%
Liquid Assets to Total Assets				20.51%	19.31%
Liquid Assets to Total Deposit				28.82%	25.34%

23. Sunrise Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital				700,000	1,337,500
Reserves and Surplus				(27,209)	57,570
Debenture & Bond				-	-
Borrowing				487,873	365,614
Deposit				4,226,272	12,012,618
Bills Payable				9,124	20,921
Proposed & Payable dividend				-	-
Tax Liabilities				-	-
Other Liabilities				47,108	2,963,028
Total Liabilities				**5,443,168**	**16,757,251**
Cash Balance				34,933	316,399
Balance With NRB				244,532	3,950,334
Bank Balance With Banks				70,539	475,397
Money At call				15,570	674,150
Investment				595,009	1,910,210
Loan and Advances				3,995,604	8,953,332
Fixed Assets				106,149	272,931
Non- Banking Assets				-	-
Other Assets				80,832	204,499
Total Assets				**5,143,168**	**16,757,251**
Interest Income				174,204	774,066
Interest Expenses				101,339	510,001
Net Interest Income				**72,865**	**264,065**
Commission and discount				20,468	58,628
Other Operating Income				709	3,214
Exchange Income				10,909	35,583
Total Operating Income				**104,951**	**361,490**
Employees Expenses				31,130	75,474
Other Operating Expenses				51,847	121,822
Exchange Loss				-	-
Operating Profit Before Provision				**21,974**	**164,194**
Provisions for possible losses				62,100	57,497
Operating Profit				**(40,126)**	**106,697**
Non-Operating Income/ Expenses				-	4,211
Return From Loan Loss Provision				-	21,523
Profit From Ordinary activities				**(40,126)**	**132,432**
Extra ordinary Income /Expenses				-	-
Net Profit including all activities				**(40,126)**	**132,432**
Provision For Staff Bonus				-	12,039
Provision For Income Tax				(12,917)	35,613
-This Year				-	-
-Up to Last Year				-	-
Net Profit / Loss				**(27,209)**	**84,779**
Financial Indicators					
Core Capital to Risk Weighted Assets				13.92%	11.88%
Capital Fund to Risk Weighted Assets				14.78%	12.66%
Non-Performing Loan to Total Loan				-	0.0007%
Weighted Average Interest Spread				2.88%	3.65%
Net Interest Income (Rs. in thousand)				72,865	264,065
Return on Assets				-0.50%	0.51%
Credit to Deposit				94.54%	74.53%
Liquid Assets to Total Assets				12.67%	37.93%
Liquid Assets to Total Deposit				15.42%	52.91%

24. DCBL Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital			268,800	1,107,456	1,655,289
Reserves and Surplus			78,696	115,505	214,205
Debenture & Bond			-	-	-
Borrowing			50,000	350,995	290,000
Deposit			2,539,702	2,913,337	6,613,359
Bills Payable			813	241,028	22,500
Proposed & Payable dividend			4,451	1,499	5,601
Tax Liabilities			-	-	-
Other Liabilities			26,803	40,404	57,685
Total Liabilities			**2,969,265**	**4,770,224**	**8,858,639**
Cash Balance			15,831	33,272	87,949
Balance With NRB			129,546	153,024	551,213
Bank Balance With Banks			8,233	39,501	76,597
Money At call			268,440	663,063	1,021,576
Investment			42,615	68,571	497,813
Loan and Advances			2,329,207	3,608,620	6,353,976
Fixed Assets			137,524	172,440	220,448
Non- Banking Assets			13,136	**131,248**	-
Other Assets			24,733	31,733	49,067
Total Assets			**2,969,265**	**4,901,472**	**8,858,639**
Interest Income			255,936	308,678	587,877
Interest Expenses			131,248	151,131	347,983
Net Interest Income			**124,688**	**157,547**	**239,894**
Commission and discount			3,833	5,136	9,811
Other Operating Income			7,007	12,576	30,852
Exchange Income			375	5,157	14,913
Total Operating Income			**135,903**	**180,416**	**295,470**
Employees Expenses			29,430	43,699	52,752
Other Operating Expenses			23,109	27,904	39,466
Exchange Loss			-	-	-
Operating Profit Before Provision			**83,364**	**108,813**	**203,252**
Provisions for possible losses			9,532	30,803	38,208
Operating Profit			**73,832**	**78,010**	**165,045**
Non-Operating Income/ Expenses			71	783	-
Return From Loan Loss Provision			268	4,379	-
Profit From Ordinary activities			**74,171**	**83,172**	**165,045**
Extra ordinary Income /Expenses			-	3,250	-
Net Profit including all activities			**74,171**	**86,422**	**165,045**
Provision For Staff Bonus			6,742	7,857	15,004
Provision For Income Tax			22,325	23,608	46,985
-This Year			-	-	-
-Up to Last Year			-	-	-
Net Profit / Loss			**45,104**	**54,957**	**103,056**
Financial Indicators					
Core Capital to Risk Weighted Assets			12.71%	29.04%	20.27%
Capital Fund to Risk Weighted Assets			13.57%	29.92%	20.99%
Non-Performing Loan to Total Loan			2.67%	2.28%	1.59%
Weighted Average Interest Spread			4.88%	2.51%	2.41%
Net Interest Income (Rs. in thousand)			124,688	157,547	239,894
Return on Assets			1.52%	1.12%	0.0115%
Credit to Deposit			91.71%	123.87%	98.00%
Liquid Assets to Total Assets			15.15%	18.51%	24.61%
Liquid Assets to Total Deposit			17.71%	31.14%	32.97%

25. NMB Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital			199,541	1,000,000	1,424,641
Reserves and Surplus			84,933	213,481	167,412
Debenture & Bond			-	-	-
Borrowing			937,254	278,112	313,961
Deposit			1,296,389	1,661,605	6,877,907
Bills Payable			811	24,103	5,447
Proposed & Payable dividend			63,664	8,507	7,588
Tax Liabilities			970	-	-
Other Liabilities			1,837,375	5,742,084	7,059,708
Total Liabilities			**4,420,937**	**8,927,892**	**15,856,664**
Cash Balance			3,078	17,915	201,847
Balance With NRB			12,787	506,384	717,404
Bank Balance With Banks			18,402	4,926,120	6,561,098
Money At call			1,975,298	93,404	875,527
Investment			854,678	1,242,902	1,857,563
Loan and Advances			1,395,885	1,939,967	5,194,211
Fixed Assets			80,177	132,720	223,814
Non- Banking Assets			259	-	-
Other Assets			80,373	68,480	225,200
Total Assets			**4,420,937**	**8,927,892**	**15,856,664**
Interest Income			237,933	251,409	402,583
Interest Expenses			140,253	139,095	254,261
Net Interest Income			**97,680**	**112,314**	**148,322**
Commission and discount			20,024	27,614	27,262
Other Operating Income			51,006	40,724	42,914
Exchange Income			-	-	9,343
Total Operating Income			**168,710**	**180,652**	**227,841**
Employees Expenses			14,212	20,123	40,274
Other Operating Expenses			13,970	32,222	76,983
Exchange Loss			-	97	-
Operating Profit Before Provision			**140,528**	**128,210**	**110,585**
Provisions for possible losses			19,512	32,387	42,195
Operating Profit			**121,016**	**95,823**	**68,390**
Non-Operating Income/ Expenses			-	600	1,712
Return From Loan Loss Provision			186	22,462	27,563
Profit From Ordinary activities			**121,202**	**118,885**	**97,666**
Extra ordinary Income /Expenses			-	-	-
Net Profit including all activities			**121,202**	**118,885**	**97,666**
Provision For Staff Bonus			11,018	10,808	8,879
Provision For Income Tax			35,046	35,255	25,834
-This Year			-	-	-
-Up to Last Year			-	-	-
Net Profit / Loss			**75,138**	**72,822**	**62,953**
Financial Indicators					
Core Capital to Risk Weighted Assets			11.76%	32.66%	18.42%
Capital Fund to Risk Weighted Assets			13.31%	33.96%	19.03%
Non-Performing Loan to Total Loan			1.73%	1.52%	0.51%
Weighted Average Interest Spread			3.58%	2.41%	3.58%
Net Interest Income (Rs. in thousand)			97,680	112,314	148,322
Return on Assets			-	0.82%	-
Credit to Deposit			112.02%	120.96%	76.78%
Liquid Assets to Total Assets			56.25%	70.78%	59.85%
Liquid Assets to Total Deposit			191.82%	380.31%	137.97%

25. Kist Bank Limited

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital					2,000,000
Reserves and Surplus					45,119
Debenture & Bond					-
Borrowing					130,000
Deposit					8,684,078
Bills Payable					16,011
Proposed & Payable dividend					77,118
Tax Liabilities					3,357
Other Liabilities					195,856
Total Liabilities					**11,151,537**
Cash Balance					383,620
Balance With NRB					638,941
Bank Balance With Banks					205,598
Money At call					1,184,504
Investment					1,085,100
Loan and Advances					6,803,439
Fixed Assets					714,439
Non- Banking Assets					-
Other Assets					135,895
Total Assets					**11,151,537**
Interest Income					594,757
Interest Expenses					338,979
Net Interest Income					**255,778**
Commission and discount					4,326
Other Operating Income					63,617
Exchange Income					44
Total Operating Income					**323,766**
Employees Expenses					42,550
Other Operating Expenses					97,769
Exchange Loss					-
Operating Profit Before Provision					**183,447**
Provisions for possible losses					46,584
Operating Profit					**136,863**
Non-Operating Income/ Expenses					505
Return From Loan Loss Provision					-
Profit From Ordinary activities					**137,368**
Extra ordinary Income /Expenses					-
Net Profit including all activities					**137,368**
Provision For Staff Bonus					12,488
Provision For Income Tax					35,217
-This Year					-
-Up to Last Year					-
Net Profit / Loss					**89,663**
Financial Indicators					
Core Capital to Risk Weighted Assets					20.27%
Capital Fund to Risk Weighted Assets					20.96%
Non-Performing L					0.22%
Weighted Average Interest Spread					4.62%
Net Interest Income (Rs. in thousand)					255,778
Return on Assets					0.80%
Credit to Deposit					79.31%
Liquid Assets to Total Assets					25.89%
Liquid Assets to Total Deposit					33.25%

Consolidated Financials of the Public Banks (2008/09)

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	3,230,298	8,030,683	9,080,683	12,330,183	12,330,183
Reserves and Surplus	(36,844,549)	(33,886,07	(31,274,60)8	(28,463,151)	(20,331,063)
Debenture & Bond	-	-	-	-	-
Borrowing	9,054,177	6,588,701	4,198,418	4,594,471	6,042,523
Deposit	106,173,272	111,657,06	121,894,690	138,724,169	148,514,769
Bills Payable	457,506	141,705	124,433	120,522	80,621
Proposed & Payable dividend	32,601	40,465	49,303	57,157	341,025
Tax Liabilities	235,147	748,270	284,744	2,148,912	597,719
Other Liabilities	31,118,625	17,775,332	19,200,987	16,358,863	18,685,356
Total Liabilities	**113,457,077**	**111,096,14**	**123,558,650**	**139,045,115**	**166,261,133**
Cash Balance	3,372,244	3,059,917	3,733,381	10,727,750	4,943,703
Balance With NRB	9,564,099	12,239,368	10,934,619	6,237,372	17,541,864
Bank Balance With Banks	1,811,227	1,875,294	1,942,149	1,916,591	3,344,733
Money At call	550,000	-	381,599	599,995	2,644,198
Investment	23,970,931	27,556,935	31,899,837	35,771,230	33,711,653
Loan and Advances	44,288,096	49,290,622	55,639,542	65,044,378	76,405,926
Fixed Assets	1,396,359	1,494,638	1,434,141	1,454,230	1,504,935
Non- Banking Assets	188,887	105,927	110,137	51,453	23,317
Other Assets	28,315,234	15,473,446	17,483,245	17,242,116	26,140,805
Total Assets	**113,457,077**	**111,096,14**	**123,558,650**	**139,045,115**	**166,261,133**
Interest Income	8,231,165	8,426,92	8,828,648	8,764,801	10,362,58
Interest Expenses	3,241,174	3,125,82	3,321,262	3,439,450	3,016,559
Net Interest Income	**4,989,991**	**5,301,09**	**5,507,386**	**5,325,351**	**7,346,030**
Commission and discount	518,820	509,624	574,398	731,481	939,485
Other Operating Income	536,709	415,379	642,930	665,178	732,068
Exchange Income	14,981	198,121	-	131,362	144,174
Total Operating Income	**6,060,501**	**6,424,21**	**6,724,714**	**6,853,372**	**9,161,757**
Employees Expenses	2,766,983	3,588,15	3,221,071	4,071,613	5,517,549
Other Operating Expenses	888,649	972,165	893,853	876,896	977,582
Exchange Loss	11,937	-	73,273	30,484	-
Operating Profit Before Provision	**2,392,932**	**1,863,89**	**2,536,517**	**1,874,379**	**2,666,626**
Provisions for possible losses	1,823,061	1,419,64	805,081	3,361,590	2,997,663
Operating Profit	**569,871**	**444,249**	**1,731,436**	**(1,487,211)**	**(331,037)**
Non-Operating Income/ Expenses	1,588,505	167,903	89,142	100,150	753,402
Return From Loan Loss Provision	1,128,040	3,878,73	3,027,818	5,333,130	3,390,263
Profit From Ordinary activities	3,286,416	4,490,89	4,848,396	3,946,069	3,812,627
Extra ordinary Income /Expenses	(312,024)	(508,113	(1,561,970	(880,148)	1,410,249
Net Profit including all activities	**2,974,392**	**3,982,77**	**3,286,426**	**3,065,921**	**5,222,876**
Provision For Staff Bonus	-	317,377	247,642	232,929	404,464
Provision For Income Tax	-	148,270	136,473	155,767	805,376
-This Year	-	-	-	-	-
-Up to Last Year	-	-	-	-	-
Net Profit / Loss	**2,974,392**	**3,517,13**	**2,902,311**	**2,677,225**	**4,013,036**

Consolidated Financials of the Private Banks (2008/09)

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	7,871,224	8,819,081	11,404,669	19,099,758	28,572,016
Reserves and Surplus	4,021,326	2,026,468	2,844,731	6,415,176	12,097,717
Debenture & Bond	-	1,810,000	2,060,000	3,450,000	3,727,770
Borrowing	2,919,705	2,619,725	6,930,846	6,837,855	8,708,588
Deposit	147,084,061	180,328,22	219,284,231	294,047,480	415,628,591
Bills Payable	513,172	666,263	491,248	1,295,848	1,742,759
Proposed & Payable dividend	1,146,736	1,568,628	1,406,155	1,534,834	2,094,286
Tax Liabilities	50,851	60,426	88,374	147,431	196,302
Other Liabilities	5,450,590	3,093,625	6,720,779	11,016,644	16,815,944
Total Liabilities	**169,057,665**	**200,992,43**	**251,231,033**	**343,845,026**	**489,583,974**
Cash Balance	2,501,740	3,478,255	4,567,495	8,610,596	10,888,577
Balance With NRB	8,377,533	8,956,351	11,810,739	15,125,411	36,626,258
Bank Balance With Banks	1,924,240	2,100,107	2,845,142	9,793,666	14,048,720
Money At call	5,053,987	7,299,779	9,143,662	9,228,330	11,180,177
Investment	44,207,770	56,847,148	63,965,819	73,151,958	97,065,232
Loan and Advances	98,288,887	115,658,98	150,789,824	216,328,416	303,811,779
Fixed Assets	2,089,785	2,361,969	3,757,862	5,555,950	7,956,018
Non- Banking Assets	490,683	408,478	284,900	279,385	279,893
Other Assets	6,123,040	3,881,362	4,065,590	5,602,562	7,727,321
Total Assets	**169,057,665**	**200,992,43**	**251,231,033**	**343,676,274**	**489,583,974**
Interest Income	9,920,194	11,667,4	14,819,62	19,252,039	29,239,47
Interest Expenses	4,134,606	5,204,34	6,765,100	8,842,101	14,797,83
Net Interest Income	**5,785,588**	**6,463,13**	**8,054,524**	**10,409,938**	**14,441,63**
Commission and discount	966,284	1,108,27	1,312,605	1,601,282	2,024,320
Other Operating Income	384,227	415,520	698,881	963,902	1,420,649
Exchange Income	949,525	1,136,23	1,161,530	1,492,469	1,980,648
Total Operating Income	**8,085,624**	**9,123,16**	**11,227,54**	**14,467,591**	**19,867,25**
Employees Expenses	1,109,110	1,364,11	1,623,572	2,134,394	2,807,115
Other Operating Expenses	1,765,881	1,880,40	2,170,689	2,726,874	3,824,846
Exchange Loss	6,663	-	1,893	97	-
Operating Profit Before Provision	**5,203,970**	**5,878,65**	**7,431,386**	**9,606,226**	**13,235,29**
Provisions for possible losses	2,361,985	4,270,13	2,781,528	1,918,573	1,751,006
Operating Profit	**2,841,985**	**1,608,51**	**4,649,858**	**7,687,653**	**11,484,28**
Non-Operating Income/ Expenses	53,120	(10,865)	39,598	114,769	67,774
Return From Loan Loss Provision	337,327	704,395	1,297,889	3,139,802	3,192,402
Profit From Ordinary activities	3,232,432	2,302,04	5,987,345	10,942,224	14,744,46
Extra ordinary Income /Expenses	(332,320)	(440,189	(546,018)	(1,034,521)	(212,479)
Net Profit including all activities	**2,900,112**	**1,861,85**	**5,441,327**	**9,907,703**	**14,531,98**
Provision For Staff Bonus	393,596	448,023	585,989	904,346	1,321,092
Provision For Income Tax	1,091,804	1,493,17	2,035,259	2,606,669	3,373,574
-This Year	-	-	-	-	26,690
-Up to Last Year	-	-	-	-	(335)
Net Profit / Loss	**1,414,712**	**(79,336)**	**2,820,079**	**6,396,688**	**9,837,319**

Consolidated Financials of the Banking Industry (2008/09)

(Rs. in '000')

Capital and Liabilities	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Capital	11,101,522	16,849,764	20,485,352	31,429,941	40,902,199
Reserves and Surplus	(32,823,223)	-	(28,429,877)	(22,047,975)	-8,233,347
Debenture & Bond	-	1,810,000	2,060,000	3,450,000	3,727,770
Borrowing	11,973,882	9,208,426	11,129,264	11,432,326	14,751,112
Deposit	253,257,333	291,985,28	341,178,921	432,771,649	564,143,360
Bills Payable	970,678	807,968	615,681	1,416,370	1,823,380
Proposed & Payable dividend	1,179,337	1,609,093	1,455,458	1,591,991	2,435,311
Tax Liabilities	285,998	808,696	373,118	2,296,343	794,021
Other Liabilities	36,569,215	20,868,957	25,921,766	22,333,166	35,501,300
Total Liabilities	**282,514,742**	**312,088,58**	**374,789,683**	**482,890,141**	**655,845,107**
Cash Balance	5,873,984	6,538,172	8,300,876	19,338,346	15,832,280
Balance With NRB	17,941,632	21,195,719	22,745,358	21,362,783	54,168,122
Bank Balance With Banks	3,735,467	3,975,401	4,787,291	11,710,257	17,393,452
Money At call	5,603,987	7,299,779	9,525,261	9,828,325	13,824,374
Investment	68,178,701	84,404,083	95,865,656	108,923,188	130,776,885
Loan and Advances	142,576,983	164,949,61	206,429,366	281,372,794	380,217,705
Fixed Assets	3,486,144	3,856,607	5,192,003	7,010,180	9,460,952
Non- Banking Assets	679,570	514,405	395,037.00	330,838	303,210
Other Assets	34,438,274	19,354,808	21,548,835	22,844,678	33,868,126
Total Assets	**282,514,742**	**312,088,58**	**374,789,683**	**482,721,389**	**655,845,107**
Interest Income	18,151,359	20,094,4	23,648,27	28,016,840	39,602,06
Interest Expenses	7,375,780	8,330,17	10,086,36	12,281,551	17,814,39
Net Interest Income	**10,775,579**	**11,764,2**	**13,561,91**	**15,735,289**	**21,787,67**
Commission and discount	1,485,104	1,617,89	1,887,003	2,332,763	2,963,805
Other Operating Income	920,936	830,899	1,341,811	1,629,080	2,152,717
Exchange Income	964,506	1,334,35	1,161,530	1,623,831	2,124,822
Total Operating Income	**14,146,125**	**15,547,3**	**17,952,25**	**21,320,963**	**29,029,01**
Employees Expenses	3,876,093	4,952,27	4,844,643	6,206,007	8,324,665
Other Operating Expenses	2,654,530	2,852,56	3,064,542	3,603,770	4,802,428
Exchange Loss	18,600	-	75,166	30,581	-
Operating Profit Before Provision	**7,596,902**	**7,742,54**	**9,967,903**	**11,480,605**	**15,901,92**
Provisions for possible losses	4,185,046	5,689,78	3,586,609	5,280,163	4,748,669
Operating Profit	**3,411,856**	**2,052,76**	**6,381,294**	**6,200,442**	**11,153,25**
Non-Operating Income/ Expenses	1,641,625	157,038	128,740	214,919	821,176
Return From Loan Loss Provision	1,465,367	4,583,13	4,325,707	8,472,932	6,582,665
Profit From Ordinary activities	**6,518,848**	**6,792,93**	**10,835,74**	**14,888,293**	**18,212,73**
Extra ordinary Income /Expenses	(644,344)	-948,302	(2,107,98)8)	(1,914,669)	1,197,770
Net Profit including all activities	**5,874,504**	**5,844,63**	**8,727,753**	**12,973,624**	**19,754,86**
Provision For Staff Bonus	393,596	765,400	833,631	1,137,275	1,725,556
Provision For Income Tax	1,091,804	1,641,44	2,171,732	2,762,436	4,178,950
-This Year	-	-	-	-	26,690
-Up to Last Year	-	-	-	-	(335)
Net Profit / Loss	**4,389,104**	**3,437,79**	**5,722,390**	**9,073,913**	**13,850,35**

Source: Annual Reports of all Commercial Banks