



महालेखापरीक्षकको कार्यालय
Office of the Auditor General
बबरमहल, काठमाडौं, नेपाल
Babar Mahal, Kathmandu, Nepal
(Public Enterprises Audit Directorate)

Reference No. 284

Date: 25/02/2078 (8th June, 2021)

To,
The Governor,
Nepal Rastra Bank,
Baluwatar, Kathmandu.

Subject: Independent Auditor's Report.

Opinion

We have audited the accompanying financial statements of Nepal Rastra Bank ("the Bank"), which comprise the Statement of Financial Position as at Ashad 31, 2077, (July 15, 2020), the Statement of Net Income and Other Comprehensive Income, the Statement of Change in Equity and the Statement of Cash Flows for the year then ended, and a summary of the significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements present fairly, in all material respects, the financial position of the Bank, as at Ashad 31, 2077, (July 15, 2020), and its financial performance, changes in equity, cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in accordance with Nepal Financial Reporting Standards (NFRSs)

Basis for Opinion

We conducted our audit of the financial statements in accordance with Nepal Government Auditing Standards (NGASS). Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with The Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained are sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of financial statements and our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key Audit Matters	The risk	The response
Foreign Investments The Bank's assets held in foreign investment amounted to NRs. 1.27 trillion, equivalent to 90.77% of the Bank's total assets, which is significantly material to the financial statements. These investments are held with overseas central banks, commercial banks for periods in	The bank holds large amount of its assets in foreign currency. Considering the nature of these investments, their impairment assessment requires judgement and significant estimates. Further, the value of foreign investments fluctuates along with the change in foreign	Our audit procedures to address the risks of material misstatement relating to foreign investments, which was a significant risk, included: <ul style="list-style-type: none">Assessment of the design and testing of the operating effectiveness of management's control in assessing the carrying value of foreign investments.Obtained independent external confirmation of all material current investments in order to test the

Key Audit Matters	The risk	The response
<p>different types of investment categories. The valuation and presentation of foreign investments in the financial statements pose significant audit risk.</p>	<p>currency exchange rate resulting in foreign exchange gains/losses which are of material value. The measurement, presentation and disclosure of the foreign investments and recognition of income from foreign investments requires management judgement.</p>	<p>assertion of existence, accuracy, valuation and completeness.</p> <ul style="list-style-type: none"> Detailed analysis of exchange rates used and valuation processes, recalculation of interest income, and evaluation of recognition, measurement, presentation, and disclosures in the financial statements in accordance with the related NFRSs. <p>The Bank's disclosures about foreign investments are included in Note 4.1, 4.4 and 4.5 to the financial Statements.</p> <p>Our results: We considered the valuation of foreign investment, foreign exchange gain/loss and recognition of income from foreign investment to be acceptable.</p>
<p>Valuation of Gold and Silver</p> <p>The Bank maintains gold and silver as stock and investment, equivalent to NRs. 71.009 billion, which is one of the asset backings for Notes in Circulation. The valuation of these gold and silver are carried out in line with the international market which is subject to market volatility and other external economic factors. Given the unique nature of the asset, the valuation methodology adopted and associated risks, it was considered significant to our audit.</p>	<p>The bank maintains gold and silver reserve as one of the backups for printing banknotes. The valuation, presentation and accounting treatment of investments made in gold and silver held for the purpose of printing banknotes requires judgement of the management as there is no specific NFRS dealing with such valuation of investments in gold and silver and various accounting treatments across the world.</p>	<p>Our audit procedures included:</p> <p>Reviewing the valuation methodology adopted and reviewing the physical verification report of gold & silver. Our procedures also included issuing balance confirmations and recalculation of gold and silver value in line with the prevailing market rate and assessment of asset backing for Notes in Circulation.</p> <p>The Bank's disclosures about gold & silver are included in Note 4.4 to the financial statements.</p> <p>Our results: We considered the valuation of gold and silver held at stock and as investment to be acceptable.</p>
<p>Currency in Circulation</p> <p>Issuance of Banknotes is one of the key roles of the bank as defined in the Nepal Rastra Bank Act 2058 and is a key audit matter due to:</p> <ul style="list-style-type: none"> high interest to the users of the financial statements. the balance is significant relative to the Nepal Rastra Bank's Statement of Financial Position; and complexity in assessing the accuracy of the liability for banknotes on issue that are placed in circulation in the economy. <p>The balance of currency in circulation represents the value of all bank notes on issue in Nepal and the liability is measured at face value of all bank notes issued less any bank notes cancelled/destroyed.</p>	<p>The significance of this line item of Statement of Financial Position reflects in the sheer magnitude of amount involved as liability and corresponding assets reflecting in Statement of Financial Position; Overstatement or understatement of this amount results into corresponding overstatement/ understatement of assets too as there is no independent verification or balance confirmation of this balance excepting system records maintained by Bank. Financial Strength of any Central bank is ascertained by the proper mix of Currency in Circulation and other gilt-edged investments, the lesser dependence on circulated paper currency, better the health of any Central Bank as lesser quantity of security for currency issued in the form of Gold Reserve is required</p>	<p>To audit the Notes in Circulation, we performed the following audit procedures:</p> <ul style="list-style-type: none"> Tested those general controls which are relevant to the accurate recording of the issuance and return of bank notes within the system, destruction of spoiled/damaged notes, de-recognition of specified series of currency notes ultimately responsible for recording the balance of notes in circulation. We performed a comparison of current year movements against prior year patterns. We also performed a trend analysis on currency in circulation against prior periods focusing on the number of notes issued by denomination. Our procedures also included an assessment of the asset backing maintained by Nepal Rastra Bank in line with section 52 of Nepal Rastra Bank Act 2058 and reviewed the process to determine the demand for notes and the ordering process for printing notes. Our audit procedures included communicating with the concerned department to understand the note issue process and carrying out physical inspection of assets held at the Bank premises against Notes in Circulation on a sample basis. <p>The Bank's disclosures about Notes in Circulation are included in Note 4.16 to the financial statements.</p> <p>Our results: We considered the valuation of currency in circulation to be acceptable.</p>

Key Audit Matters	The risk	The response
<p>Information Technology (IT)</p> <p>The Bank's operational and financial processes are dependent on IT systems to manage large volume of transactions that are processed daily. Accordingly, our audit was focused on key IT systems and controls due to the pervasive impact on the financial statements.</p>	<p>The Bank's key financial accounting and reporting processes are highly dependent on the automated controls over the Bank's IT systems. There is a risk that gaps in the change management, segregation of duties or user access management controls (in relation to key financial accounting and reporting systems) may undermine our ability to place some reliance thereon in our audit.</p> <p>Further, rampant onslaught worldwide by unauthorized access to Bank's online fund transfer gateway leading to substantial loss of money and reputation of the bank requires its data base to be more strongly protected.</p>	<p>Our procedure included:</p> <p>User access management and control: We tested the design, operation and effectiveness of control over granting, revocation and appropriateness of access rights on the accounting and reporting system of the bank.</p> <p>Change management control operation: Obtained and inspected the change management policies and, for a sample of changes in inputs and control functions on the systems, has been reviewed to confirm that changes had been performed in line with approved decisions.</p> <p>Segregation of duties: Tested a sample of the automated controls that are designed to enforce appropriate segregation of duties.</p> <p>Test of outputs: We have tested a sample of outputs particularly interest income and expenses to loans and advances of the system through manual calculations.</p> <p>Findings of IT Audit: We have reviewed the IT Audit findings performed by the independent IT auditor and the actions undertaken by the bank.</p> <p>Our results: We considered the change managements, segregation of duties, controls and outputs in relation to financial accounting and reporting systems to be acceptable.</p>

Information Other than the Financial Statements and Auditor's Report Thereon

Bank's Management is responsible for the other information. The other information comprises of macroeconomic and financial situation, activities of the bank, analysis of assets, liabilities, and income statement included in the annual report but does not include the financial statements.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether those other information are materially inconsistent with the financial statements or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

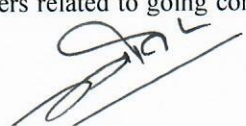
Management Letter

Management Letter highlighting the areas of improvement for the internal control system and other aspects in the bank is enclosed with this report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial Statements in accordance with NFRSs and IFRSs wherever corresponding NFRS has not been pronounced/ updated in Nepal, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud and error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.



Those charged with governance are responsible for overseeing the Bank's financial reporting process.

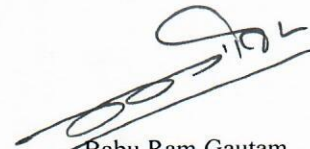
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Nepal Government Auditing Standards (NGASs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As a part of audit in accordance with Nepal Government Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risk of material misstatement of the financial statement whether due to fraud or error, design and perform audit procedure responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide an opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Evaluate the overall presentation, structure and content of financial statement including the disclosures, and whether the financial statement represent the underlying transactions and events in a manner that achieves fair presentation.
5. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements. We remain solely responsible for our audit opinion.

We communicate with those charges with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Babu Ram Gautam
Deputy Auditor General

NEPAL RASTRA BANK
STATEMENT OF FINANCIAL POSITION
As on 31st Asar, 2077 (15th JULY, 2020)

Figures in NRs.

Particulars	Notes	As on 31-3-2077	As on 31-3-2076
ASSETS			
Cash and Cash Equivalents	4.1	1,052,067,118,391	752,037,894,082
Trading Assets		-	-
Derivative Assets Held for Risk Management		-	-
Loans and Advances to Bank and Financial Institutions	4.2	7,487,473,703	22,894,754,410
Loans and Advances to Others	4.3	11,546,177,633	15,049,976,973
Overdraft to Government of Nepal		-	-
Gold and Silver at Fair Value	4.4	71,009,398,875	50,202,241,103
Investment Securities	4.5	251,330,069,810	223,127,793,160
Inventories	4.6	2,798,424,506	2,893,354,347
Investment Properties		-	-
Property, Plant and Equipment	4.7	2,923,758,243	1,596,260,757
Intangible Assets	4.8	86,190,992	90,542,898
Other Assets	4.9	1,651,756,294	1,484,988,125
TOTAL ASSETS		1,400,900,368,447	1,069,377,805,855
LIABILITIES AND EQUITY			
LIABILITIES			
Financial Liabilities held for Trading		-	-
Derivative Liabilities Held for Risk Management		-	-
Bills Payable		322,458,714	221,828,105
Deposits from Bank and Financial Institutions	4.10	297,852,272,797	185,385,094,042
Deposit from Government of Nepal		142,340,191,367	95,605,371,467
Deposits from Others	4.11	18,733,175,742	21,252,588,038
Short Term Borrowings	4.12	-	-
IMF Related Liabilities	4.13	20,904,127,242	20,789,695,685
Staff Liabilities	4.14	2,822,409,141	1,881,103,006
Subordinated Liabilities		-	-
Provisions		-	-
Other Liabilities	4.15	1,022,534,726	985,889,606
Currency in Circulation	4.16	579,738,632,391	503,250,178,973
Surplus Payable to Government of Nepal	4.17 (a)	6,000,000,000	12,020,000,000
Total Liabilities		1,069,735,802,120	841,391,748,922
EQUITY			
Capital		5,000,000,000	5,000,000,000
Reserves & Surplus	4.17 (b)	326,164,566,327	222,986,056,933
Non-controlling Interest		-	-
TOTAL EQUITY		331,164,566,327	227,986,056,933
TOTAL LIABILITIES AND EQUITY		1,400,900,368,447	1,069,377,805,855

Notes referred above and significant disclosures are integral part of this statement.

Mr. Mukunda Kumar Chhetri
Executive Director

Mr. Bam Bahadur Mishra
Deputy Governor

Dr. Neelam Dhungana Timsina
Deputy Governor

CA. Dr. Suvod Kumar Karn
Board Member

Mr. Ramjee Regmi
Board Member

Dr. Sri Ram Poudyal
Board Member

As per our report of even date

Mr. Sishir Kumar Dhungana
Secretary MOF/Board Member

Mr. Maha Prasad Adhikari
Governor

CA. Jitendra Kumar Mishra
CSC & Co.
Chartered Accountants

CA. Sudarshan Raj Pandey
S.R. Pandey & Co.
Chartered Accountants

Date: 2077/12/30
Place: Kathmandu

CA. Bijay Kumar Agrawal
B.K. Agrawal & Co.
Chartered Accountants

Mr. Baburam Gautam
Deputy Auditor General

NEPAL RASTRA BANK
STATEMENT OF NET INCOME AND OTHER COMPREHENSIVE INCOME
For the Year ended on 31st Asar, 2077 (15th JULY, 2020)

Figures in NRs.

Particulars	Notes	For the Year Ended 31-03-2077	For the Year Ended 31-03-2076
Interest Income	4.18	29,799,218,325	35,960,507,325
Interest Expense	4.19	(98,269,150)	(665,160,303)
Net interest Income		29,700,949,175	35,295,347,022
Fee and Commission Income	4.20	135,480,913	102,777,081
Fee and Commission Expense	4.21	(24,182,200)	(195,791,128)
Net Fee and Commission Income		111,298,713	(93,014,047)
Net income from Other Financial Instruments at Fair Value through Profit or Loss		-	-
Foreign Exchange Gain/(Loss) - Realised		1,713,421,285	3,335,856,624
Other Income	4.22	1,487,107,487	661,343,008
Total Operating Income		33,012,776,660	39,199,532,607
Impairment Allowance on Financial Assets		(1,843,923)	-
Impairment Allowance on Financial Assets Written back		10,400,254	-
Net Operating Income		33,021,332,991	39,199,532,607
Personnel Expenses	4.23	(2,981,796,726)	(2,667,042,095)
Depreciation, Amortisation and Impairment of Non-Financial Assets	4.24	(171,591,575)	(149,190,750)
Operating Expenses	4.25	(1,987,862,698)	(1,761,414,659)
Distributable Net Income/(Expenditure)		27,880,081,992	34,621,885,103
Foreign Exchange Gain/(Loss) - Unrealised		58,927,429,280	(2,193,530,153)
Gold and Silver Revaluation Gain/(Loss)		20,807,318,228	(76,037,528)
Securities Revaluation Gain/(Loss)		-	-
Net Income/(Expenditure) for the year		107,614,829,500	32,352,317,422
Other Comprehensive Income			
(i) Items that will not be reclassified to profit or loss:		1,506,015,328	2,065,826,679
Actuarial gain (Loss) in defined benefit Retirement Schemes		467,268,203	1,341,411,990
Net Change in Fair value of Equity Instruments		1,038,747,125	724,414,689
(ii) Items that are or may be reclassified to profit or loss:		-	-
Other Comprehensive Income		1,506,015,328	2,065,826,679
Total Comprehensive Income		109,120,844,828	34,418,144,101

Notes referred above and significant disclosures are integral part of this statement.

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As per our report of even date

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CA. Sudarshan Raj Pandey
S.R. Pandey & Co.
Chartered Accountants

Date: 2077/12/30

Place: Kathmandu

CA. Bijay Kumar Agrawal
B.K. Agrawal & Co.
Chartered Accountants

Mr. Baburam Gautam
Deputy Auditor General

NEPAL RASTRA BANK
STATEMENT OF CASH FLOWS
For the Year ended on 31st Asar, 2077 (15th JULY, 2020)

Figures in NRs.

PARTICULARS	For the Year Ended 31-3-2077	For the Year Ended 31-3-2076
Cash Flow From Operating Activities		
Net Income/(Expenditure) for the year	107,614,829,500	32,162,519,703
Adjustments		
Depreciation & Amortisation	171,591,575	149,190,750
Dividend Income	(39,188,282)	(14,022,986)
Impairment Allowance on Financial Assets	1,843,923	
Provisions no Longer Required Written Back	(10,400,254)	-
Grant Income	(476,098,050)	-
Profit from Sale of Assets/ Investments	(3,041,208)	(7,036,678)
Assets Written Off	389,034	-
Interest paid on IMF Liabilities	57,807,978	114,976,450
Surplus/(Deficit) Due to Restatement of Prior Period Errors	-	(3,486,071)
Foreign Exchange Gain/(Loss) - Unrealised	(58,927,429,280)	2,193,530,153
Net Gold and Silver Revaluation Gain/(Loss)	(20,807,318,228)	76,037,528
Securities Revaluation Gain/(Loss)		
Actuarial gain (Loss) in defined benefit Retirement Schemes	467,268,203	1,341,411,990
Cash Flow From Operation Before Inc / Dec in Operating Assets	28,050,254,911	36,013,120,839
(Increase)/Decrease in Operating Assets	18,837,397,796	(12,622,177,006)
Loans & Advances	18,909,236,124	(13,579,625,838)
Inventories	94,929,841	942,440,985
Other Assets	(166,768,169)	15,007,847
Increase/(Decrease) in Operating Liabilities	158,021,716,443	(120,593,872,265)
Government Deposit	46,734,819,900	(48,560,545,901)
Deposit Liabilities	109,947,766,459	(26,958,168,150)
Bills Payable	100,630,609	106,205,363
Short Term Borrowings	-	(44,550,000,000)
IMF Deposit	260,548,220	-
Staff Liabilities	941,306,135	(213,936,214)
Other Liabilities	36,645,120	(417,427,363)
Net Cash Flow From Operating Activities	Total (A)	(97,202,928,432)
Cash Flow From Investing Activities		
Net (Incr)/Decr in Investment Securities	(27,095,464,706)	10,581,195,681
Gold & Silver	160,456	(4,810,810,823)
Purchase of Property, Plant & Equipment	(1,508,895,004)	(780,302,393)
Sale of Property, Plant & Equipment	36,854,078	14,651,310
Purchase of Intangible Assets	(20,044,054)	(994,400)
Dividend Income	39,188,282	14,022,986
Net Cash Flow From Investing Activities	Total (B)	5,017,762,361
Cash Flow From Financing Activities		
Bank Note Issued	76,488,453,418	8,860,678,974
Increase/Decrease in ECF/RCF Loan & SDR Allocation	329,981,387	(885,262,406)
Interest paid on IMF Liabilities	(57,807,978)	(114,976,450)
Surplus Paid to GON	(12,020,000,000)	(9,000,000,000)
Net Cash Flow From Financing Activities	Total (C)	(1,139,559,882)
Net Cash Flow for the Year (A+B+C)	241,101,795,029	(93,324,725,953)
Revaluation Gain or Loss on Foreign Exchange	58,927,429,280	(2,193,530,153)
Cash and Cash Equivalent at the Beginning of the Year	752,037,894,082	847,556,150,188
Cash and Cash Equivalent at the end of the Year	1,052,067,118,391	752,037,894,082

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Date: 2077/12/30
Place: Kathmandu

CA. Bijay Kumar Agrawal
B.K. Agrawal & Co.

Mr. Baburam Gautam
Deputy Auditor General

NEPAL RASTRA BANK
STATEMENT OF CHANGES IN EQUITY
For the Year ended on 31st Asar, 2077 (15th JULY, 2020)

Figures in NRS.

PARTICULARS	Capital	Statutory Reserve				Gold & Silver Equilisation Reserve	Fair Value Reserve	RSRF Administrative Expenses Reimbursement Fund	Actuarial Gain Reserve	Other Reserves	Retained Earning	Total
		General Reserve	Monetary Liability Reserve	Financial Stability Fund	Exchange Equilisation Fund							
Balance as on 1st Shrawan 2075	5,000,000,000	32,769,744,924	6,599,169,017	3,401,655,019	97,093,809,877	26,217,603,326	3,018,540,609	-	-	30,197,992,105	204,298,514,877	
Adjustment for Prior Period Income (Expense)										(1,994)	1,289,399,950	
Restated Balance	5,000,000,000	32,769,744,924	6,599,169,017	3,401,655,019	97,093,809,877	26,217,603,326	3,018,540,609	-	-	30,197,990,111	205,587,912,833	
Net Income for the year							724,414,689			32,352,317,422	32,352,317,422	
Other Comprehensive Income										1,341,411,990	2,065,826,679	
Appropriation of Net Income:												
To General Reserve		7,371,159,330								(7,371,159,330)	-	
To Monetary Liability Reserve			1,788,500,665							(1,788,500,665)	-	
To Financial Stability Fund				1,788,500,665						(1,788,500,665)	-	
To Exchange Equilisation Fund					(2,193,530,153)					2,193,530,153	-	
To Gold & Silver Equilisation Reserve						(76,037,528)				76,037,528	-	
To Fair Value Reserve											-	
To Other Reserve									12,797,280,027	(12,797,280,027)	-	
To Net Cumulative Surplus Fund									4,572,616	(4,572,616)	-	
Inter Fund Transfer:												
Retained Earning to Actuarial Reserve											-	
Balance Surplus Transfer to Government										(12,020,000,000)	(12,020,000,000)	
Balance as on 31st Asar 2076	5,000,000,000	40,140,904,254	8,387,669,682	5,190,155,684	94,900,279,724	26,141,565,798	3,742,955,298	-	-	42,999,842,754	227,986,056,934	
Adjustment for Prior Period Income (Expense)												
Restated Balance	5,000,000,000	40,140,904,254	8,387,669,682	5,190,155,684	94,900,279,724	26,141,565,798	3,742,955,298	-	-	42,999,842,754	227,986,056,934	
Net Income for the year							1,038,747,125		467,268,203	107,614,829,500	107,614,829,500	
Other Comprehensive Income										1,506,015,328	1,506,015,328	
Appropriation of Net Income:												
To General Reserve		8,984,388,463								(8,984,388,463)	-	
To Monetary Liability Reserve			1,394,004,100							(1,394,004,100)	-	
To Financial Stability Fund				1,394,004,100						(1,394,004,100)	-	
To Exchange Equilisation Fund					58,927,429,280					(58,927,429,280)	-	
To Gold & Silver Equilisation Reserve						20,807,318,228				(20,807,318,228)	-	
To Fair Value Reserve											-	
To Other Reserve									10,753,814,472	(10,753,814,472)	-	
To Net Cumulative Surplus Fund									11,268,898	(11,268,898)	-	
Inter Fund Transfer:												
Retained Earning to Net Cum Surplus Fund											-	
Fair value reserve to Retained Earning							(657,398,041)			555,903,731	(555,903,731)	
Retained Earning to Actuarial Reserve										657,398,041	-	
RSRS Fund Surplus received											-	
Administrative Expenses Reimbursement								61,390,949			61,390,949.00	
Balance Surplus Transfer to Government								(3,726,384)		(6,000,000,000)	(6,000,000,000)	
Balance as on 31st Asar 2077	5,000,000,000	49,125,292,717	9,781,673,782	6,584,159,784	153,827,709,004	46,948,884,026	4,124,304,382	57,664,565	1,394,048,212	54,320,829,855	331,164,566,327	

As per our report of even date

Mr. Mukunda Kumar Chhetri
Executive Director
Financial Mgmt. Department

Mr. Bam Bahadur Mishra
Deputy Governor

Dr. Neelam Dhungana Timsina
Deputy Governor

CA. Dr. Suvod Kumar Karn
Board Member

CA. Jitendra Kumar Mishra
CSC & Co.
Chartered Accountants

CA. Sudarshan Raj Pandey
S.R. Pandey & Co.
Chartered Accountants

Mr. Ramjee Regmi
Board Member

Dr. Sri Ram Poudyal
Board Member

Mr. Sishir Kumar Dhungana
Secretary MOF/Board

Mr. Maha Prasad Adhikari
Governor

CA. Bijay Kumar Agrawal
B.K. Agrawal & Co.
Chartered Accountants

Mr. Baburam Gautam
Deputy Auditor General

Date: 2077/12/30

Place: Kathmandu

NEPAL RASTRA BANK
Notes Forming part of Financial Statements
Fiscal Year 2076-77 (2019-20 AD)

1 General Information

Nepal Rastra Bank (hereinafter referred to as 'NRB' or 'the Bank'), the Central Bank of Nepal, was incorporated under Nepal Rastra Bank Act, 2012 as superseded by NRB Act 2058 (amended on 2073). The Bank is domiciled in Nepal and its central office is located at Baluwatar, Kathmandu. The Bank's jurisdiction is spread throughout the country. The main activities/objectives of the Bank include:

- a. Formulating necessary monetary and foreign exchange policies.
- b. Issuing of currency of circulation.
- c. Promoting stability and liquidity required in banking and financial sector.
- d. Developing a secure, healthy and efficient system of payment.
- e. Regulating, inspecting, supervising and monitoring the banking and financial system.
- f. Promoting entire banking and financial system of Nepal.

2 Basis of Preparation

2.1 Statement of Compliance

The financial statements are prepared in accordance with Nepal Financial Reporting Standards (NFRS) as issued by Accounting Standards Board, Nepal which are generally in compliance with the International Financial Reporting Standards as issued and applicable, except mentioned hereinafter. NFRS also includes interpretations (IFRIC and SIC) as issued by International Accounting Standards Board.

The financial statements include Statement of Financial Position, Statement of Net Income and Other Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement and Notes to Accounts. Assets and liabilities are presented in the Statement of Financial Position in the order of their liquidity. Expenses are classified as per their nature.

2.2 Responsibility of Financial Statements

The Board of Directors of the Bank is responsible for preparation and presentation of the bank's financial statements and for the estimates and judgments used in them. The financial statements are approved by the Board Meeting held on Chaitra 30, 2077.

2.3 Functional and Presentation Currency

The financial statements are prepared in Nepalese Rupees (NRs.) which is the functional currency. All financial information presented in Nepalese Rupees has been rounded to the nearest rupee except otherwise indicated.

2.4 Fiscal Year

The financial statements relate to the fiscal year 2076/77 i.e. 1st Sawan 2076 to 31st Asar 2077 corresponding to Gregorian calendar 17th July 2019 to 15th July 2020. The previous year was 1st Sawan 2075 to 31st Asar 2076 (17th July 2018 to 16th July 2019).

2.5 Use of Estimates, Assumptions or Judgments

The preparation of the financial statements in conformity with NFRS requires management to make judgment, estimates and assumption that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual result may differ from these estimates.

Estimated and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Information about significant areas of estimates, uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are:

- Key assumptions used in discounted cash flow projections
- Measurement of defined benefit obligations
- Provisions and contingencies

NEPAL RASTRA BANK
Notes Forming part of Financial Statements
Fiscal Year 2076-77 (2019-20 AD)

- Determination of net realizable value
- Determination of useful life of the property, plants and equipment
- Determination of capitalization value and useful life of the intangible assets

2.6 Offsetting

Financial assets and liabilities are offset and the net amount presented in Statement of Financial Position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The bank has offset the cash at vault with the currency in circulation and presented the net amount of currency in circulation as liabilities in Statement of Financial Position.

2.7 Controlling Body

The controlling body of the Bank is the Government of Nepal (GoN) holding 100 percent of its capital. In the normal course of its operations, the Bank enters into following transactions with GoN and state controlled enterprises/entities:

- The Bank shall be the banker and financial advisor of Government of Nepal and a financial agent of the Government.
- Government of Nepal shall consult the Bank on any matters that are within the jurisdiction of its competence. It shall be the duty of the Bank to advice on matter consulted by the Government of Nepal.
- Government of Nepal shall, while preparing annual budget, consult the Bank on the domestic debt including overdrafts.
- The Bank shall submit a pre-budget review report to Government of Nepal each year on the economic and financial matters.

The Bank does not generally collect any commission, fees or other charges for services, which it renders to the Government or related entities except where agreement states otherwise.

3 Significant Accounting Policies

3.1 Basis of Measurement

The financial statements are prepared on a historical cost basis except for following material items.

Items	Measurement Basis
Non Derivative Financial Instrument at Fair value through profit or Loss	Fair value
Equity investments	Fair value
Gold & Silver Investment other than inventories	Fair value
Inventories (Including gold & silver kept for further processing)	Cost or Net Realisable value whichever is lower
Net defined benefit liability/(assets)-gratuity & pension fund and staff security fund	Fair value of plan assets less the present value of the defined benefit obligation

3.2 Basis of Consolidation

The Bank's investment in Rastriya Beema Samsthan and Agriculture Project Service Center is in excess of 50% of the paid up capital of those entities. These investments were made under the specific directives or policies of the Government of Nepal and other relevant statutes. Accordingly, the Bank did not exercise control or significant influence on the entities except for regulatory purposes. As the requirement of NFRS 10- Consolidated Financial Statements does not meet for consolidation, the consolidation of the financial statements of the subsidiaries is not done.

3.2.1 Basis of Accounting for Investment in Associates

The Bank's investment in National Productivity and Economic Development Ltd. is in excess of 20% of the paid up capital of those entities. These investments were made under the specific directives or policies of the Government of Nepal and other relevant statutes. Accordingly, the Bank did not exercise significant influence on the entities except for regulatory purposes. As the requirement of NAS 28- Investments in Associates for being the associates of the bank does not meet, the equity accounting for such investment has not been done.

3.3 Interest Income/(Expenses)

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Bank and the amount of revenue can be measured reliably. Expenses are accounted on accrual basis.

Interest income/(expenses) is recognized in Statement of Net Income and Other Comprehensive Income using the effective interest method when it is probable that the economic benefits associated with the transaction will flow to the Bank and the amount of revenue can be measured reliably.

The effective interest rate is the rate that exactly discount estimated future cash receipt or payment through expected life of the financial instrument or where appropriate a shorter period, to the net carrying amount of the financial asset and liability. While calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amount paid or received by the Bank that are an integral part of the effective interest rate of the financial instrument, including the transaction costs and other premium or discounts.

Interest income on investments from certain banks and financial institutions which are declared as problematic and receipt of interest from which is not forthcoming are not recognized.

3.4 Non Interest Income

i. Fees and Commission income

Fees and commission income is earned for currency exchange and government transactions and other services. These are measured on accrual basis.

ii. Net trading income

Net trading income comprises gains less losses relating to trading assets and liabilities and included all realized and unrealized fair value changes.

iii. Net income from financial instruments designated at fair value

All gains and losses from the changes in the fair value of financial assets and liabilities designated at fair value are recognized through Net Income. Interest income and expenses and dividend income arising on these financial instruments are also included, except for interest arising from debt securities issued by the Bank, and derivatives managed in conjunction with those debt securities which is recognized in Interest expense.

Net income from other financial instrument at fair value through profit and loss related to non trading derivatives held for risk management purposes that do not form part of the qualifying hedge relationships are recognized through profit or loss. It includes realized and unrealized fair value changes, interest, dividend and foreign exchange differences.

iv. Other Income

- Balances unclaimed and outstanding for more than three clear consecutive accounting years in unclaimed account is written back to income.
- Dividend income is recognized when the right to receive income is established.
- Penal income is accounted on cash basis.

Income and expenses are presented on a net basis only when permitted under NFRS.

3.5 Leases

Payment made under operating leases are recognized in Statement of Net Income. The lease rental is adjusted for inflation rate periodically and the same amount is booked as operating lease expense which the bank believes is more representative than the straight line method in line with para 33 of NAS-17.

NEPAL RASTRA BANK
Notes Forming part of Financial Statements
Fiscal Year 2076-77 (2019-20 AD)

3.6 Foreign Currency Transaction

Income and expenditure denominated in foreign currency are translated into Nepalese Rupees on the basis of exchange rate prevailing on the value date.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the rate of exchange prevailing on that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year/origination date, adjusted for effective interest and payment during the year and the amortized cost in the foreign currency translated at the rate of exchange at the reporting date.

Non monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency at the rate of exchange prevailing at the date on which the fair value is determined. Non monetary items that are measured based on historical cost in the foreign currency are translated using the rate of exchange on the date of transactions.

An amount equivalent to the net exchange gain /loss during the year is transferred to/from 'Exchange Equalization Fund' through Statement of Appropriation.

3.7 Income tax

Income of the NRB is exempted from taxes under section 8 of the NRB Act, 2058 as well as Section 10 of Income Tax Act, 2058.

3.8 Financial Assets and Financial Liabilities

i) Recognition

The Bank initially recognizes loans and advances, deposits, debt securities issued, subordinated liabilities on the date of which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date which is the date on which the Bank becomes a party to the contractual provisions of the instruments.

A financial asset or financial liability is measured initially at fair value plus, or an item not at fair value through profit or loss, transactions costs that are directly attributable to its acquisition or issue.

ii) Classification

Financial assets:

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash-flow characteristics. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL').

The Bank classifies its financial assets into one of the following categories:

- **At amortised cost:** Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments for which the Bank has intent and ability to hold till maturity. They are initially recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, Such financial assets are measured at amortized cost using effective interest rate method less any impairment losses.

- **At fair value through profit or loss:** Financial assets are classified at fair value through profit or loss if the Bank manages such investments and makes purchases and sales decisions based on its fair value in accordance with investment strategy. Attributable transaction costs and changes in fair value are taken to revenue.

- **At fair value through other comprehensive income:** Financial assets at FVOCI are non-derivative financial assets that are designated as available-for-sale or not classified in any of the above category. Financial assets at FVOCI are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, financial assets are measured at fair value, as far as such fair value is available, and changes therein, other than impairment losses which are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, gain or loss accumulated in equity is transferred to retained earning.

NEPAL RASTRA BANK
Notes Forming part of Financial Statements
Fiscal Year 2076-77 (2019-20 AD)

Financial liabilities

All financial liabilities are recognized initially on the trade date, which is the date that the bank becomes a party to the contractual provisions of the instrument except for Debt Securities which are initially recognized on the date that they are issued. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired. Non derivatives financial liabilities are classified into the other financial category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these financial liabilities are measured at amortized costs using effective interest rate method.

(iii) Derecognition

Financial assets

The Bank derecognizes a financial assets when the contractual rights to the cash flow from the financial assets expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of the ownership of the financial assets are transferred or in which the Bank neither transfer nor retains substantially all of the risk and rewards of the ownership and it does not retain control of the financial assets.

On derecognition of a financial assets, the difference between the carrying amount of the assets (or the carrying amount allocated to the portion of the assets derecognized) and the consideration received (including any new assets obtained less any new liability assumed) is recognized in income or expenditure. Any interest in transferred financial assets that does not qualify for derecognition that is created or retained by the Bank is recognized as a separate assets or liability.

Financial Liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

(iv) Offsetting

The financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when and only when, the bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(v) Amortized cost measurement

The 'amortized cost' of a financial asset and financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between initial amount recognized and the maturity amount minus any reduction for impairment.

(vi) Fair value measurement

Fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties at an arm's length transaction. Quoted market values represent fair value when a financial instrument is traded in an organized and liquid market. Where quoted market values are not available, fair values are estimated by other techniques such as discounted cash flows.

NEPAL RASTRA BANK
Notes Forming part of Financial Statements
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(vii) Identification and measurement of impairment

Financial assets

At each reporting date the bank assesses the objective evidence that a financial asset or group of financial assets is impaired or not. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer
- breach of contract, such as default or delinquency by a borrower
- the Bank, for economic or legal reasons relating to the financial difficulties, grant to the borrower a concession that the lender would not otherwise consider
- indication that a borrower or issuer will enter bankruptcy;
- disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group or economic conditions that correlate with defaults in the group.

The amount of loss is measured as the difference between the asset's carrying amount and amount the management considers it as recoverable on the basis of financial position of the borrower or issuer and appropriate estimation made by the management. Appropriate provisions for possible losses on investments in shares, fixed deposits; and loans and advances have been made. Receivables considered as bad and irrecoverable are written off from the books of account and directly charged to Statement of Net Income and Other Comprehensive Income.

In addition, for an investment in an unquoted equity security, a significant or prolonged decline in its book value is objective evidence of impairment.

Impairment losses are recognized in income or expenditure and reflected in an allowance account against loans and receivables or held to maturity investment securities. Impairment loss on financial instruments through other comprehensive income are a part of equity routed through Statement of OCI. Interest on the impaired assets continues to be recognized through the unwinding of the discount. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through income statement or statement of other comprehensive income.

If, in a subsequent period, the fair value of an impaired financial instruments through other comprehensive income increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairing loss is reversed through income or expenditure; otherwise, any increase in fair value is recognized through OCI. Any subsequently recovery in the fair value of an impaired financial instruments through other comprehensive income is recognized through OCI. Any subsequent recovery in the fair value of such instruments is always recognized in OCI.

Non financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost and value in use. Provision for the assets such as Numismatic and Medallion coins and Non-moving metals are made on as per the indication of impairment. An impairment loss is recognized in Statement of Net Income. Provisions against impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognized as income/expense in the Statement of Net Income and Other Comprehensive Income.

(viii) Designation at fair value through Profit or Loss.

The Bank has designated financial assets and financial liabilities at fair value through profit or loss in either of the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.

- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

NEPAL RASTRA BANK
Notes Forming part of Financial Statements
Fiscal Year 2076-77 (2019-20 AD)

3.9 Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

3.10 Trading Assets and Liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position with transactions cost recognized in income and expenditure. All changes in the fair value are recognized as part of the net trading income in income and expenditure.

3.11 Loans and Advances to Banks and Financial Institutions

Loans and advances to Banks and Financial Institutions include non derivative financial assets with fixed or determinable payments that are not quoted in an active market. The loan is provided by the Bank for short period under Standing Liquidity Facilities, refinance and other facilities.

3.12 Loan and Advances to Others

Loan and advances to others include loans to employees, interest receivable on financial instruments and advances to staff as well as parties. The Bank provides various types of loans to its employee as per the Staff Bylaws of the Bank. The loans are measured at amortised cost and difference amount between the principal and present value of the loan is booked as deferred employee benefit.

3.13 Investment Securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction cost, and subsequently accounted for depending on their classification as either amortised cost, fair value through profit or loss, or fair value through other comprehensive income.

3.14 Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the supply of services or for administrative purpose.

3.15 Property and Equipment

i. Recognition and Measurement

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including nonrefundable duties and taxes; and any directly attributable cost incurred in bringing the asset to their present location and condition necessary for it to be capable of operating in the manner intended by the management but excluding trade discounts and rebates. Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow in to the Bank. Ongoing repair and maintenance are expensed as incurred.

If significant part of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and carrying amount of the items) is recognized within other income in Statement of Net Income.

NEPAL RASTRA BANK
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ii. Depreciation

Land is not depreciated. All other property, plant and equipment are depreciated from the date they are available for use or in respect of self-constructed assets, from the date that the construction is completed and ready for use. Depreciation is charged on straight-line method over the estimated useful life of current and comparative years of significant items of property, plant and equipment. Useful lives and residual values are reviewed on each reporting date and adjusted if required.

The estimated useful lives of the significant items of Property & Equipment are as follows:

<u>Class of assets</u>	<u>Estimated useful life</u>
Building	Above 33 years
Office and Computer Equipment	5 years
Fixtures and fittings	10 years
Machinery Equipment	5 years
Vehicles	5 years
Others	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

iii. Assets received in grant

Equipment acquired under grant is recognized as "Grant Assets" at nominal value and included under respective head of property, plant and equipment.

3.16 Intangible Assets

Intangible assets include software purchased by the bank. The intangible assets that are acquired by the Bank and have definite useful lives are measured at cost less accumulated amortization and any impairment losses. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred. Subsequent cost on software is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. Software, useful life of which have been defined by terms of contract or conditions for use are amortized on straight-line basis over the useful life of asset.

Software, useful life of which have not been clearly defined by terms of contract or condition of use as well have a definite useful lives due to technological obsolescence are amortized on straight-line basis over estimated useful life of ten years and five years for business application software and other software respectively.

3.17 Impairment of Non Financial Assets

At each reporting date, the Bank reviews the carrying amounts of its non financial assets to determine where there is an indication of impairment. If such indication exists, then the asset's recoverable amount is estimated.

Impairment losses are recognized in Statement of Net Income. Impairment loss is reversed only to the extent that assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

NEPAL RASTRA BANK
Notes Forming part of Financial Statements
Fiscal Year 2076-77 (2019-20 AD)

3.18 Gold and Silver at fair value

Gold and silver held as investment (paper gold as well as reserve gold/silver) is stated at market value and any appreciation or depreciation with respect to the cost is taken to/from "Gold and Silver Equalization Reserve" through Appropriation of Net Income/(Expenditure).

3.19 Inventories

Inventories of the bank include gold and silver stock physically held for minting and processing purpose, new currencies that are not issued to the circulation, coin stock, metal and numismatic stock, and dispensary stock. Inventories are initially measured at cost and it is carried at cost or net realizable value whichever is lower. Cost for gold and silver is determined on the basis of specific identification method where as cost for other inventories is determined under the weighted average method. Cost of new currency notes are charged to Statement of Net Income at the time of issue in circulation. Other stores items are charged directly to Statement of Net Income. Durable goods with unit cost of twenty five thousand rupees or less are expensed off at the time of purchase.

Allowance is made for slow moving inventories.

3.20 Deposits and Borrowings

Deposits and borrowings (debt securities issued) are the source of funds of the bank in addition to its reserves.

Deposits and borrowings (including debts securities issued) are initially measured at fair value minus incremental direct transaction cost and subsequently measured at their amortized cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss.

3.21 Provisions

A provision is recognized if as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

3.22 Employee Benefits

i. Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays a fixed contribution to a separate entity and has no legal or constructive obligation to pay future amounts. Obligations for contributions to defined contribution plans are recognized as employee benefit expense in the Statement of Net Income in the periods during which the related service are rendered by employees. Pre-paid contributions are recognized as an asset to the extent that cash refund or reduction in future payments is available. Contributions to a defined contribution plan being due for more than 12 months after the end of the period in which the employees render the service are discounted at their present value. Following are the defined contribution plan provided by the bank to its employees:

NEPAL RASTRA BANK
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1) Contributory Retirement Fund: All permanent employees are entitled for participation in employee's Provident Fund (Retirement Fund) wherein the employees contribute at various rates of their current drawn salaries. The bank contributes 10% of basic salary (with grade) to this fund, which is separately administered as a defined contribution plan as per Nepal Rastra Bank Staff By-Law, 2068: Rule 78, Sub-rule 1(a) & 1(c). The Bank's obligations for contributions to the above Fund are recognized as an expense in Statement of Net Income as the related services are rendered.

2) Welfare Provident Fund: Certain amounts as prescribed by the Board are annually transferred to this fund, which is meant to be a defined contribution scheme for the welfare of the employees, as per Nepal Rastra Bank Staff By-Law 2068: Rule 78 Sub-rule 1(b) and 1(c). Contributions by the Bank are expensed in Statement of Net Income as the related services are accounted.

ii. Defined Benefits Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Bank's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on corporate bonds, that have maturity dates approximating the terms of the Bank's obligation and that are denominated in the currency in which the benefits are expected to be paid.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. The Bank recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefits plans in employee benefit are expensed in Statement of Net Income.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses. The return on plan assets (excluding interest) and the effect of the assets ceiling (if any excluding interest) are recognized immediately in OCI. The Bank determines the net interest expense (income) on the net defined liability (assets) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefits liability (assets), taking into account any changes in the net defined benefits liability (asset) during the period as a result of contribution and benefits payments. Net interest expenses and other expenses related to defined benefit plans are recognized in personnel expenses in Statement of Net Income.

Following are the defined benefit plans provided by the bank to its employees:

1) Gratuity and Pension Scheme: Gratuity and Pension Scheme is a defined benefit obligation under which employees having service period of five years or more but less than twenty years are eligible for gratuity, which is based on last pay-scale of staff's existing designation and completed years of service. Similarly, employees having service period of twenty years or more are eligible for pension, which is based on last pay-scale of staff's existing designation and completed years of service. The bank measures the obligation of this plan as valued by a qualified actuary using projected credit method. All expenses related to defined benefits plans in employee benefit are expensed in Statement of Net Income.

2) Staff Security Fund: Staff Security Fund is defined benefit plan under which all the permanent employees are entitled to staff security fund at the time of retirement, death or termination from the service by any other circumstances at the predetermined factor prescribed by the bank, which is based on last drawn salary and completed years of service as per Nepal Rastra Bank Staff By-Law 2068: Rule 78 Sub-rule 1(e). Employees having service period of thirty years are eligible for maximum sixty three months salary. The bank measures the obligation of this plan as valued by a qualified actuary using projected credit method. All expenses related to defined benefits plans in employee benefit are expensed in Statement of Net Income.

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Notes Forming part of Financial Statements
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3) Staff Medical Fund: Employees are eligible for medical benefits based on the specified slabs as per medical rules, last drawn salary and completed years of service, as per Nepal Rastra Bank Staff By-Law 2068: Rule 78 Sub-rule 1(d). Incremental liability is provided for and transferred to this Fund.

4) Leave Encashment: As per Nepal Rastra Bank Staff By-Law, 2068: Rule 86, 87 and 91, the employees are entitled to en-cash their un-utilized accumulated leave at the time of retirement or any other prescribed time as decided by the management of the bank. Home leave, Sick leave and Special Leave are defined benefit plans which are recognized when the leave remains un-availed at the time of closing date. Provision is created for liability on employees' leave based on obligation dischargeable to employees at balance sheet date.

iii. Other long term employee benefits

The bank net obligation in respect of long term employee benefits is the amount of future benefits that employees earned in return for their service in the current and prior period. That benefit is discounted to determine its present value. Remeasurements are recognized in Statement of Net Income in the period in which they arise.

Leave Encashment: As per Nepal Rastra Bank Staff By-Law, 2068: Rule 86, 87 and 91, the employees are entitled to en-cash their un-utilized accumulated leave at the time of retirement or any other prescribed time as decided by the management of the bank. Home leave, Sick leave and Special Leave are defined benefit plans which are recognized when the leave remains un-availed at the time of closing date. Provision is created for liability on employees' leave based on obligation dischargeable to employees at balance sheet date.

iv. Termination Benefits

The termination benefits are expensed at the earlier of which the Bank can no longer withdrawn the offer of those benefits and when the Bank recognizes costs for restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

v. Short term employee benefits

Short term employees benefits are expenses as the related services is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees and obligation can be estimated reliably. These includes salary, overtime, various allowance, staff Welfare etc.

3.23 Currency in Circulation

Currency in circulation represents notes issued by the Bank as a sole currency issuing authority in Nepal. Currency notes issued by the Bank are legal tender under the NRB Act, 2058. This represents the liability of the Bank towards the holder of the currency note. The liability for notes in circulation is recorded at face value in the balance sheet. These liabilities are secured by assets including foreign currency and foreign securities etc. as permitted by Nepal Rastra Bank Act, 2058.

The Bank also issues coins of various denominations for circulation. Currency circulation liability does not include the liability on account of coins in circulation, as allowed by the Act.

3.24 Transactions on Repurchase Obligations (Repo) and Reverse Repo

Repurchase Arrangements (Repo) and Reverse Repo of securities are recorded as follows:

a) Securities sold subject to repurchase arrangements (Repo) are recorded as refinance and loan to banks. The obligation to repurchase is shown as liabilities for securities sold under agreement to repurchase and the difference between the sale and repurchase value is accrued on a pro rata basis and recorded as expense.

b) Securities purchased under agreements to resell ('reverse repos') are recorded as deposits and other balances of banks or customers, as appropriate. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the statement of financial position.

3.25 Unclaimed Account

Unclaimed account under Sundry Liabilities represents amount that remained unclaimed and outstanding for more than two years. Amount outstanding for more than three years in unclaimed account is transferred to miscellaneous income in Statement of Net Income.

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3.26 Bills Payable and Bills Receivable

The Bank carries out the function of repayment of Government securities and interest thereon on behalf of the Government of Nepal (GON). Bills Payable primarily represents the year-end undisbursed or unadjusted amount of payments received from GON in respect of interest / repayment liabilities of such securities. The year-end balance of Bills Purchased represents the amounts paid by the Bank to the security holders but the corresponding claim adjustment with Bills Payable is pending.

3.27 Consolidation of Project Accounts

The Bank manages and implements various projects, which are helpful in attaining its objectives, on its own by entering into project agreement with the funding agencies or subsidiary loan agreements with Government of Nepal or on behalf of Government of Nepal (GON).

The projects for which the Bank has entered into separate subsidiary loan agreements with Government of Nepal or has entered into separate project agreements with other funding agencies are consolidated with the Bank's account. For projects which are implemented by the bank on behalf of the GON, the accounts of these projects are not consolidated with bank's financial statements as the Bank has no obligation towards such projects or any other counter party and there is no right of the Bank in assets, liabilities, equity, income and expense of such projects. However, disclosure of financial and other information of such projects is given in the notes.

3.28 Presentation

The presentation of certain line items of previous year financial statements have been changed (regrouped or rearranged) to align the financial statements as disclosed in details in notes.

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Notes Forming part of Financial Statements
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4 Notes relating to items in the financial statements

4.1 Cash and Cash Equivalents

In line with the accounting policy as given in Note 3.9, balances of cash and cash equivalent at the reporting date are as below:

Particulars	31-03-2077	31-03-2076
Foreign Currency:		
Cash in Hand & at Vault	37,932,848,845	15,550,851,739
Balances with Other Banks	84,277,448,893	80,612,597,573
GOI Treasury Bills	295,073,760,103	220,338,423,350
US Government Treasury Bills	18,051,609,752	16,311,683,916
Time Deposit	616,298,264,222	418,855,585,681
Investment in FIXBIS	-	-
Investment in Repurchase Agreements	-	-
IMF Related Assets: SDR Holdings	412,972,270	354,810,632
Total Foreign Currency	1,052,046,904,085	752,023,952,891
Local Currency:		
Cash in Hand & at Vault	-	-
Balances with Other Banks	20,214,306	13,941,191
Total Local Currency	20,214,306	13,941,191
Total	1,052,067,118,391	752,037,894,082

4.2 Loans and Advances to Bank & Financial Institutions

Please refer accounting policy in Note 3.11. The balances of loans and advances to banks and financial institutions (B/FIs) and microfinance (MFI) are as below:

Particulars	31-03-2077	31-03-2076
Refinance/SLF Loans:		
Commercial Banks	7,302,907,919	21,282,538,229
Development Banks	138,799,737	1,406,378,153
Finance Companies	45,766,047	205,838,028
Loan to Micro Finance Institutions	-	10,000,000
Less: Allowance for impairment	-	(10,000,000)
Total	7,487,473,703	22,894,754,410
Allowance for impairment		
Balance as on 01-04-2076	10,000,000	10,000,000
Charge for the year	-	-
Effect of foreign currency movements	-	-
Reversal of Impairment Loss	(10,000,000)	-
Balance as on 31-03-2077	-	10,000,000

These investments are realized on the settlement date as per the terms of loan agreement.

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Notes Forming part of Financial Statements
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Details of type of refinance/loan provided to banks and financial institutions have been given below:

Particulars	Period	Refinance Rate	31-03-2077	31-03-2076
General Refinance	1 year	3%	6,266,769,739	19,313,678,409
Special/Export Refinance	1 year	1%	-	866,118,842
Zero Interest Loan	6 months	0%	1,220,703,964	2,214,957,159
Standing Liquidity Facility	3 days	5%	-	500,000,000
Total			7,487,473,703	22,894,754,410

4.3 Loans and Advances to Others

Please refer accounting policy in Note 3.12. The balances are given as below:

Particulars	31-03-2077	31-03-2076
Receivable from GON against payment to IMF	-	-
Advance Payment to GON	-	2,000,000,000
Loans to Sana Kishan Bikas Laghubitta Bittiya Sanstha Ltd.	297,000,000	
Balance with Asian Clearing Union (ACU)		
Gross Loans to Employees	4,960,832,904	3,637,363,702
Less: Amortisation Adjustment	(1,583,300,063)	(198,464,626)
Net Loans to Employees	3,377,532,841	3,438,899,076
Interest Receivable		
Australian Dollar	26,769,204	45,840,435
Canadian Dollar	4,039,021	16,739,419
Yuan Ren-Min-Bi (China)	1,422,418,147	1,093,520,762
Indian Rupees	5,573,889	-
Nepalese Rupee	1,342,118,956	2,830,806,706
Pound Sterling	4,235,834	6,320,474
United States Dollars	1,168,609,144	1,842,824,495
Interest Receivable	3,973,764,195	5,836,052,291
Advances Recoverable		
Advance to Staff	7,391,072	8,427,189
Sundry Debtors	29,049,591	42,267,526
Advance for Construction	929,919,790	948,834,161
Prepaid Expenses	85,068,861	83,371,873
Pension Advance Account	2,840,427,929	2,684,059,189
Staff Endowment Policy Advance	10,203,108	10,401,500
Other	-	-
Less: Impairment Allowance	(4,179,754)	(2,335,832)
Net Advances Recoverable	3,897,880,597	3,775,025,606
Total	11,546,177,633	15,049,976,973

Loans and advances to employees are provided with/without collateral.

4.4 Gold & Silver at Fair Value

Please refer accounting policy in Note 3.18. The balances are given as below:

Particulars	31-03-2077	31-03-2076
Investment in Paper Gold	44,996,868,751	31,837,001,290
Gold Held in Stock at Fair Value	15,543,335,668	10,753,933,029
Silver Held in Stock at Fair Value	10,469,194,456	7,611,306,784
Total	71,009,398,875	50,202,241,103

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4.5 Investment Securities

Please refer accounting policy in Note 3.13. The balances are given as below:

Particulars	31-03-2077	31-03-2076
At Amortized Cost	246,512,369,248	218,863,558,942
At Fair Value through Other Comprehensive Income (OCI)	4,817,700,562	4,264,234,218
At Fair Value through Profit or Loss		
Total	251,330,069,810	223,127,793,160
a) Investment Securities at Amortized Cost		
	31-03-2077	31-03-2076
Government Treasury Notes/Bonds(USD)	30,059,869,390	65,589,931,430
Government Treasury Notes/Bonds (CNY)	70,378,126,202	59,059,765,279
Investment in Mid term Instruments (MTI)	-	2,730,109,799
Notice Deposit (JPY)	-	-
Time Deposit	74,147,920,000	22,062,665,446
Government Bond (GON)	456,533,810	225,339,574
Fixed deposit with Bank & Financial Institutions	5,024,400,000	3,964,832,000
Government Treasury Bills (GON)	21,226,657,174	18,431,422,742
Saving Certificates (GON)	45,472,622,672	46,799,852,672
Investment in Rural Self Reliance Fund	-	253,400,000
Less individual allowance for impairment	(253,760,000)	(253,760,000)
Total	246,512,369,248	218,863,558,942
Impairment Loss on Available for Sale Investment Securities		
Balance as on 01-04-2076	253,760,000	253,760,000
Charge for the year	-	-
Reversal of Impairment	-	-
Balance as on 31-03-77	253,760,000	253,760,000

Deposit amounting Rs.253,760,000 made in problematic financial institution has been provided as allowance for impairment .

b) Investment Securities at Fair Value through OCI	31-03-2077	31-03-2076
Quoted equity securities	2,731,383,998	1,926,257,844
Unquoted equity securities	2,093,816,564	2,345,476,374
Less: Allowance for impairment of equity securities	(7,500,000)	(7,500,000)
Total	4,817,700,562	4,264,234,218
Impairment Loss on Investment Securities		
Balance as on 01-04-2076	7,500,000	7,500,000
Charge for the year	-	-
Reversal of Impairment	-	-
Balance as on 31-03-77	7,500,000	7,500,000

The Bank has not classified investment securities to be measured at fair value through profit or loss.

Impairment allowance has been done for the investment in Agricultural Project Service Center, which is in liquidation and National Productivity and Economic Development Center, whose financial condition is weak .

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I) Investment in quoted equity securities includes the following:

Particulars	31-03-2077	31-03-2076
RMDC Laghubitta Bittiya Sanstha Ltd.	-	105,792,675
Citizen Investment Trust	2,657,138,858	1,767,041,375
Grameen Bikas Laghubitta Bittiya Sanstha Ltd.	74,245,140	53,423,794
Total	2,731,383,998	1,926,257,844

The shares are revalued on the basis of latest trading price of promoter share of respective institution in stock market. In absence of trading of promoter share of Citizen Investment Trust & Grameen Bikas Laghubitta Bittiya Sanstha Ltd, ratio of share price of promoter share is considered as 50% of Public Share.

II) Investment in unquoted equity securities includes the following:

Particulars	31-03-2077	31-03-2076
Agricultural Project Services Centre	5,000,000	5,000,000
Rastriya Beema Sansthan - Life Ins.	1,000,000	1,000,000
Nepal Stock Exchange Ltd.	814,850,779	999,382,248
National Productivity and Eco. Dev.	2,500,000	2,500,000
Deposit & Credit Guarantee Fund	1,027,600,000	1,143,088,259
Nepal Clearing House	85,480,402	61,001,402
Credit Information Bureau	130,367,070	107,189,098
National Banking Institute	27,018,313	26,315,367
Total	2,093,816,564	2,345,476,374

Fair Value of the shares investment in unquoted equity securities have been arrived based on the latest available audited financial statement of respective entities except Nepal Stock Exchange Ltd.. Further disclosure has been given in point 5.6.1.2 (i).

The transaction price of Nepal Stock Exchanges is taken as Fair Value which is readily observable price.

III) Selection of Presentation criteria

Investment Securities at fair value through other comprehensive income includes the investment in equity instruments which were made under specific directives or policies of the Government of Nepal and other relevant statutes and are not held for trading purpose. Accordingly, the bank has made an irrevocable election to present those in investment securities at fair value through other comprehensive income.

4.6 Inventories

Please refer accounting policy in Note 3.19. The details of balance are as follows:

Particulars	31-03-2077	31-03-2076
Gold Held in Stock at Cost	1,985,480,673	1,789,665,516
Silver Held in Stock at Cost	60,581,245	64,295,747
Security Note Stock	705,731,492	957,679,167
Coin Stock	45,529,000	79,596,342
Other Metal Stock	12,582,262	13,449,497
Numismatic Stock	22,485,498	22,824,571
Dispensary Stock	591,134	800,559
Total Inventories	2,832,981,304	2,928,311,399
Less: Allowance for non-moving stocks		
Non-moving Numismatic Stock	(22,465,540)	(22,465,794)
Non-moving Other Metal Stock	(8,716,000)	(8,716,000)
Unissuable Note Stock	(3,375,258)	(3,775,258)
Total Allowance for non-moving stocks	(34,556,798)	(34,957,052)
Total Inventories Net of Allowance for non-moving stocks	2,798,424,506	2,893,354,347

NEPAL RASTRA BANK
Notes Forming part of Financial Statements
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4.7 Property, Plant and equipment

Please see accounting policy in Note 3.15. The details are given as below:

Particulars		Land	Building	Computer & Accessories	Vehicles	Machinery Equipment	Office Equipment	Furniture and Fixture	Other Assets	Capital Work in Progress	Total Assets
Depreciation Rate			3%	20%	20%	20%	20%	10%	20%		
Original Cost	Balance as on 1st Sawan 2075	193,834,552	775,086,583	216,817,314	261,188,143	111,767,566	156,763,942	49,108,382	5,216,773	2,604,763	1,772,388,019
	Addition during the Year		7,724,204	27,979,391	135,894,795	7,571,111	20,307,123	10,708,987	352,285	569,764,497	780,302,393
	Disposal/Write Off/Adjustment	-	(216,994)	(17,838,342)	(36,061,735)	(1,493,160)	(6,152,766)	(555,895)	(61,200)	-	(62,380,091)
	Balance as on 31st Asar 2076	193,834,552	782,593,793	226,958,363	361,021,204	117,845,518	170,918,299	59,261,475	5,507,858	572,369,260	2,490,310,321
Accumulated Depreciation	Balance as on 1st Sawan 2075	-	304,742,877	142,449,562	146,169,635	101,853,976	103,735,869	20,533,077	4,605,683	-	824,090,680
	Depreciation for the Year	-	23,072,985	25,107,032	51,875,205	3,434,590	17,264,338	3,796,439	173,755	-	124,724,344
	Disposal/Write Off/Adjustment	-	(83,544)	(16,875,348)	(30,140,241)	(1,468,151)	(5,600,870)	(536,107)	(61,198)	-	(54,765,460)
	Balance as on 31st Asar 2076	-	327,732,318	150,681,246	167,904,599	103,820,416	115,399,337	23,793,409	4,718,240	-	894,049,564
Net Book Value as on 31st Asar 2076		193,834,552	454,861,475	76,277,117	193,116,605	14,025,102	55,518,962	35,468,066	789,618	572,369,260	1,596,260,757
Original Cost	Balance as on 1 st Sawan 2076	193,834,552	782,593,793	226,958,363	361,021,204	117,845,518	170,918,299	59,261,475	5,507,858	572,369,260	2,490,310,321
	Addition during the Year	-	54,726,626.90	26,674,742.97	111,083,279.95	5,634,539.85	19,817,413.73	5,898,176	308,892.11	1,284,362,298.44	1,508,505,970
	Disposal/Write Off/Adjustment	-	-	(13,517,241)	(20,650,364)	(1,496,760)	(11,483,460)	(1,009,404)	-	(28,815,930)	(76,973,159)
	Balance as on 31st Asar 2077	193,834,552	837,320,420	240,115,865	451,454,120	121,983,298	179,252,253	64,150,247	5,816,750	1,827,915,628	3,921,843,132
Accumulated Depreciation	Balance as on 1st Sawan 2076	-	327,732,318	150,681,246	167,904,599	103,820,416	115,399,337	23,793,409	4,718,240	-	894,049,564
	Depreciation for the Year	-	24,091,726	28,378,020	65,557,953	4,463,252	19,803,682	4,686,388	214,593	-	147,195,614
	Disposal/Write Off/Adjustment	-	-	(12,995,343)	(16,419,480)	(1,496,744)	(11,239,334)	(1,009,388)	-	-	(43,160,289)
	Balance as on 31st Asar 2077	-	351,824,044	166,063,923	217,043,072	106,786,924	123,963,685	27,470,409	4,932,833	-	998,084,889
Net Book Value as on 31st Asar 2077		193,834,552	485,496,376	74,051,942	234,411,048	15,196,374	55,288,568	36,679,838	883,917	1,827,915,628	2,923,758,243

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4.8 Intangible Assets

Please refer accounting policies in Notes 3.16. The details of balance are as follows:

	Particulars	Computer Software			Total Assets
		Useful Life Defined by Contractual Agreements	Other Useful Life	Capital Work in Progress	
Amortisation Rate			20%	10%	
Original Cost	Balance as on 1st Sawan 2075	1,763,930	12,278,823	229,272,935	243,315,688
	Addition during the Year		994,400		994,400
	Disposal/Write Off/Adjustment				-
	Balance as on 31st Asar 2076	1,763,930	13,273,223	229,272,935	244,310,088
Accumultaed Amortisation	Balance as on 1st Sawan 2075	1,500,262	9,342,840	118,457,682	129,300,784
	Depreciation for the Year	258,420	1,280,693	22,927,293	24,466,406
	Disposal/Write Off/Adjustment				-
	Balance as on 31st Asar 2076	1,758,681	10,623,533	141,384,975	153,767,189
Net Book Value as on 31st Asar 2076		5,249	2,649,690	87,887,960	-
Original Cost	Balance as on 1st Sawan 2076	1,763,930	13,273,223	229,272,935	-
	Addition during the Year	757,665	8,200,000	11,086,389	20,044,054
	Disposal/Write Off/Adjustment		(1,091,300)	1,091,300	-
	Balance as on 31st Asar 2077	2,521,595	20,381,923	241,450,624	-
Accumultaed Amortisation	Balance as on 1st Sawan 2076	1,758,681	10,623,533	141,384,975	-
	Depreciation for the Year	194,643	825,428	23,375,890	24,395,961
	Disposal/Write Off/Adjustment		(45,220)	45,220	-
	Balance as on 31st Asar 2077	1,953,324	11,403,741	164,806,085	-
Net Book Value as on 31st Asar 2077		568,271	8,978,182	76,644,539	-

4.9 Other Assets

Particulars	31-03-2077	31-03-2076
Deposits	1,566,478	1,558,227
Deferred Employees Benefits	1,583,300,063	1,445,185,596
Deferred Bond Amortization Assets	66,852,128	37,498,144
Project Assets	-	-
Other Receivables	37,625	746,158
Total	1,651,756,294	1,484,988,125

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4.10 Deposits from banks and financial institutions

See accounting policy in Note 3.20. The details of balance are as follows:

Particulars	31-03-2077	31-03-2076
Foreign Currency	8,306,752,738	10,075,679,634
Local Currency	289,545,520,059	175,309,414,408
Total	297,852,272,797	185,385,094,042

Deposit from bank and financial institutions include amount deposited by Bank & Financial Institutions for cash reserve ratio (CRR), among others. All deposits are non interest bearing.

4.11 Deposits from Others

See accounting policy in Note 3.20. The details of balance are as follows:

Particulars	31-03-2077	31-03-2076
Foreign Currency:		
Public Enterprises	297,172,379	301,795,165
Other Organisations	594,628	540,238
Total Foreign Currency	297,767,007	302,335,403
Local Currency:		
Public Enterprises	6,110,965,777	7,131,814,089
Margin Deposit in LCs	12,259,639,140	12,804,495,388
Other Organisations	64,803,818	1,013,943,158
Total Local Currency	18,435,408,735	20,950,252,635
Total	18,733,175,742	21,252,588,038

All deposits are non interest bearing and current in nature.

4.12 Short Term Borrowings

See accounting policy in Note 3.20. The details of balance are as follows:

Particulars	31-03-2077	31-03-2076
NRB Bonds	-	-
Deposit Collection-Auction	-	-
Reverse Repo Liabilities	-	-
Total	-	-

NRB Bonds, Deposit Collection under auction and Reverse Repo liabilities are instruments used by the Bank to withdraw liquidity from the market on short term basis (less than one year).

4.13 IMF Related Liabilities

Particulars	31-03-2077	31-03-2076
Foreign Currency:		
Special Drawing Right Allocation	11,198,956,855	10,468,255,853
Interest Bearing Loan :		
Loan under Rapid Credit Facility (RCF)	-	876,817,665
Loan under Extended Credit Facility (ECF)	-	-
Total Foreign Currency	11,198,956,855	11,345,073,518
Local Currency:		
IMF Account No 1	9,704,281,089	9,443,743,425
IMF Account No 2	889,298	878,742
Total Local Currency	9,705,170,387	9,444,622,167
Total	20,904,127,242	20,789,695,685

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4.14 Staff Liabilities

See accounting policy in Note 3.22. The details of balance are as follows:

Particulars	31-03-2077	31-03-2076
Medical Fund (Includes Medical Earning Fund, Interest, etc)	778,550,466	536,315,205
Welfare Provident Fund	606,029,818	554,492,224
Liability for Staff Leave Encashment	921,908,527	897,654,092
Liability for Retired Staff	677,464,689	593,464,996
Gratuity and Pension Fund	19,037,326,365	18,589,350,597
Less: Plan Assets	(19,432,685,089)	(19,170,360,000)
	(395,358,724)	(581,009,403)
Staff Security Fund	1,956,932,094	1,892,985,892
Less: Plan Assets	(1,723,117,729)	(2,012,800,000)
	233,814,365	(119,814,108)
Total	2,822,409,141	1,881,103,006

4.15 Other liabilities

Particulars	31-03-2077	31-03-2076
Interest Payable	1,634,446	25,369,322
Asian Clearing Union	68,747,235	126,976,089
Earnest Money	-	-
Insurance Premium Collected from Staff	71,385,213	87,593,610
Other Payables of Project	-	-
Payable against GON Bonds	-	-
Unclaimed Account	78,788,722	106,631,904
General Account	6,972,436	6,972,436
Deferred Grant Income	123	123
Other Liabilities	795,006,551	632,346,122
Total	1,022,534,726	985,889,606

4.16 Currency in Circulation

See accounting policies in Notes 3.23. The details of balance are as follows:

The denomination wise amounts of currency note issued by the bank and are in circulation at the balance sheet date was as follows:

Denomination	31-03-2077	31-03-2076
1	160,858,760	160,876,546
2	184,772,946	184,866,442
5	2,923,801,335	2,673,457,755
10	4,570,469,090	4,129,696,280
20	5,396,753,860	4,959,112,200
25	57,214,450	57,243,300
50	10,617,115,200	10,517,791,400
100	19,969,249,500	17,172,292,300
250	87,426,250	87,420,750
500	149,327,536,000	109,842,674,000
1000	386,443,435,000	353,464,748,000
Total	579,738,632,391	503,250,178,973

The currency in circulation at the end of the reporting period does not included cash-in-hand of NRs. 8,321,367,609.00 (P.Y. NRs. 3,809,821,027).

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4.17 (a) Appropriation of Net Income/(Expenditure) and Surplus payable to Government of Nepal

The Board of Directors of the Bank has appropriated the following amount to different funds during the year as required by Nepal Rastra Bank Act, 2058 and the balance amount will be paid to GON as per the said Act.

Particulars	F.Y 2076-77	F.Y 2075-76
Net Income/(Expenditure) for the year	107,614,829,500	32,162,519,703
Foreign Exchange Gain/(Loss) - Unrealised	(58,927,429,280)	2,193,530,153
Net Gold and Silver Revaluation Gain/(Loss)	(20,807,318,228)	76,037,528
Transfer from Fair Value Reserve	657,398,041	-
Actuarial gain (Loss) in defined benefit Retirement Schemes	-	1,341,411,990
Surplus/(Deficit) Due to Restatement of Prior Period Errors	-	(3,486,071)
Reversal of Project Split Interest Reserve Fund	-	-
Reversal of Investment Revaluation Reserve	-	-
Reversal of Net Cumulative Surplus Fund	-	-
Surplus Available for Distribution	28,537,480,033	35,770,013,303
Less: Appropriations		
General Reserve	(8,984,388,463)	(7,371,159,330)
Monetary Liability Reserve	(1,394,004,100)	(1,788,500,665)
Financial Stability Fund	(1,394,004,100)	(1,788,500,665)
Development Fund	(9,120,000,000)	(11,825,000,000)
Development Finance Project Mobilisation Fund	(11,810,896)	(1,504,219)
Banking Development Fund	(450,000,000)	(150,000,000)
Mechanisation Fund	(550,000,000)	(200,000,000)
Gold Replacement Fund	(172,003,576)	(520,775,808)
Mint Development Fund	(450,000,000)	(100,000,000)
Net Cumulative Surplus Fund	(11,268,898)	(4,572,616)
Balance Payable to Government of Nepal	6,000,000,000	12,020,000,000

Board of Directors of Nepal Rastra Bank decides for appropriation in different funds and surplus amount left after appropriation is to be transferred to Government of Nepal as per Nepal Rastra Bank Act, 2058, clause no. 41(1)(ga). Hence the surplus payable to GON is shown as liability.

4.17 (b) Reserves & Surplus

The balance of balance sheet on reporting date stands as below:

Particulars	31-03-2077	31-03-2076
Capital Reserve:		
Gold and Silver Equalization Reserve	46,948,884,026	26,141,565,798
Statutory Reserve:		
General Reserve	49,125,292,717	40,140,904,254
Monetary Liabilities Reserve	9,781,673,782	8,387,669,682
Financial Stability Fund	6,584,159,784	5,190,155,684
Exchange Equalization Fund	153,827,709,004	94,900,279,724
Net Cumulative Surplus Fund	1,343,188,484	776,015,855
Other Reserves and Funds:		
Development Fund	46,945,989,244	37,825,989,244
Banking Development Fund	1,601,941,806	1,151,941,806
Development Finance Project Mob. Fund	283,087,875	271,276,979
Mechanisation Fund	1,891,316,414	1,341,316,414
Scholarship Fund	61,594,504	61,594,504
Mint Development Fund	1,097,712,943	647,712,943
Gold Replacement Fund	842,598,584	670,595,008
Investment Revaluation Reserve	-	-
Rural Self Reliance Fund (GS Fund)	253,400,000	253,400,000
Rural Self Reliance Fund (Administration Expense Reimbursement Fund)	57,664,566	-
Actuarial Gain Reserve	1,394,048,212	-
Fair Value Reserve for Equity Instruments	4,124,304,382	3,742,955,298
Project Split Interest Reserve Fund	-	-
Retained Earnings	-	1,482,683,740
Total Reserves and Funds	326,164,566,327	222,986,056,933

Further descriptions of each fund has been given in disclosure no. 5.8

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4.18 Interest Income

See accounting policy 3.3 . Interest income includes the following:

Particulars	F.Y 2076-77	F.Y 2075-76
Foreign Currency Financial Assets		
Income on Bonds/Treasury Bills	15,443,565,106	18,028,748,904
Income from Fixed Term Deposit	9,989,407,173	12,584,954,198
Interest Income from Foreign Gold Deposit	129,407,677	106,977,372
Interest Income on Call Deposit	408,727,387	826,903,774
Sub-total	25,971,107,343	31,547,584,248
Local Currency Financial Assets		
Government Securities	2,715,266,141	2,894,896,095
Investment in Financial and Other Institutions	428,876,991	504,395,556
Loans and Refinance	683,967,850	1,013,631,426
Sub-total	3,828,110,982	4,412,923,077
Total Interest Income from Financial Assets	29,799,218,325	35,960,507,325

4.19 Interest Expenses

See accounting policy in Note 3.3. Interest expenses include the following:

Particulars	F.Y 2076-77	F.Y 2075-76
Foreign Currency Financial Liabilities		
SDR Allocation & ECF Loan	57,807,978	114,976,450
Others	12,803,520	15,141,303
Sub-total	70,611,498	130,117,753
Local Currency Financial Liabilities		
Deposit Collection	10,360,892	532,179,181
Reverse Repo	17,296,760	2,863,369
NRB Bond	-	-
Sub-total	27,657,652	535,042,550
Total Interest Expense on Financial Liabilities	98,269,150	665,160,303

4.20 Fee and commission income

See accounting policy in Note 3.4(i). Fee and commission income include the following:

Particulars	F.Y 2076-77	F.Y 2075-76
Foreign Currency Financial Assets		
On Currency Exchange	1,036,933	1,208,925
Sub-total	1,036,933	1,208,925
Local Currency Financial Assets		
Government Transaction & Other services	134,443,980	101,568,156
Sub-total	134,443,980	101,568,156
Total Commission Income from Financial Assets	135,480,913	102,777,081

4.21 Fee and commission expense

Particulars	F.Y 2076-77	F.Y 2075-76
Foreign Currency Liabilities		
Commission & Charges	23,206,644	69,914,783
Sub-total	23,206,644	69,914,783
Local Currency Liabilities		
Agency Expenses	975,556	125,876,345
Sub-total	975,556	125,876,345
Total Agency and Service Charge	24,182,200	195,791,128

Agency Commission for operating Government Accounts has not been provided to any Commercial Banks during the fiscal year as per the decision of 313th Management Committee dated 2075/07/06.

Agency Expenses for F.Y. 2075-76 Includes Agency Commission Paid to the following banks for operating Government Accounts.

Nepal Bank Ltd.	-	18,600,000
Rastriya Banijya Bank	-	30,200,000
Agriculture Development Bank	-	2,500,000
Total	-	51,300,000

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4.22 Other Income

See accounting policies in Notes 3.4 (iv). Other income comprises the following:

Particulars	F.Y 2076-77	F.Y 2075-76
Income from Mint (Sale of Coin)	110,208	392,236
Gain from Sale of Precious Metals and Coins	194,055,951	548,902,926
Fine/Penalty Charge	47,023,769	20,513,888
Profit on Sale of Assets	3,041,208	7,036,678
Profit on Sale of Investment Securities	536,163,920	-
Dividend Income	39,188,282	14,022,986
Project Income/(Loss)	11,810,896	1,504,219
Grant Income	476,098,050	-
Miscellaneous	179,615,203	68,970,076
Total	1,487,107,487	661,343,008

Grant Income reflects the grant amount received against the RCF Loan under debt service relief.

4.23 Personnel expenses

See accounting policy in Note 3.22 (v). Personnel expenses include the following:

Particulars	F.Y 2076-77	F.Y 2075-76
Salary	633,428,401	528,806,033
Allowances	645,873,069	594,987,003
Provident Fund Contribution	63,342,840	52,880,604
Staff Welfare	79,108,553	65,319,379
Staff Welfare Provident Fund	530,265,000	491,150,000
Pension & Gratuity Fund	286,326,903	240,322,012
Staff Security Fund	83,155,616	93,958,940
Staff Leave Compensation	160,258,061	120,604,978
Staff Medical Fund	362,166,228	102,685,051
Finance Cost under NFRS on Staff Loan	120,880,478	354,505,979
Others	16,991,577	21,822,116
Total	2,981,796,726	2,667,042,095

4.24 Depreciation, amortisation and impairment of non financial assets

Particulars	F.Y 2076-77	F.Y 2075-76
Depreciation on Property & Equipment	147,195,614	124,724,344
Impairment of Property & Equipment	-	-
Amortisation of intangible assets	24,395,961	24,466,406
Impairment of intangible assets	-	-
Total	171,591,575	149,190,750

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4.25 Operating expenses

Particulars	F.Y 2076-77	F.Y 2075-76
Directors Fees and Expenses	7,103,606	6,095,466
Note Printing Charges	1,089,631,707	853,756,241
Mint Expenses	3,991,197	984,130
Security charges	58,904,474	56,323,875
Remittance Charges	36,693,734	51,106,804
Travelling Expenses	165,733,226	207,930,042
Insurance Charges	123,229,273	130,966,546
Repair & Maintenance	106,921,900	107,186,880
Banking Promotion	42,487,864	47,408,479
Audit Fees and Expenses	2,627,061	2,664,050
Assets Written Off	389,034	621,613
Utilities Expenses	47,434,221	45,774,789
Postal and Communication Expenses	19,265,217	18,040,274
House Rent	41,510,635	12,577,168
Training Seminar and Membership	49,520,489	46,632,459
Expenses on Miscellaneous Assets	9,013,356	6,092,333
Consumable Expenses	23,872,678	22,465,783
Books and Periodicals	8,521,620	7,987,874
Finance Cost under NFRS on GON Bonds	16,869,242	-
Miscellaneous Expenses	134,142,164	136,799,854
Total	1,987,862,698	1,761,414,660

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5. Significant Disclosures

5.1. Gold and Silver

The bank has been holding gold and silver for reserve purpose as well as for minting purpose. The gold and silver held for reserve purpose, being the financial assets, has been measured at fair value and the gold and silver held for minting purpose, being the inventories of the bank, has been measured at lower of cost or net realizable value.

The gold and silver measured at fair value along with its quantity is as follows:

Particulars	As on 31st Asar 2077		As on 31st Asar 2076	
	Weight (Kg, Gm, Mg)	Total FairValue (NRs.)	Weight (Kg, Gm, Mg)	Total FairValue (NRs.)
Investment in Paper Gold	5,863.058993	44,996,868,751	5,863.058993	31,837,001,290
Gold held in Stock	1,953.662100	15,543,335,668	1,953.662100	10,753,933,029
Silver held in Stock	121,522.860782	10,469,194,456	122,466.722182	7,611,306,784
Total		71,009,398,875		50,202,241,103

Fair value for gold and silver was based on the closing rate prevailing in London Market and Nepal Gold & Silver Dealer's Association respectively. For gold physically held with the bank, the rate for Fine Gold (9999) has been considered for the purpose of fair value. During last year, the rate for Tejabi Gold had been considered for the valuation of gold physically held with the bank. The fair value of the gold in stock amounts to Rs. 15,470,073,339 applying the rate of Tejabi Gold.

Minting Division of the bank has held gold and silver for minting purpose and is treated as inventories kept for further processing/minting. The inventories are measured at lower of cost or net realizable value. The gold and silver held by the bank as inventories is as follows:

Particulars	As on 31st Asar 2077		As on 31st Asar 2076	
	Weight (Kg, Gm, Mg)	Value (NRs.)	Weight (Kg, Gm, Mg)	Value (NRs.)
Gold held in Stock	649.81192	1,985,480,673	592.963420	1,789,665,516
Silver held in Stock	3,211.31155	60,581,245	3259.507650	64,295,747
Total		2,046,061,918		1,853,961,263

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5.2. Year-end Exchange Rates

The year-end exchange rates of Nepalese Rupees for major currencies used for reinstating the balances of foreign currency assets and liabilities were as per below.

S.N.	Currency	Current Year	Previous Year
1	US Dollar	120.37	109.36
2	UK Pound Sterling	150.69	137.25
3	Euro	136.81	123.34
4	Swiss Franc	128.10	111.39
5	Australian Dollar	83.68	76.89
6	Canadian Dollar	88.35	83.92
7	Singapore Dollar	86.38	80.65
8	Japanese Yen	1.121	1.014
9	Chinese Yuan	17.15	15.91
10	Saudi Arabian Riyal	32.09	29.16
11	Qatari Riyal	33.06	30.04
12	Thai Baht	3.81	3.54
13	UAE Dirham	32.77	29.77
14	Malaysian Ringgit	28.18	26.62
15	South Korean Won	0.0998	0.0927
16	Swedish Kroner	13.16	11.68
17	Danish Kroner	18.38	16.52
18	Hong Kong Dollar	15.53	13.97
19	Kuwait Dinar	391.33	359.34
20	Bahrain Dinar	319.25	290.09
21	SDR	164.4497	153.7198
22	Indian Rupees	1.60	1.60

5.3. Related Parties and Transactions with them

5.3.1. Key Management Personnel

The key management personnel are those persons having authority and responsibility of planning, directing and controlling the activities of the entity, directly or indirectly including any director. The key management of the Bank includes members of its Board of Directors and Special Class Officers (Executive Directors). The name of the key management personnel who were holding various positions in the office during the year were as follows:

S.N	Name	Post	Date	Remarks
1	Mr. Maha Prasad Adhikari	Governor	2076.12.24	
2	Dr. Chiranjibi Nepal	Governor	2071.12.08	retired w.e.f. 2076.12.05
3	Mr. Sishir Kumar Dhungana	Finance Secretary	2076.11.01	
4	Dr. Rajan Khanal	Finance Secretary	2074.12.26	retired w.e.f. 2076.10.22
5	Mr. Chinta Mani Siwakoti	Deputy Governor	2072.11.19	retired w.e.f. 2077.11.19
6	Mr. Shiba Raj Shrestha	Deputy Governor	2072.11.19	retired w.e.f. 2077.11.19
7	Dr. Sri Ram Poudyal	Board Member	2074.01.03	
8	Mr. Ramjee Regmi	Board Member	2074.01.03	
9	CA. Dr. Suvod Kumar Karn	Board Member	2075.01.11	

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10	Mr. Laxmi Prapanna Niroula	Executive Director	2071.05.15	retired w.e.f. 2076.10.08
11	Mr. Maheshwor Lal Shrestha	Executive Director	2072.07.16	retired w.e.f. 2076.10.08
12	Mr. Bhuban Kadel	Executive Director	2072.12.03	
13	Dr. Nephil Matangi Maskay	Executive Director	2073.01.12	
14	Dr. Neelam Dhungana Timsina	Executive Director	2074.02.14	
15	Mr. Dev Kumar Dhakal	Executive Director	2074.12.14	
16	Mr. Mukunda Kumar Chhetri	Executive Director	2074.12.14	
17	Mr. Pitambar Bhandari	Executive Director	2074.12.14	
18	Mr. Sunil Udash	Executive Director	2075.02.14	retired w.e.f. 2076.09.21
19	Mr. Rishikesh Bhatta	Executive Director	2075.05.12	
20	Mr. Pradeep Raj Poudyal	Executive Director	2075.06.18	
21	Mr. Gunakar Bhatta	Executive Director	2075.07.06	
22	Mr. Naresh Shakya	Executive Director	2076.02.31	
23	Mr. Suman Kumar Adhikari	Executive Director	2076.03.11	
24	Mr. Prakash Kumar Shrestha	Executive Director	2076.03.11	
25	Ms. Sarita Bhatta (Adhikari)	Executive Director	2076.03.11	retired w.e.f. 2076.09.21
26	Mr. Bam Bahadur Mishra	Executive Director	2076.04.23	
27	Mr. Revati Prasad Nepal	Executive Director	2076.10.13	
28	Mr. Ramu Poudel	Executive Director	2077.01.12	
29	Mr. Vishrut Thapa	Executive Director	2077.01.12	
30	Mr. Ram Bahadur Manandhar	Executive Director	2077.01.12	

Dr. Neelam Dhungana Timsina and Mr. Bam Bahadur Mishra have been appointed as Deputy Governors with effective from 2077/11/26.

The transactions, if any, with director-related or key management personnel – related entities occurred in the normal course of NRB's operations were conducted as arm's length transactions.

i. *Transactions with Key Management Personnel*

In addition to salaries, non- cash benefits (Vehicle Facility, Accommodation Facility to governor) were provided to special class officers and the executive Board members. All special class officers and three of the Board members (Governor and Deputy Governors) were entitled to termination benefits. The data relating to total compensation paid to key management personnel were as follows:

Particulars	Current Year (NRs.)	Previous Year (NRs.)
Short term employee benefits	80,895,741	75,933,312
Post-employment and other long term benefit benefits	36,676,251	96,671,018
Total	117,571,992	172,604,330

Other transactions with the Key Management Personnel and the status of year end balances with them were as per below.

Particulars	Current Year(NRs.)	Previous Year(NRs.)
Meeting Fees/ Incidental Expenses to Directors	10,387,750	8,925,042
Loan Facilities	109,167,092	73,984,100

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ii. *Salary, Benefits and Other Facilities of Board Members*

Board Members are entitled for meeting allowance of NRs.5,000.00 per meeting. In addition, non-executive board members are entitled for fuel, vehicle repair, telephone, newspaper, internet, driver facility, and medicine & facilities. Details of such salary, benefits and other facilities provided to executive as well as non-executive board members for FY 2076/77 are provided below:

Name	Post	Salary	Board Meeting Allowances	Other Allowances & Facilities
Mr. Maha Prasad Adhikari	Governor	375,713	68,000	1,130,854
Dr. Chiranjibi Nepal	Governor (Retired)	944,706	208,250	2,273,008
Mr. Sishir Kumar Dhungana	Finance Secretary/Board Member	-	85,000	120,000
Dr. Rajan Khanal	Finance Secretary/Board Member (Retired)	-	140,250	161,600
Mr. Chinta Mani Siwakoti	Deputy Governor	1,245,600	242,250	3,229,714
Mr. Shiba Raj Shrestha	Deputy Governor	1,245,600	178,500	3,197,618
Dr. Sri Ram Poudyal	Board Member	-	280,500	786,720
Mr. Ramjee Regmi	Board Member	-	272,000	450,720
CA.Dr. Suvod Kumar Karn	Board Member	-	221,000	786,720
	Total	3,811,619	1,695,750	12,136,954

5.3.2. Government of Nepal

The bank, being the Central Bank of Nepal, was incorporated under Nepal Rastra Bank Act, 2012 and the Government of Nepal (GON) is the controlling body of the bank holding 100% of its capital.

i. *Transactions with Government of Nepal*

The transaction with GON and the status of year end balances with GON is as follows:

Particulars	Current Year(NRs.)	Previous Year(NRs.)
Transactions during the year		
Commission Income received from GON	134,443,980	101,568,156
Payment made to GON from surplus (As per Financial Statement of Previous Year)	9,009,660,010	9,000,000,000
Adjustment of Interest Receivable from Surplus Payable to Government	1,010,339,989	-
Advance payment to GON	-	2,000,000,000
Balances at the year end		
Deposit from GON	142,340,191,367	95,605,371,467
Interest Receivable from GON	-	1,010,339,989
Advance payment to GON	-	2,000,000,000
Investment in Treasury Bills (GON)	21,226,657,174	18,431,422,742
Investment in Bonds (GON)	456,533,810	225,339,574
Investment in Saving Certificates (GON)	45,472,622,672	46,799,852,672

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ii. *Government of Nepal Treasury Position*

Balance of Government of Nepal as of 31st Asar 2077 as per the records of the bank was a surplus balance of NRs.142,340,191,367(P.Y. NRs. 95,605,371,467). The balance is yet to be confirmed by Comptroller General's office of GON. However, based on past experience management believes that difference if any, between records of the bank and Comptroller General's office shall be insignificant and will not have material impact on financial position..

5.4. **Inter-Office Transactions**

The balance of inter-office transactions under reconciliation is NRs.6,972,436 (PY NRs. 6,972,436) which is presented as general account under the accounts head “Other liabilities”.

5.5. **Assets Received in Grant**

The various assets received as grant under the Financial Sector Restructuring Project (phase I and II) was valued at NRs. 11,585,586,out of which there was a written down balance of NRs. 123 (PY NRs.123) at the year end. During the year, no grant assets were received.

5.6. **Financial Instruments**

Financial Risk Management–Overview

Risk Management Framework

The Bank's Board of Directors has the overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Board of Directors has formed the Risk Management Committee, which is responsible for developing and monitoring the Bank's risk management policies. The committee reports regularly to the Board of Directors about its activities.

The Bank's risk management policies are established to identify and analyze the risk faced by the Bank, set appropriate risk limits and control, and monitor risks and adherence to the limit. Risk management policies and systems are reviewed regularly to reflect the changes in market conditions and the Bank's activities. The Bank through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Bank's Audit Committee oversees how the management monitors compliance with the Bank's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in its oversight role by Internal Audit Department. Internal Audit Department undertakes both regular and ad hoc review of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Bank has exposure to the following risk arising from financial instruments

- A. Credit Risk
- B. Liquidity Risk
- C. Market Risk

5.6.1. **Credit Risk**

Credit Risk is risk of financial loss to a party if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Bank's credit risk in relation to a financial instrument is the risk that its customer or counter party fails to discharge its obligation in accordance with agreed terms and cause the Bank to incur a financial loss. The Bank's credit risk arises principally from the Bank's investment securities and receivable from customers. The credit risk in the bank's foreign exchange reserve is monitored and reviewed by using credit limits based on credit ratings by international rating agency.

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5.6.1.1. Exposure to Credit Risk

The maximum exposure to credit risk at the year end was as follows:

a) By Nature of Assets

Particulars	As on 31-3-2077	As on 31-3-2076
Cash Equivalents	1,014,134,269,546	736,487,042,343
Loans and Advances to Bank and Financial Institutions	7,487,473,703	22,894,754,410
Loans and Advances to Others	11,546,177,634	15,049,976,973
Gold and Silver	71,009,398,875	50,202,241,103
Investment Securities	251,330,069,810	223,127,793,160
Other Assets	1,651,756,294	1,484,988,126
TOTAL ASSETS	1,357,159,145,862	1,049,246,796,115

b) By Geographical Region

Particulars	As on 31-3-2077	As on 31-3-2076
India	297,317,957,049	223,315,857,841
USA	88,368,411,608	124,290,297,087
Germany	220,397,735	273,481,782
Switzerland	119,394,797,711	33,224,194,558
United Kingdom	20,388,489,506	13,543,713,120
France	22,540,225,535	26,218,785,493
Japan	1,940,657,751	1,621,926,459
Netherland	-	-
Bahrain	130,902,466,437	106,558,898,611
Australia	-	-
Singapore	244,176,237,510	141,548,748,897
Canada	128,657,511	9,366,587
Belgium	-	-
Hong Kong	147,455,439,898	117,862,358,254
U.A.E	43,379,185,339	26,114,927,068
China	70,367,257,457	59,504,974,363
Iran	-	-
Bangladesh	12,673,516,560	17,107,436,144
Thailand	-	-
Nepal	157,905,448,255	158,051,829,851
Total	1,357,159,145,862	1,049,246,796,115

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c) By Nature of the Entity

Particulars	As on 31-3-2077	As on 31-3-2076
Central Banks	45,645,338,211	44,674,832,075
Bank for International Settlement	60,458,945,764	6,156,486,180
Foreign Government	396,028,181,479	355,404,957,553
International Monetary Fund	412,972,270	354,810,632
Foreign Commercial Banks	757,163,931,982	529,526,727,770
Domestic Banks and FIs	12,278,328,009	26,619,767,601
Government of Nepal	67,155,813,656	67,456,614,988
Equity Instruments	4,817,700,562	4,517,634,218
Other Parties	13,197,933,928	14,534,965,098
Total	1,357,159,145,862	1,049,246,796,115

d) By Credit Rating

Particulars	Rating	As on 31-3-2077		As on 31-3-2076	
		Amount (NRs.)	%	Amount (NRs.)	%
<u>Foreign Currency</u> Financial Assets					
	AAA	50,939,273,547	3.75	20,870,199,866	1.99
	AA+	-	-	-	-
	AA-	18,055,500,000	1.33	33,722,888,590	3.21
	AA	-	-	-	-
	A+	53,865,342,650	3.97	35,783,286,448	3.41
	A	263,956,638,353	19.45	130,172,053,135	12.41
	A-	7,996,578,400	0.59	-	-
	BBB+	-	-	35,651,905,966	3.40
	BBB-	192,625,596,437	14.20	167,800,498,611	15.99
	Other*	672,270,440,320	49.55	512,116,981,594	48.81
Total		1,259,709,369,707	92.84	936,117,814,210	89.22
<u>Local Currency</u> Financial Assets	Other**	97,449,776,155	7.16	113,128,981,905	10.78
Total Financial Assets		1,357,159,145,862	100.00	1,049,246,796,115	100.00

All of the above ratings are as per S&P.

*/**Rating not available or rating not required as per NRB's Investment Policy

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5.6.1.2. Impairment Losses

The Bank recognizes the impairment of financial assets in case there is objective evidence that the assets have been impaired. Impairment of an individual asset is tested at the end of each reporting period and the movement in the allowances for impairment of financial assets during the year is as follows:

Particulars	Allowances for Diminution in Value of Equity Investment	Allowances for Doubtful Investment in Fixed Deposit	Allowances for Doubtful Refinance/Loan	Allowances for Doubtful Receivables
Balance as on 32nd Asar 2075	7,500,000	253,760,000	10,000,000	2,335,832
Impairment Loss Recognized	-	-	-	-
Amount Written Off	-	-	-	-
Reversal of Impairment Loss	-	-	-	-
Balance as on 31st Asar 2076	7,500,000	253,760,000	10,000,000	2,335,832
Impairment Loss Recognized	-	-	-	1,843,922
Amount Written Off	-	-	-	-
Reversal of Impairment Loss	-	-	10,000,000	-
Balance as on 31st Asar 2077	7,500,000	253,760,000	-	4,179,754

The Bank believes that the un-impaired amounts that are past due by more than 30 days are still recoverable in full. The un-impaired past dues amount includes some loans provided to employees and other receivables.

i. Impairment for equity instruments

The investments of the bank in the following entities have been impaired and impairment loss has been provided for:

Name of Entity	As on 31-03-2077			As on 31-03-2076		
	Amount of Equity investment	Impairment Amount	Net Assets	Amount of Equity investment	Impairment Amount	Net Assets
Agricultural Project Services Centre	5,000,000	5,000,000	-	5,000,000	5,000,000	-
National Productivity and Eco. Dev.	2,500,000	2,500,000	-	2,500,000	2,500,000	-
Total	7,500,000	7,500,000	-	7,500,000	7,500,000	-

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ii. Impairment for investment in fixed deposit

Detail relating to impaired investment in fixed deposit is as under:

Name of Entity	As on 31-03-2077			As on 31-03-2076		
	Amount of Fixed Deposit	Impairment Amount	Net Assets	Amount of Fixed Deposit	Impairment Amount	Net Assets
Capital Merchant Banking and Finance Ltd.	188,360,000	188,360,000	-	188,360,000	188,360,000	-
Crystal Finance Ltd.	23,800,000	23,800,000	-	23,800,000	23,800,000	-
Himalaya Finance Ltd.	41,600,000	41,600,000	-	41,600,000	41,600,000	-
Total	253,760,000	253,760,000	-	253,760,000	253,760,000	-

The above institutions have been declared problematic by the bank and the outstanding amount is overdue since long. We have been corresponding on regular basis for repayment of such amount along with interest accrued.

iii. Impairment for Refinance/Loans

The bank had provided loans at subsidized rate to Sudur Pachimanchal Grameen Bikas Bank (currently merged to Grameen Bikas Laghubitta Bittiya Sanstha Ltd.) and the loan has been settled during the current fiscal year. Hence the provision for the impairment loss has been reversed.

Name of Entity	As on 31-03-2077			As on 31-03-2076		
	Amount of Loan	Impairment Amount	Net Assets	Amount of Loan	Impairment Amount	Net Assets
Grameen Bikas Laghubitta Bittiya Sanstha Ltd.	-	-	-	10,000,000	10,000,000	-
Total	-	-	-	10,000,000	10,000,000	-

iv. Impairment for Receivables

Impairment for receivables includes impairment of NRs.4,179,754 (P.Y. NRs.2,335,832) in respect to advances to staffs who have already left the bank.

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5.6.1.3. Credit Quality

The credit quality of counterparty of the financial assets is assessed based on credit policy (Investment Directives) formed by the Board of Directors. Investment is made in the foreign counterparty whose credit rating is within the acceptable standard. In case of domestic investment, investment is made in the counterparty who meets the minimum standard level set by the credit policy. An analysis of credit quality of financial assets not impaired is as follows:

Counterparties	As on 31-3-2077	As on 31-3-2076
External Credit Rating at least AAA/BBB- from credit rating agency	145,765,409,696	23,921,042,988
Non Rated Counterparties	611,398,522,286	505,605,684,782
Central Banks	45,645,338,211	44,674,832,075
Bank for International Settlement	60,458,945,764	6,156,486,180
Foreign Government	396,028,181,479	355,404,957,553
International Monetary Fund	412,972,270	354,810,632
Government of Nepal	67,155,813,656	67,456,614,988
Financial Assets with Other Counterparties:	30,293,962,498	44,189,683,178
- Party with Normal Risk	30,028,522,744	45,398,771,086
- Party with High Risk	265,439,754	273,595,832
Total	1,357,159,145,861	1,049,246,796,115

5.6.2. Liquidity Risk

Liquidity Risk is the risk that the Bank will encounter difficulty in meeting the obligation associated with the financial liabilities that are settled by delivering cash or other financial assets. The Bank's approach to managing liquidity risk is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, provide finance to maintain liquidity in financial market and provide for foreign exchange to finance import of the country under both the normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank reputation. In order to control liquidity risk, the bank has maintained sufficient balance in the current account with other central banks, demand and call deposit with foreign banks and investment in highly liquid securities. The Bank maintains cash and cash equivalents and other highly marketable securities in excess of expected cash flows on financial liabilities and other obligation.

Further, the bank has credit arrangement for Rapid Credit Facilities (RCF) and Extended Credit Facilities (ECF) provided by International Monetary Fund in case of stressed condition like deficit of Balance of Payment of the country. The Government of Nepal provides credit facility to the Bank in case of financial crisis.

5.6.2.1. Assets Held for Managing Liquidity Risk

The Bank holds a diversified portfolio of cash, balances with foreign banks and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with foreign banks in the form of demand and call deposit
- Balance with foreign central banks and banks for international settlement
- Investment in Government of Nepal and foreign Governments' bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- A secondary source of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

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5.6.2.2. Maturity Profile of Financial Assets

The followings are the remaining contractual maturities and other forms of financial assets at the end of the reporting period:

Current Year Figures (NRs.)

Particulars	Contractual and Other Cash Flows					
	Carrying Amount	upto 1 month	1-3 months	3-12 months	1 -3 Year	More than 3 Year
Cash Equivalents	1,014,134,269,546	84,297,663,199	929,836,606,347			
Loans and Advances to Bank and Financial Institutions	7,487,473,703			7,487,473,703		
Loans and Advances to Others						
Receivable from GON against payment to IMF						
Advance Payment to GON						
Balance with ACU						
Net Loans to Employees	3,377,532,841	105,041,271	199,274,438	405,303,941	472,854,598	2,195,058,594
Interest Receivable	3,973,764,195	476,851,703	635,802,271	2,861,110,220		
Advance to Staff	7,391,072	739,107	1,108,661	4,952,018	369,554	221,732
Sundry Debtors	24,869,837		14,921,902	7,460,951	2,486,984	
Prepaid Expenses	85,068,861	1,020,826	4,253,443	79,794,592		
Pension Advance Account	2,840,427,929	36,925,563	56,808,559	170,425,676	247,117,230	2,329,150,902
Staff Endowment Policy Advance	10,203,108					10,203,108
Other						
Investment Securities						
US Government Treasury Notes/Bonds	30,059,869,390			12,040,331,312	18,019,538,078	
Government Treasury Notes/Bonds (CNY)	70,378,126,202	6,827,706,379	6,750,870,263	2,177,703,572	54,621,845,989	
Investment in Mid-term Instruments						
Notice Deposit (JPY)						
Government Bond (GON)	456,533,810				456,533,810	
Fixed deposit with Bank	4,770,640,000	271,900,000	2,979,800,000	1,518,940,000		

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&Financial Institutions						
Government Treasury Bills (GON)	21,226,657,174	9,330,750	5,712,482,518	15,504,843,906		
Saving Certificates (GON)	45,472,622,672		77,540,000	1,324,472,106	36,963,698,382	7,106,912,183
Loan to Sana Kisan Bikas Laghubitta Bittiya Sanstha Ltd.	297,000,000					297,000,000
Quoted equity securities	2,731,383,998					2,731,383,998
Unquoted equity securities	2,086,316,564					2,086,316,564
Other Assets	1,651,756,294					1,651,756,294
Total	1,211,071,907,197	92,027,178,798	946,269,468,402	43,582,811,998	110,784,444,624	18,408,003,375

Previous Year Figures (NRs.)

Particulars	Contractual and Other Cash Flows					
	Carrying Amount	upto 1 month	1-3 months	3-12 months	1 -3 Year	More than 3 Year
Cash Equivalents	736,487,042,343	80,626,538,764	655,860,503,579			
Loans and Advances to Bank and Financial Institutions	22,894,754,410			22,894,754,410		
Loans and Advances to Others						
Receivable from GON against payment to IMF						
Advance Payment to GON	2,000,000,000	2,000,000,000				
Balance with ACU						
Net Loans to Employees	3,438,899,076	106,949,761	202,895,045	412,667,889	481,445,871	2,234,940,510
Interest Receivable	5,836,052,291	700,326,275	933,768,367	4,201,957,649		
Advance to Staff	8,427,189	842,719	1,264,078	5,646,216	421,359	252,816
Sundry Debtors	39,931,695		23,959,017	11,979,508	3,993,169	
Prepaid Expenses	83,371,873	1,000,462	4,168,594	78,202,816		
Pension Advance Account	2,684,059,189	34,892,769	53,681,184	161,043,551	233,513,149	2,200,928,535
Staff Endowment Policy Advance	10,401,500					10,401,500
Other						
Investment						

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Securities						
US Government Treasury Notes/Bonds	65,589,931,430			96,633,241	10,913,426,674	54,579,871,515
Government Treasury Notes/Bonds (CNY)	59,059,765,279	2,207,725,376	7,072,278,516	22,410,419,378	27,369,342,009	
Investment in Mid-term Instruments	2,730,109,799			29,708,278	2,700,401,521	
Notice Deposit (JPY)						
Government Bond (GON)	225,339,574				225,339,574	
Fixed deposit with Bank & Financial Institutions	3,711,072,000	21,200,000	819,900,000	2,869,972,000		
Government Treasury Bills (GON)	18,431,422,742	9,330,750	5,712,482,518	12,709,609,474		
Saving Certificates (GON)	46,799,852,672		77,540,000	1,324,472,106	36,963,698,382	8,434,142,184
Investment in Rural Self Reliance Fund	253,400,000					253,400,000
Quoted equity securities	1,926,257,844					1,926,257,844
Unquoted equity securities	2,337,976,374					2,337,976,374
Other Assets	1,484,988,126					1,484,988,126
Total	976,033,055,405	85,708,806,877	670,762,440,898	67,207,066,519	78,891,581,709	73,463,159,403

5.6.2.3. Maturity Profile of Financial Liabilities

The followings are the remaining contractual maturities and other forms of financial liabilities including estimated interest payments at the end of the reporting period:

Current Year Figures (NRs.)

Particulars	Contractual and Other Cash Flows					
	Carrying Amount	upto 1 month	1-3 months	3-12 months	1 -3 Year	More than 3 Year
Bills Payable	322,458,714	322,458,714	-		-	-
Deposits from Bank and Financial Institutions	297,852,272,797	59,570,454,559	8,306,752,738	29,785,227,280	200,189,838,220	-
Deposit from Government of Nepal	142,340,191,367	29,891,440,187	34,161,645,928	45,548,861,237	32,738,244,014	-
Deposits from	18,733,175,742	4,495,962,178	4,308,630,421	9,928,583,143		

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Others						-	-
Short Term Borrowings	-	-	-	-	-	-	-
IMF Related Liabilities	20,904,127,242	-	-	889,298		20,903,237,944	
Staff Liabilities	2,822,409,141	1,283,494,507	141,120,457	833,312,349	283,240,914	282,240,914	
Other Liabilities	1,022,534,726		1,022,534,726				-
Total	483,997,169,729	95,563,810,145	47,940,684,270	86,096,873,307	233,210,323,149	21,185,478,858	

Previous Year Figures (NRs.)

Particulars	Contractual and Other Cash Flows					
	Carrying Amount	upto 1 month	1-3 months	3-12 months	1 -3 Year	More than 3 Year
Bills Payable	221,828,105	221,828,105	-		-	-
Deposits from Bank and Financial Institutions	185,385,094,042	37,077,018,808	10,075,679,634	18,538,509,404	119,693,886,195	-
Deposit from Government of Nepal	95,605,371,467	20,077,128,008	22,945,289,152	30,593,718,869	21,989,235,437	-
Deposits from Others	21,252,588,038	5,100,621,129	4,888,095,249	11,263,871,660	-	-
Short Term Borrowings	-	-	-		-	-
IMF Related Liabilities	20,789,695,685	-	-	878,742		20,788,816,943
Staff Liabilities	1,881,103,006	1,147,957,220	94,055,150	262,870,035	188,110,301	188,110,301
Other Liabilities	985,889,606		985,889,606		-	-
Total	326,121,569,949	63,624,553,270	38,989,008,791	60,659,848,711	141,871,231,933	20,976,927,244

5.6.3. Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices and other assets prices may affect the Bank's income or the value of its holding of financial instruments. Market risk arises from open position in interest rates, currency and equity products all of which are exposed to general and specific market movement and changes in the level of volatility of the market rates or interest rates, foreign exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposure within the acceptable parameters, while optimizing the return.

5.6.3.1. Currency Risk:

Currency risk is the risk, where the value of financial instruments may fluctuate due to changes in foreign exchange rates. Foreign currency activities result mainly from the Bank's holding of foreign currency assets under its foreign exchange reserves management function. The investment committee reviews the currency composition of the reserve and monitors the Bank's compliance with the limits established for foreign currency positions by the board. The major holding of foreign currency assets are denominated in USD, CNY, AUD, GBP, EURO and INR.

The summary quantitative data about the Bank's exposure to currency risk at the reporting period was as follows:

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Current Year Figures (NRs.)

Particulars	USD	AUD	EUR	GBP	CNY	CAD	SDR	JPY
	55.73	2.70	0.66	0.73	13.11	0.74	0.03	0.38
Cash and Cash Equivalents	572,820,709,003	34,980,132,229	8,517,140,643	9,423,523,383	98,256,243,775	9,535,491,490	412,972,270	4,928,345,148
Loans and Advances to Bank and Financial Institutions								
Loans and Advances to Others	1,168,609,144	26,769,204		4,235,834	1,422,418,147	4,039,021		
Gold and Silver	44,996,868,751							
Investment Securities	104,207,789,390	-			70,378,126,202			-
Other Assets								
Total Financial Assets	723,193,976,288	35,006,901,433	8,517,140,643	9,427,759,217	170,056,788,124	9,539,530,511	412,972,270	4,928,345,148
Bills Payable	1,565							
Deposits from Bank and Financial Institutions	1,833,158,073	25,570,253	5,817,025,467	202,975,758	-	-	-	385,986,286
Deposit from Government of Nepal								
Deposits from Others	297,767,006							
Short Term Borrowings								
IMF Related Liabilities							11,198,956,855	
Staff Liabilities								
Other Liabilities								
Total Financial Liabilities	2,130,926,644	25,570,253	5,817,025,467	202,975,758	0	0	11,198,956,855	385,986,286
Net Financial Position Exposure	721,063,049,644	34,981,331,180	2,700,115,176	9,224,783,460	170,056,788,124	9,539,530,511	-10,785,984,585	4,542,358,862

Previous Year Figures (NRs.)

Particulars	USD	AUD	EUR	GBP	CNY	CAD	SDR	JPY
	57.04	3.31	0.16	0.79	11.00	0.92	0.04	0.39
Cash and Cash Equivalents	418,738,361,457	31,407,074,745	1,546,487,266	7,494,640,081	44,491,710,996	8,779,486,700	354,810,632	3,732,526,679
Loans and Advances to Bank and Financial Institutions								

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Loans and Advances to Others	1,842,824,495	45,840,435		6,320,474	1,093,520,762	16,739,419		
Gold and Silver	31,837,001,290							
Investment Securities	90,382,706,675	-			59,059,765,279			-
Other Assets								
Total Financial Assets	542,800,893,918	31,452,915,180	1,546,487,266	7,500,960,555	104,644,997,037	8,796,226,120	354,810,632	3,732,526,679
Bills Payable	1,422							
Deposits from Bank and Financial Institutions	1,474,772,184	22,992,813	8,084,995,066	212,943,860	-	-	-	253,690,833
Deposit from Government of Nepal								
Deposits from Others	302,335,404							
Short Term Borrowings								
IMF Related Liabilities							11,345,073,518	
Staff Liabilities								
Other Liabilities								
Total Financial Liabilities	1,777,109,009	22,992,813	8,084,995,066	212,943,860	0	0	11,345,073,518	253,690,833
Net Financial Position Exposure	541,023,784,908	31,429,922,366	-6,538,507,800	7,288,016,695	104,644,997,037	8,796,226,120	-10,990,262,886	3,478,835,846

Besides above currency exposures, the bank's foreign currency reserve also consists major portion of Indian currency (INR) denominated assets which stands around 23.39% (PY 24.49%) of total reserve. Since, the exchange rate of Nepalese rupee is pegged to INR the net exposure position of INR has not been presented in above table. The foreign currency reserve denominated in currencies other than stated above and INR amounted to 2.55% (PY 1.87%) of the total foreign currency reserve.

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5.6.3.2. Sensitivity Analysis of Currency Risk

A strengthening (weakening) of USD, AUD, EUR, GBP, CNY, CAD, SDR and JPY against Nepalese rupee at the end of reporting period would have affected the value of financial instruments denominated in a foreign currency and increased (decreased) in profit or loss by the amount shown below. This analysis is based on foreign exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant and ignore any impact of forecast cash flows.

	Impact on Profit or Loss			
	In case of Strengthening or Weakening of Currency by 10%			
	For the Year Ended 2077		For the Year Ended 2076	
	Strengthening	Weakening	Strengthening	Weakening
USD	72,106,304,964	-72,106,304,964	54,102,378,491	-54,102,378,491
AUD	3,498,133,118	-3,498,133,118	3,142,992,237	-3,142,992,237
EUR	270,011,518	-270,011,518	-653,850,780	653,850,780
GBP	922,478,346	-922,478,346	728,801,670	-728,801,670
CNY	17,005,678,812	-17,005,678,812	10,464,499,704	-10,464,499,704
CAD	953,953,051	-953,953,051	879,622,612	-879,622,612
SDR	-1,078,598,458	1,078,598,458	-1,099,026,289	1,099,026,289
JPY	454,235,886	-454,235,886	347,883,585	-347,883,585
Total	94,132,197,237	-94,132,197,237	67,913,301,229	-67,913,301,229

5.6.3.3. Interest Rate Risk:

Interest rate risk is the risk that the value of financial assets will fluctuate due to changes in market interest rate. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate re-pricing which is monitored daily by the Bank Treasury.

The Bank has kept substantial investments on short-term loans thereby controlling the interest rate risk to significant extent. The interest rate profile of the interest-bearing financial instruments is as below:

Particulars	Weighted Average Interest Rate %	As on 31-03-2077	As on 31-03-2076
<i>Interest Sensitive Financial Assets</i>			
Balances with Other Banks	0.38	84,277,448,893	80,612,597,573
GOI Treasury Bills	3.42	295,073,760,103	220,338,423,350
US Government Treasury Bills	0.14	18,051,609,752	16,311,683,916
Time Deposit	1.46	616,298,264,222	418,855,585,681
Investment in FIXBIS	-	-	-
IMF Related Assets: SDR Holdings	0.56	412,972,270	354,810,632
General Refinance	3	6,266,769,739	19,313,678,409

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Special/Export Refinance	-	-	866,118,842
Standing Liquidity Facility	-	-	500,000,000
Loans to Employees			
House loan Uninsured	1	475,000	1,332,864
House Repair Loan Uninsured	1	655,170,157	679,857,964
Vehicle Loan Uninsured	3	7,767,500	18,643,296
Staff Loan Uninsured 2068	1	764,793,133	574,512,694
Investment in Paper Gold	0.38	44,996,868,751	31,837,001,290
US Government Treasury Notes/Bonds	1.00	30,059,869,390	65,589,931,430
Government Treasury Notes/Bonds (CNY)	3.30	70,378,126,202	59,059,765,279
Investment in Mid-term Instruments	-	-	2,730,109,799
Notice Deposit (JPY)	-	-	-
Time Deposit	0.91	74,147,920,000	22,062,665,446
Fixed deposit with Bank & Financial Institutions	9.63	4,770,640,000	3,711,072,000
Government Treasury Bills (GON)	4.15	21,226,657,174	18,431,422,742
Saving Certificates (GON)	3.60	45,472,622,672	46,799,852,672
Total Interest Sensitive Financial Assets		1,312,861,734,958	1,008,649,065,880
<i>Interest Sensitive Financial Liabilities</i>			
IMF Related Liabilities	0.56	20,904,127,242	20,789,695,685
Short Term Borrowings	-	-	-
Total Interest Sensitive Financial Liabilities		20,904,127,242	20,789,695,685
Net Interest Sensitive Financial Position		1,291,957,607,716	987,859,370,195

5.6.3.4. Other Market Prices Risk

Equity price risk arises from investment as fair value through Other Comprehensive Income as well as investment as fair value through profit or loss. The Bank monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on individual basis. The objective for investment in equity instruments is to promote overall financial system of the country. These investments were made under the specific directives or policies of the Government of Nepal and other relevant statutes. At the end of reporting period, the Bank held equity instruments of the various 10 institutions. All the investments were measured at fair value.

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5.6.4. Classification and Fair Value of financial assets

The fair value of financial assets and liabilities together with the carrying amounts as at the year end were as follows:

Particulars	Fair Value through OCI	Amortised Cost	Cash & Cash Equivalents	Financial Liabilities	Total Carrying Amount	Fair Value
Cash & Cash Equivalents			1,052,067,118,391		1,052,067,118,391	1,052,067,118,391
Loans and Advances to Bank and Financial Institutions		7,487,473,703			7,487,473,703	7,487,473,703
Loans and Advances to Others		11,546,177,634			11,546,177,634	11,546,177,634
Gold and Silver	71,009,398,875				71,009,398,875	71,009,398,875
Investment Securities	4,817,700,562	246,512,369,248			251,330,069,810	251,330,069,810
Other Assets		1,651,756,294			1,651,756,294	1,651,756,294
Total Financial Assets	75,827,099,437	267,197,776,879	1,052,067,118,391	-	1,395,091,994,707	1,395,091,994,707
Bills Payable				322,458,714	322,458,714	322,458,714
Deposits from Bank and Financial Institutions				297,852,272,797	297,852,272,797	297,852,272,797
Deposit from Government of Nepal				142,340,191,367	142,340,191,367	142,340,191,367
Deposits from Others				18,733,175,742	18,733,175,742	18,733,175,742
Short Term Borrowings						
IMF Related Liabilities				20,904,127,242	20,904,127,242	20,904,127,242
Staff Liabilities				2,822,409,141	2,822,409,141	2,822,409,141
Other Liabilities				1,022,534,726	1,022,534,726	1,022,534,726
Total Financial Liabilities	-	-	-	483,997,169,729	483,997,169,729	483,997,169,729
Net Financial Position	75,827,099,437	267,197,776,879	1,052,067,118,391	-483,997,169,729	911,094,824,978	911,094,824,978

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5.6.5. Fair Value Hierarchy

Fair value measurements have been classified using a "fair value hierarchy" that categorizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy has three different levels and gives the highest priority to quoted (unadjusted) prices in active markets and the lowest priority to unobservable inputs. The different levels are defined as follows.

Level 1 input are quoted prices (unadjusted) in active markets for identical assets and liabilities the entity can access at the measurement date. The bank has sold one million kitta of Nepal Stock Exchange Ltd during the year at the rate of Rs 1116.25 per share. Accordingly, the remaining shares owned by the bank is valued at the same rate and it is considered under Level I hierarchy as Fair Value.

Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, quoted prices for similar assets or liabilities in active markets.

Level 3 inputs are unobservable inputs for the asset or liability.

The details showing the carrying amounts of financial assets and liabilities and segregating them to Amortized Cost and Fair Value and segregating Fair Value to Level 1 – 3 inputs are presented below:

As at 31 st Ashad 2077	Carrying Value	At Amortised Cost	Level 1	Level 2	Level 3
Financial Assets					
Financial assets carried at amortized cost					
<u>Cash Equivalents</u>	<u>1,014,134,269,546</u>				
<i>Balance with Other Banks</i>	84,297,663,199	84,297,663,199			
<i>Treasury Bills</i>	313,125,369,855	313,125,369,855			
<i>Investments</i>	412,972,270	412,972,270			
<i>Time Deposit</i>	616,298,264,222	616,298,264,222			
<i>Loans & Advances to BFIs</i>	7,487,473,703	7,487,473,703			
<u>Loans & Advances to Others</u>	<u>11,546,177,634</u>				
<i>Receivables from Government & International Agencies</i>	-	-			
<i>Loans to Sana Kisan Bikaslaghubitta Bittiya Sanstha Ltd,</i>	297,000,000				
<i>Loans to Employees</i>	3,377,532,841	3,377,532,841			
<i>Interest Receivables</i>	3,973,764,195	3,973,764,195			
<i>Other Advances</i>	3,897,880,598	3,897,880,598			

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Gold & Silver at fair value	71,009,398,875		71,009,398,875		
<u>Investment Securities</u>	<u>251,330,069,810</u>				
<i>Investment Securities at Amortized Cost</i>	246,512,369,248	246,512,369,248			
<i>At Fair Value through Other Comprehensive Income (OCI)</i>	4,817,700,562		814,850,779	2,731,383,998	1,271,465,785
Other Assets	1,651,756,294				1,651,756,294
Total Financial Assets	1,357,159,145,862	1,279,680,290,131	71,824,249,654	2,731,383,998	2,923,222,079
Financial Liabilities					
Financial liabilities carried at amortized cost:					
Bills Payable	322,458,714	322,458,714			
Deposits from Bank and Financial Institutions	297,852,272,797	297,852,272,797			
Deposit from Government of Nepal	142,340,191,367	142,340,191,367			
Deposits from Others	18,733,175,742	18,733,175,742			
Short Term Borrowings	-	-			
IMF Related Liabilities	20,904,127,242	20,904,127,242			
Staff Liabilities	2,822,409,141				2,822,409,140
Other Liabilities	1,022,534,726	1,022,534,726			
Total Financial Liabilities	483,997,169,729	481,174,760,588	-	-	2,822,409,141
As at 31st Ashad 2076	Carrying value	At Amortised Cost	Level 1	Level 2	Level 3
Financial Assets					
Financial assets carried at amortized cost					
<u>Cash Equivalents</u>	<u>736,487,042,343</u>				
<i>Balance with Other Banks</i>	80,626,538,764	80,626,538,764			
<i>Treasury Bills</i>	236,650,107,266	236,650,107,266			
<i>Investments</i>	354,810,632	354,810,632			
<i>Time Deposit</i>	418,855,585,681	418,855,585,681			
Loans & Advances to BFIs	22,894,754,410	22,894,754,410			

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<u>Loans & Advances to Others</u>	15,049,976,973				
<i>Receivables from Government & International Agencies</i>	2,000,000,000	2,000,000,000			
<i>Loans to Employees</i>	3,438,899,076	3,438,899,076			
<i>Interest Receivables</i>	5,836,052,291	5,836,052,291			
<i>Other Advances</i>	3,775,025,606	3,775,025,606			
Gold & Silver at fair value	50,202,241,103		50,202,241,103		
<u>Investment Securities</u>	<u>223,127,793,161</u>				
<i>Investment Securities at Amortized Cost</i>	218,863,558,942	218,863,558,942			
<i>At Fair Value through Other Comprehensive Income (OCI)</i>	4,264,234,218			1,926,257,845	2,337,976,374
Other Assets	1,484,988,126				1,484,988,126
Total Financial Assets	1,049,246,796,116	993,295,332,668	50,202,241,103	1,926,257,845	3,822,964,500
Financial Liabilities					
Financial liabilities carried at amortized cost:					
Bills Payable	221,828,105	221,828,105			
Deposits from Bank and Financial Institutions	185,385,094,042	185,385,094,042			
Deposit from Government of Nepal	95,605,371,467	95,605,371,467			
Deposits from Others	21,252,588,038	21,252,588,039			
Short Term Borrowings	-	-			
IMF Related Liabilities	20,789,695,685	20,789,695,685			
Staff Liabilities	1,881,103,006				1,881,103,006
Other Liabilities	985,889,606	985,889,606			
Total Financial Liabilities	326,121,569,949	324,240,466,943	-	-	1,881,103,006

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5.7. Employees Benefits - Defined Benefit Plans

The Bank currently offers three defined benefit post-employment plans to its employees, based on length of service and amount of compensation. These post-employment benefits plans are ‘Gratuity or Pension Plan’ and ‘Staff Security Plan’. A defined benefit plan is post-employment benefit plan other than a defined contribution plan. The bank's net obligation in respect of defined benefits plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in current and prior period; and the benefit is discounted to determine its present value. The bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined liability (asset). The obligation under ‘Gratuity or Pension Plan’ and ‘Staff Security Plan’ is calculated by a qualified actuary every year using projected unit credit method. The discount rate used is the yield at the reporting date on high quality Government Bond having maturity dates approximating the terms of the obligations and are denominated in the Nepalese rupee in which the benefits are expected to be paid.

The ‘Gratuity and Pension Plan’ and ‘Staff Security Plan’ are funded plan wherein the bank makes earmarked investment out of fund created for these plans. ‘Leave encashment’ is not a funded plan.

There were no plan amendments and curtailments during the reporting period.

The details of the net liabilities based on actuarial valuation of obligation for the defined benefit plans, viz., the Gratuity and Pension plan, and the Staff Security Fund are as follows:

Amount Recognized in the Statement of Financial Position

Particulars	As on 31 st Asar 2077		As on 31 st Asar 2076	
	Pension or Gratuity Plan	Staff Security Plan	Pension or Gratuity Plan	Staff Security Plan
Present Value of Obligations	19,037,326,365	1,956,932,094	18,589,350,597	1,892,985,892
Fair Value of Plan Assets/Current Balance of Provision Account	(19,432,685,089)	(1,723,117,729)	(19,170,360,000)	(2,012,800,000)
Net Liability /(Asset)	(395,358,724)	233,814,365	(581,009,403)	(119,814,108)

Changes in Fair Value of Defined Benefit Obligation

Particulars	For the Year Ended 31 st Asar 2077		For the Year Ended 31 st Asar 2076	
	Pension or Gratuity Plan	Staff Security Plan	Pension or Gratuity Plan	Staff Security Plan
Opening Obligation	18,589,350,597	1,892,985,892	18,706,253,628	2,052,586,624
Current Service Cost	286,326,903	83,155,616	304,152,427	108,557,408
Interest Cost	1,440,636,425	141,516,835	1,458,088,602	150,130,107
Actuarial Losses (Gains)	(116,197,002)	87,324,649	(918,851,859)	(66,367,669)
Losses (Gains) on Curtailments				
Benefits Paid	(1,162,790,558)	(248,050,898)	(960,292,201)	(351,920,578)
Closing Obligation	19,037,326,365	1,956,932,094	18,589,350,597	1,892,985,892

Changes in Fair Value of Plan Assets

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Particulars	For the Year Ended 31 st Asar 2077		For the Year Ended 31 st Asar 2076	
	Pension or Gratuity Plan	Staff Security Plan	Pension or Gratuity Plan	Staff Security Plan
Opening Fair Value	19,170,360,000	2,012,800,000	19,504,133,816	2,001,630,607
Investment adjustment	(581,009,403)	(233,951,219)	(1,416,321,669)	(103,783,757)
Expected Return	1,487,117,178	158,794,758	1,521,919,017	164,728,575
Actuarial Gains (Losses)	519,007,872	(158,794,758)	520,921,037	(164,728,575)
Contribution by Employer	-	192,319,846	-	466,873,728
Benefits Paid	(1,162,790,558)	(248,050,898)	(960,292,201)	(351,920,578)
Closing Fair Value	19,432,685,089	1,723,117,729	19,170,360,000	2,012,800,000

Amount Recognized in the Statement of Comprehensive Income

Particulars	For the Year Ended 31 st Asar 2077		For the Year Ended 31 st Asar 2076	
	Pension or Gratuity Plan	Staff Security Plan	Pension or Gratuity Plan	Staff Security Plan
Charged to Statement of Income	(239,846,150)	(65,877,693)	(240,322,012)	(93,958,940)
Actuarial Income/(Loss) Recognized in OCI	635,204,874	(167,936,672)	1,439,772,896	(98,360,906)
Total Employee Benefit Income /(Expense)	395,358,724	(233,814,365)	1,199,450,884	(192,319,846)

Major Categories of Plan Assets as a Percentage of Total Plans

Particulars	For the Year Ended 31 st Asar 2077		For the Year Ended 31 st Asar 2076	
	Pension or Gratuity Plan	Staff Security Plan	Pension or Gratuity Plan	Staff Security Plan
Government of Nepal Securities	0%	0%	0%	0%
High quality Corporate Bonds	0%	0%	0%	0%
Equity shares of listed Companies	0%	0%	0%	0%
Property	0%	0%	0%	0%
Fixed Deposit of Banks and FIs	100%	100%	100%	100%
Others	-	-	-	-
Total	100%	100%	100%	100%

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Principal Actuarial Assumption at the End of the Reporting Period

Particulars	For the Year Ended 31 st Asar 2077		For the Year Ended 31 st Asar 2076	
	Pension or Gratuity Plan	Staff Security Plan	Pension or Gratuity Plan	Staff Security Plan
Discount Rate	9%	9%	8%	8%
Expected Return on Plan Asset	8%	8%	8%	8%
Future Salary Increase	10%	10%	10%	10%
Future Pension Increase	6.70%	-	6.70%	-
Withdrawal Rate	0.50%	0.50%	0.50%	0.50%

The Sensitivity of the Defined Benefit Obligation to Changes in Principal Assumptions

Particulars	Change	For the Year Ended 31 st Asar 2077		For the Year Ended 31 st Asar 2076	
		Pension or Gratuity Plan	Staff Security Plan	Pension or Gratuity Plan	Staff Security Plan
Discount Rate	-1%	12.10%	11.93%	13.21%	12.15%
	+1%	-9.98%	-10.08%	-10.80%	-10.22%
Salary & Pension Increment Rate	-1%	-7.49%	-9.26%	-8.03%	-9.32%
	+1%	8.55%	10.71%	9.22%	10.80%
Mortality Rate	1 year setback	2.65%	0.09%	3.38%	0.11%
	1 year set forward	-2.63%	-0.10%	-3.35%	-0.12%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant.

5.8. Employees Benefits – Other Long Term Benefits Plan

The Bank currently offers accumulated leave as other long term benefits plan. The bank's net obligation in respect of other long term benefits plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in current and prior period; and the benefit is discounted to determine its present value. The bank determines the net interest expense (income) on the net other long term benefit liability (asset) for the period by applying discount rate used to measure the other long term benefit obligation at the beginning of the period to the net other long term benefit liability (asset). The obligation under 'Accumulated Leave' is calculated by a qualified actuary every year using projected unit credit method. The discount rate used is the yield at the reporting date on high quality Government Bond having maturity dates approximating the terms of the obligations and are denominated in the Nepalese rupee in which the benefits are expected to be paid.

'Leave encashment' is not a funded plan. Same assumptions are taken for measurement of the leave liabilities as adopted for defined benefit liabilities.

There were no plan amendments and curtailments during the reporting period. Actuarial gains/losses in other long term benefit plan are charged to Income statement.

5.9. Other Employee Benefits

- Staff Welfare: the bank provides 12% of basis salary as staff welfare fund. During the year the bank has provided 79,108,553 as staff welfare fund.

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- Staff Welfare Provident Fund: The bank provides after the approval from the board of directors up to 10% of last year profit as staff welfare provident fund to be credited into the retirement fund. Total expenses under this head amounts to Nrs. 530,265,000.
- The bank provides as staff medical fund facility one month salary. Payment to staff are made upto 15% of salary as per the eligible medical claim while rest amount is paid at the retirement. Nrs. 362,166,228 is expensed as staff medical fund.

5.10. Reserves

The Bank has maintained different reserves and funds. Some of the reserves are statutory and maintained as per the requirement of the Nepal Rastra Bank Act, 2058. Section 41 of the Act has prescribed the sequences of the appropriation of the net income. As per the section, Foreign Exchange Revaluation Gain/Loss, Gold and Silver Revaluation Gain/Loss, and Securities Revaluation Gain/Loss shall be appropriated to Foreign Exchange Equalization Reserve and respective Revaluation Reserves maintained by the Bank. The Bank shall also appropriate 10%, 5% and 5% of net income available for appropriation to General Reserve, Monetary Liability Reserve and Financial Stability Reserve respectively. In addition, an amount equal to the capital expenditure included in annual budget shall be appropriated to General Reserve and the amount decided by Board will be maintained in Net Cumulative Surplus Reserve. The purpose of these funds is specified in the Act and they shall be utilized for the said purpose. Besides these statutory funds, different other reserve and fund are maintained and an amount is annually allocated by the Board of Directors out of the each year's Net Income to that reserves and funds. Impacts resulting from other comprehensive income are directly transferred to respective reserves. The Board of Directors is authorized by Nepal Rastra Bank Act to allocate a part of Net Income to these reserves and funds. The details of statutory and other reserve and funds are as follows:

5.10.1. Statutory Reserves

a) Monetary Liability Reserve

This reserve is maintained as per section 41 (1) (kha) of the NRB Act and as per the provision of the section an amount equal to five percent of the net income available for appropriation of each year shall be allocated and kept in such reserve. This year NRs. 1,394,004,100(P.Y. NRs 1,788,500,665) was appropriated to this fund.

b) Financial Stability Reserve

This reserve is maintained as per section 41 (1) (kha) of the NRB Act and as per the provision of the section an amount equal to five percent of the net income available for appropriation of each year shall be allocated and kept in such reserve. This year NRs. 1,394,004,100 (P.Y. NRs. 1,788,500,665) was appropriated to this fund.

c) General Reserve

This reserve is maintained as per section 41 (1) (kha) of the NRB Act and as per the provision of the section, an amount prescribed by the Board not less than ten percent of the net income available for appropriation of the Bank shall be allocated in the general reserve fund established by the Bank. While allocating an amount in the general reserve, an additional amount shall be appropriated to cover the capital expenditure referred to in the annual budget of the Bank. Accordingly, NRs.8,984,388,463 (P.Y.NRs.7,371,159,330) is appropriated in General Reserve during the year.

d) Net Cumulative Surplus Fund

This reserve is maintained as per section 41 (1) (kha) of the NRB Act and as per the provision of the section, an amount as decided by the board shall be allocated and kept in such reserve. This year NRs.11,268,898(P.Y. NRs. 4,572,616) was appropriated to this fund. NRs. 555,903,731 has been transferred to the fund out of retained earning restated in previous year. This fund is introduced after the amendments in NRB Act in 2073.

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e) Exchange Equalization Fund

This fund has been maintained as per section 41 (1) (ka) of the NRB Act and as per the provision of the section the amount equal to the revaluation profit shall be kept in the revaluation reserve fund. It represents net exchange gains on various foreign currency assets and liabilities. An amount of NRs.58,927,429,280 (P.Y.revaluation loss of NRs.2,193,530,153) which is equivalent to net exchange gain was appropriated to this fund during the year.

f) Gold and Silver Equalization Reserve

This fund has also been maintained as per section 41 (1) (ka) of the NRB Act. This reserve represents the gain or loss on the revaluation of gold and silver. Any appreciation or depreciation on revaluation of gold and silver is taken to/from this reserve out of net income of the year. Accordingly, an amount of NRs.20,807,318,228 (P.Y. revaluation loss of NRs. 76,037,528) which is equivalent to net revaluation gain on revaluation of gold and silver was appropriated to this fund.

5.10.2. Other Reserve and Funds

Board of Directors of the Bank is authorized by section 41 (1)(ga) of the NRB Act to appropriate the remaining Net Income in other funds as may be necessary and pay the remaining amount to Government of Nepal. Accordingly, the Bank has maintained different reserve and fund as per Accounts Directive of the Bank and the Board of Directors appropriate some part of the net income available for distribution to these reserves and fund annually. The amount kept under these reserves and funds shall be utilized for the purpose of the reserve or fund as mentioned in the Account Directive. The following reserves/funds have been maintained:

a) Development Fund

This is the specific fund created as per Monetary Policy of the Bank to provide support for loans and refinances to banks and Financial Institutions as well as to make investment in the shares and debentures of these Institutions. The Board of Directors of the Bank annually appropriates a part of net income to this fund. Accordingly, an amount of NRs.9,120,000,000 (P.Y. NRs.11,825,000,000) has been allocated to this fund during the year.

b) Banking Development Fund

This fund was created to meet the expenses relating to banking promotion research and development work. The Board of Directors of the Bank annually appropriates a part of net income to this fund. Accordingly, an amount of NRs.450,000,000 (P.Y. NRs. 150,000,000) has been allocated to this fund during the year. Earmarked investment of this fund has been made.

c) Development Finance Project Mobilization Fund

This fund was created as a cushion to meet the probable loss on project loan. An amount equivalent to the projects' profits are appropriated and transferred to this fund. An amount equals to net income of the projects is allocated to this fund annually. Accordingly, an amount of NRs.11,810,896(P.Y.NRs.1,504,219) has been allocated to this fund during the year. Earmarked investment of this fund has been made.

d) Mechanization Fund

This fund was created to meet the amount required to develop and install modern software, hardware and allied mechanization system. An amount as required for mechanization is allocated by Board of Directors to this fund annually. Accordingly, an amount of NRs.550,000,000 (P.Y. NRs. 200,000,000) has been allocated to this fund during the year. Earmarked investment of this fund has been made.

e) Scholarship Fund

This fund was created to meet the amount required from time to time for the development of skilled manpower by way of providing training and higher studies to the employees of the Bank. No amount has been allocated to this fund during the year. Earmarked investment of this fund has been made.

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f) Mint Development Fund

This fund was created to meet the heavy capital expenditure required from time to time for construction of factory building and installation of machinery for minting activities. Accordingly, an amount of NRs.450,000,000 (P.Y. NRs.100,000,000) has been allocated to this fund during the year. Earmarked investment of this fund has been made.

g) Gold Replacement Fund

This fund has been created for replacing the gold / silver sold during the year. An amount equal to profit from sale of gold and silver is appropriated to this fund annually and the amount kept under this fund is utilized for replacement of gold. Accordingly, an amount of NRs.172,003,576(P.Y. NRs. 520,775,808) has been allocated to this fund during the year. Earmarked investment of this fund has been made.

h) Rural Self Reliance Fund (GS Kosh)

This fund was created as per the NRB Monetary Policy to provide wholesale credit for lending purpose to the deprived sector through MFIs, corporate and NGOs and refinancing in tea, cardamom plantation and production as well as construction of cold storage etc. No amount has been appropriated to this fund during the year.

i) Rural Self Reliance Fund (Administration Expense Reimbursement Fund)

This fund was created out of the surplus fund amounting Rs. 61,390,949 received while transferring the RSRF Program to Sana Kisan Bikas Laghubitta Bittyta Sanstha Ltd. The fund is utilized to provide reimbursement of the administrative expense subsidy as claimed by the cooperatives in case of the loans and advances disbursed and approved till the date of transfer of RSRF program to Sana Kisan Bikas Laghubitta Bittyta sanstha Ltd. Accordingly, administrative expense subsidy amounting to Rs. 3,726,384 has been reimbursed to Sana Kisan Bikas Laghubitta Bittyta Sanstha Ltd during the current fiscal year.

j) Actuarial Reserve

This reserve is created out of the actuarial gain in defined benefit retirement schemes recognized in Other Comprehensive Income (OCI). Any actuarial loss in defined benefit retirement schemes recognized in OCI shall be expensed through this reserve. An amount of Rs. 467,268,203 has been transferred to Actuarial Gain Reserve.

k) Fair Value Reserve

Fair Value Reserve is created for maintaining the gain of investment in equity instrument classified as Investment measured at Fair Value through Other Comprehensive Income. During the year, a gain of Rs 1,038,474,125 has been transferred to the reserve from Other Comprehensive Income. Similarly, an amount of Rs 657,398,041 which is the cumulative surplus of the investment sold during the year, has been released to retained earning from the reserve.

5.11. Prior Period Errors

The prior period errors discovered during the year relating to a reporting period that is before the earliest prior period presented were adjusted by restating the opening balance of the earliest prior period presented. In addition, additional income of NRs. 23,267,923 has been discovered during the year because of the prior period errors and has been adjusted with respective current year income/expenses.

Particulars	FY 2076-77	As on 01.04.2076	FY 2075-76	As on 01.04.2075
<u>Restatement of Earliest Prior Period Presented:</u>				
<i>Increase/(Decrease) in Deferred Employee Loan & IMF Bond issued by Govt</i>			18,979,719	1,292,886,021

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<i>Increase /(Decrease) in Property, Plant and Equipment</i>		(1994)		
Surplus/(Deficit) Due to Prior Period Errors	23,267,923			
Total Effect as at 31.03.2077			1,335,131,669	

5.12. Foreign Exchange Reserve

As per section 66 of Nepal Rastra Bank Act, 2058, the Bank shall maintain a Foreign Exchange Reserve. As per the provision of the section, such reserve shall be denominated in the respective foreign exchange and shall consists of gold and other precious metals, foreign currencies and securities denominated in foreign currency, special drawing rights, bill of exchange, promissory note, certificate of deposit, bonds, and other debt instrument payable in convertible foreign currencies etc. The Bank also maintains record of the foreign exchange reserve held by the licensed Banks and Financial Institutions. The gross foreign exchange reserve holding of the Banking System of Nepal at the end of the reporting period is as follows:

(in NRs. billion)

Particulars	Current Year	Previous Year
Foreign Exchange Reserve		
(a) Held by Nepal Rastra Bank		
Convertible Foreign Currency	922.70	668.03
Non-Convertible Foreign Currency	303.52	234.54
Gold Reserve	47.01	34.25
Special Drawing Rights	0.41	0.35
Sub Total	1273.64	937.17
(b) Held by Banks and Financial Institutions		
Convertible Foreign Currency	161.28	125.51
Non-Convertible Foreign Currency	14.43	10.96
Sub Total	175.71	136.47
Total Foreign Exchange Reserve of Banking System	1,449.36	1,073.64

Instrument wise Investment of Foreign Exchange Reserve of the Banking System in terms of percentage of total reserve are as follows:

Particulars	Current Year (in %)	Previous Year (in %)
Foreign Exchange Reserve:		
US Treasury Bills	1.25	1.52
Indian Treasury Bills	20.36	20.66
BIS FIXBIS	-	-
Bonds/Notes	6.93	11.61
Mid Term Instrument	0.00	0.25
Call Deposits	5.12	2.06
Time Deposit	48.34	46.52
Gold Deposit	3.24	3.19
Special Drawing Rights	0.03	0.03
Balance with NRB and BFIs	14.74	14.16
Total	100.00	100.00

5.13. Projects' Asset and Liability

The assets, liabilities, equity, income and expense of four projects, namely, Poverty Alleviation Project in Western Terai (PAPWT) and Third Livestock Development Project (TLDP) which were run during the

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reporting period under subsidiary loan agreements with GON or project agreements with other funding agencies were consolidated with the Bank's financial statements.. The Financial Position and Income statements of these projects are as below:

For the Year ended 31st Asar 2077

Statement of Financial Position

Particulars	PAPWT	TLDP	Total
Equity & Liabilities			
Reserve & Surplus	19,116,257	45,211,849	64,328,105
Loans	21,900,000	79,100,000	101,000,000
Accounts Payable	-	-	-
Total Equity & Liabilities	41,016,257	124,311,849	165,328,105
Assets			
Loan to PFIs	-	-	-
Investment	35,600,000	115,200,000	150,800,000
Other Receivables	323,337	917,700	1,241,037
Cash and Bank Balance	5,092,920	8,194,149	13,287,068
Total Assets	41,016,257	124,311,849	165,328,105

Statement of Comprehensive Income

Particulars	PAPWT	TLDP	Total
A. Income			
Interest Income	4,514,610	11,451,037	15,965,647
From Loan to PFIs			
On Investment	4,514,610	11,451,037	15,965,647
Foreign Exchange Gain			
Loan Loss Prov. Written back			
Other Income			
Total Income	821,250	3,333,500	4,154,750
B. Expenditure			
Administrative Expenses			
Interest Expenses	821,250	3,333,500	4,154,750
Depreciation			-
Total Expenses	821,250	3,333,500	4,154,750.00
Surplus (Deficit) (A-B)	3,693,360	8,117,537	11,810,897

For the Year ended 31st Asar 2076

Statement of Financial Position

Particulars	PAPWT	MCPW	TLDP	RISMFP	Total
Equity & Liabilities					
Reserve & Surplus	15,422,897	-	37,094,312	-	52,517,209
Loans	29,200,000	-	84,750,000	-	113,950,000
Accounts Payable	-	-	-	-	-
Total Equity & Liabilities	44,622,897	-	121,844,312	-	166,467,209
Assets					
Loan to PFIs	-	-	-	-	-
Investment	39,925,000	-	110,407,000	-	150,332,000
Other Receivables	524,305	-	1,317,072	-	1,841,377
Cash and Bank Balance	4,173,592	-	10,120,240	-	14,293,832
Total Assets	44,622,897	-	121,844,312	-	166,467,209

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Statement of Comprehensive Income

Particulars	PAPWT	MCPW	TLDP	RISMFP	Total
A. Income					
Interest Income	4,920,441	319,146	11,086,054	-	16,325,640
From Loan to PFIs					
On Investment	4,920,441	319,146	11,086,054		16,325,640
Foreign Exchange Gain				(10,160,668)	(10,160,668)
Loan Loss Prov. Written back					
Other Income					
Total Income	4,920,441	319,146	11,086,054	(10,160,668)	6,164,972
B. Expenditure					
Administrative Expenses					
Interest Expenses	1,040,250	61,003	3,559,500		4,660,753
Depreciation					-
Total Expenses	1,040,250	61,003	3,559,500		4,660,753
Surplus (Deficit) (A-B)	3,880,191	258,143	7,526,554	(10,160,668)	1,504,219

Two projects namely, Community Ground water Irrigation Sector Project (CGISP) and Gramin Kshetrama Bittiya Pahunch Karyakram (KFW) were run by the bank on behalf of the GON. The Rural Self Reliance Fund (RSRF) project, which was run by the bank on behalf of the GON has been handed over to Sana Kishan Laghubitta Sanstha during previous reporting period. Capital Contribution in case of RSRF project amounting to Rs. 253,400,000 which was shown by way of 'investment at fair value through other comprehensive income' in previous year has been converted as Loan to Sana Kisan Bikas Laghu Bitta Bittiya Sanstha Ltd along with the surplus amount of Rs. 61,390,949. The assets, liabilities, equity, income and expense of such projects were not consolidated in the accounts of the Bank. The Financial Position and Income statements of these projects are as below:

Statement of Financial Position

Particulars	As on 31st Asar 2077		As on 31st Asar 2076		
	CGISP	KFW	CGISP	RSRF	KFW
Equity					
Capital Contribution	17,548,370		17,548,370	793,400,000	
Surplus	238,922,832	103,789,348	202,675,719	173,239,439	52,577,569
Financial Risk Fund	5,200,000		5,200,000		
Long- term Liabilities					
Loan from ADB - Non-Current Portion	110,395,076		117,085,687		
Current Liabilities and Provision					
Loan from ADB - Current Portion	90,323,244		83,632,633		
Service Charge due on Loan from ADB	26,994,526		24,987,342		
Loan From GON		906,240,347			906,240,347
Loan Loss Provision	81,932		186,190	111,038,461	
Accounts Payable	328,176		328,176	30,930,143	
Total Equity & Liabilities	489,794,156	1,010,029,695	451,644,118	1,108,608,043	958,817,917
Assets					
Non-Current Assets					

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Fixed Assets	73,454		4	383,223	
Loan to PFI- Non Current Portion	1,789,374		8,193,215.00	5,762,500	
Investment	359,200,000		369,668,000	-	
Current Assets					
Interest Receivables	3,857,736	11,139,032	3,825,208.36	-	14,231,206
Loan to PFI-current portion	6,403,841	906,240,347	10,425,820.00	330,862,095	906,240,347
Cash and cash equivalents	118,469,750	92,650,315.52	59,531,870.25	771,600,225	38,346,364
Sundry Debtors					
Total Assets	489,794,156	1,010,029,695	451,644,118	1,108,608,043	958,817,917

Statement of Comprehensive Income

Particulars	As on 31st Asar 2077		As on 31st Asar 2076		
	CGISP	KFW	CGISP	RSRF	KFW
A. Income					
Interest Income	38,191,742	51,211,778	34,736,009	57,432,802	44,494,663
From Loan to PFIs	784,416	51,211,778	1,428,448	21,954,160	44,494,663
On deposit with banks	37,407,326		33,307,561	35,102,080	
On Investment				376,563	
Other Income	-		-	329,272	
Loan Loss Provision Written back	104,258		134,768	304,656	
Total Incomes	38,296,000	51,211,778	34,870,776	60,808,642	44,494,663
B. Expenditure					
Administrative Expenses	41,704	-	41,385	2,447,862	-
Provision for Service Charge	2,007,183		2,007,183		
Loan Loss Provision	-	-	-	8,030,245	-
Depreciation				135,649	
Total Expenses	2,048,887	-	2,048,569	10,613,756	-
Surplus (Deficit) (A-B)	36,247,113	51,211,778	32,822,208	50,194,886	44,494,663

5.14. Interest in other entities

The Bank has invested in quoted & unquoted equity securities of ten different entities as presented below.

5.14.1. Investment in quoted securities

Investment in quoted equity securities includes the following. The bank holds promoter shares of such entities.

Particulars	% of holding	No of Shares	Investment at cost		Investment at Fair value	
			31-03-2077	31-03-2076	31-03-2077	31-03-2076
RMDC Laghubitta Bittiya Sanstha Ltd.	-		-	21,045,000	-	105,792,675

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Citizen Investment Trust	13.34	2,188,747	13,350,000	13,350,000	2,657,138,858	1,767,041,375
Grameen Bikas Laghubitta Bittiya Sanstha Ltd.	2.7988	274,982	27,498,200	29,998,200	74,245,140	53,423,794
Total			40,848,200	64,393,200	2,731,383,998	1,926,257,844

The shares are revalued on the basis of latest trading price of promoter share of respective institution in stock market. In absence of trading of promoter share of Citizen Investment Trust & Grameen Bikas Laghu Bitta Bittiya Sanstha Ltd, ratio of share price of promoter share & public share is considered as 50%. Previous year, ratio of share price of promoter share & general share of RMDC had been considered to get fair values of other entities.

5.14.2. Investment in unquoted securities

The bank has investment in unquoted equity securities of the following entities:

Particulars	% of holding	No of Shares	Investment at cost		Investment at Fair value	
			31-03-2077	31-03-2076	31-03-2077	31-03-2076
Agricultural Project Services Centre	62.50	-	5,000,000	5,000,000	-	-
Rastriya Beema Sansthan - Life Ins.	55.56	1,005,667	1,000,000	1,000,000	1,000,000	1,000,000
Nepal Stock Exchange Ltd.	14.60	729,989.5	5,097,510	12,080,500	814,850,779	999,382,248
National Productivity and Eco. Dev.	31.52	-	2,500,000	2,500,000	-	-
Deposit & Credit Guarantee Fund	10.00	10,000,000	607,594,000	407,594,000	1,027,600,000	1,143,088,259
Nepal Clearing House	10.00	298,080	15,000,000	15,000,000	85,480,402	61,001,402
Credit Information Bureau	10.03	437,400	3,500,000	3,500,000	130,367,070	107,189,098
National Banking Institute	15.29	76,452.5	7,645,250	5,000,000	27,018,313	26,315,367
Total			647,336,760	451,674,500	2,086,316,564	2,337,976,374

Fair Value of the shares investment in unquoted equity securities has been arrived based on the latest available audited financial statements of respective entities except for Nepal Stock Exchange which is valued at the last transaction price.

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5.14.3. Significant Interest in entities

The bank has significant interest in the following entities. The details regarding interest in those entities are as under:

Name of Entity	Paid up capital	Investment at Face Value	% of share	Principal Activity	Principal Place of Business
Agricultural Project Services Centre Pvt. Ltd.	8,000,000	5,000,000	62.50	Provides services related to agricultural activity	Singhadurbar ,Kathmandu
Rastriya Beema Sansthan - Life Insurance	181,000,000	100,566,700	55.56	Life insurance service	Ramshahpath ,Kathmandu
Nepal Stock Exchange Ltd.	500,000,000	72,998,950	14.60	Impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc.	Singhadurbar plaza,Kathmandu
National Productivity and Eco.Dev Ltd.	7,932,500	2,500,000	31.52	Provides research and consultancy services, offers socio-economic, productivity, management, policy planning, and energy conservation consultancy services.	Balaju, Kathmandu

Significant interest in above four entities is because of the investment in equity instruments (promoter shares) of such entities which were made under specific directives or policies of the Government of Nepal and other relevant statutes. The bank is in the process of divestment of such investment by selling the shares the bank holds. The cost and its carrying amounts of assets recognized in the financial statements on such entities are as follows:

Particulars	Investment at cost		Carrying Amounts (Investment at Fair value)	
	31-03-2077	31-03-2076	31-03-2077	31-03-2076
Agricultural Project Services Centre	5,000,000	5,000,000	-	-
Rastriya Beema Sansthan - Life Insurance	1,000,000	1,000,000	1,000,000	1,000,000
Nepal Stock Exchange Ltd.	5,097,510	12,080,500	814,850,779	999,382,248
National Productivity and Eco. Dev.	2,500,000	2,500,000	-	-
Total	13,597,510	20,580,500	815,850,779	1,000,382,248

In the absence of audited financial statements of Agricultural Project Services Centre, Rastriya Beema Sansthan and National Productivity & Economic Development Ltd., the bank is not able to estimate the fair value of investment in such entities. Therefore, the bank has made impairment by full amount for the investment in Agricultural Project Service Centre and National Productivity & Economic Development Ltd. and is not expected for its recovery. In addition, Agricultural Project Service Centre is in the process

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of liquidation since long. In case of Rastriya Beema Sansthan, the bank has expected to recover its investment and hence the fair value is equal to its cost.

The carrying amount of NRs 2,086,316,564 (PY NRs. 2,337,976,374) as shown in above tables has been included under Investment securities in the Statement of Financial Position. Being all the above entities as limited liability Company, this is the maximum exposure to loss from its significant interest in such entities.

5.14.4. Transactions with Entities having Significant Interest

The bank has done some transactions with the entities having significant interest of the bank. Such transactions were occurred in the normal course of NRB's operations and conducted as arm's length transactions. The details of such transactions were as follows:

Entity	Nature of Transaction	FY 2076-77	FY 2075-76	Remarks
Rastriya Beema Sansthan - Life Insurance	Insurance Premium paid by the bank	181,092,147	156,517,243	
Nepal Stock Exchange Ltd.	Dividend Income received by the bank	29,199.580	-	

5.15. Transaction with the International Monetary Fund (IMF)

The Bank transacts with IMF as an agent of the Government in respect of quota where in case of Special Drawing Rights (SDRs), Loans etc. from them it transacts in its own right. The IMF revalues quota at the end of April every year and gains or losses arising from such revaluation relating to quota are borne by Government. In case of other transactions such gain/losses are borne by NRB. The Basic policies followed by the NRB on such accounts are as follows:

- Country's quota with the IMF is recorded by the Bank as depository of the Government and exchange gain/loss arising on quota are borne by Government.
- Exchange gains or losses in respect of borrowings under ECF and other facilities of the IMF, allocation of SDRs and holding of SDRs are recognized in the Income Statement.

The position of Nepal's account with the IMF account is presented as below:

Financial Position in the Fund

Particulars	As on 31 st Asar 2077		As on 31 st Asar 2076	
	Local Currency (NRs.)	SDR Equivalents	Local Currency (NRs.)	SDR Equivalents
<u>SPECIAL DRAWING RIGHT</u>				
Net cumulative allocation	11,198,956,855	68,099,599	10,468,255,853	68,099,599
Holdings	412,972,270	2,511,238	354,810,632	2,308,165
<u>OUTSTANDING PURCHASES & LOANS</u>				
RCF Loans	-	-	876,817,665	5,704,000
ECF Arrangements	-	-	-	-
<u>OTHER INFORMATION</u>	<u>Per cent of Quota</u>		<u>Per cent of Quota</u>	
Quota	100	156,900,000	100	156,900,000
Currency Holding	89.82	140,923,637	89.82	140,923,637
Reserve Tranche Position	10.19	15,982,092	10.19	15,982,092

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The SDR is converted into Nepalese rupees at conversion rate of NRs.164.4497 (P.Y. NRs. 153.719) per SDR.

5.16. Contingent Liabilities and Capital Commitments

The bank has following amounts of contingent liabilities and capital commitments.

PARTICULARS	As on Asar 31, 2077	As on Asar 31, 2076
	NRs.	NRs.
Letters of Credit	51,003,768,276	46,108,572,129
Unclaimed Account Transfer to P/L Account	135,381,177	103,130,144
Capital Commitments	1,528,921,554	2,745,630,138
Total	52,668,071,007	48,957,332,411

Contingent liabilities in respect of Letter of Credit (LC) are determined on the basis of LCs remaining unexpired at the end of the reporting period. The capital commitments include cost for the construction of the bank's Central Office Building and Banking Office Building as per the contract agreements less payments made till the end of the reporting period; which are expected to be settled over the period of the buildings' construction.

5.17. Non-cancellable Operating Leases

The bank leases various buildings under non-cancellable operating leases expiring within one to two years. The leases have varying terms, escalation clauses and renewal rights. On renewal, terms of the leases are renegotiated.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

PARTICULARS	As on Asar 31, 2077	As on Asar 31, 2076
	NRs.	NRs.
Within one year	30,786,461.61	39,622,933.44
Later than one year but not later than five years	31,782,288.53	24,637,875.57
Later than five years	24,056,813.00	-
Total	86,625,563.14	64,260,809.01

5.18. Claims against the bank

There are 95 cases filed in the court against the various decisions of the bank against which the bank is not expected to incur a significant monetary liability. However the bank may incur the loss to the extent of the salaries and benefits payable to the then 7 employees who have file the legal suit against the bank.

5.19. Number of Employees

The number of employees holding office at the year-end was 1,043 (PY 1,024).

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5.20. Presentation (Regrouping/Rearrangement)

The presentation of following line items of previous year financial statements have been changed (regrouped or rearranged) to align the financial statements as follows:

Particulars	Present Reporting	Reported Earlier	Difference
Other Assets	1,484,988,126	2,304,387	1,482,683,739
Deferred Employees Benefits	1,445,185,596	-	1,445,185,596
Deferred Bond Amortization Assets	37,498,144	-	37,498,144
Interest Income	35,960,507,325	35,770,709,606	189,797,719
Government Securities	2,894,896,096	2,903,563,002	(8,666,906)
Loans and Refinance	1,013,631,425	815,166,800	198,464,625
Net Income/(Expenditure) for the year	32,352,317,422	32,162,519,703	189,797,719
Opening Changes in Equity Adjustment as on 31 Ashad 2076	1,289,399,950	(3,486,071)	1,292,886,021
Staff Loans and Advances	1,246,720,970	-	1,246,720,970
Govt. Bonds	46,165,051	-	46,165,051

Due to error in recognizing present value of the staff loans and advances and bond, the unwinding portion of interest was charged as expenses which were corrected retrospectively as per NAS 8 on Correction of Prior Period Error. So impact has been made retrospectively as indicated.

5.21. Events after the Reporting Period

In addition to above, there was no material events occurred after the reporting period that requires adjustments or disclosure in the financial statements.