



REPORT OF FISCAL YEAR 2003/04

NEPAL RASTRA BANK

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Governor

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November 11, 2004

Honourable Deputy Prime Minister and Minister for Finance
His Majesty's Government
Ministry of Finance
Singha Durbar, Kathmandu.

Dear Sir,

I hereby submit, with this letter, the report of fiscal year 2003/04 in accordance with Clause 91 and 93 (1) of the Nepal Rastra Bank Act, 2002.

Yours faithfully,

(Tilak Bahadur Rawal)

c.c.

Secretary
His Majesty's Government
Ministry of Finance
Singha Durbar, Kathmandu

Acronyms Used

ADB	Asian Development Bank
ADB/N	Agricultural Development Bank (of Nepal)
BAFIO	Bank and Financial Institutions Ordinance
BIS	Bank for International Settlement
BOKL	Bank of Kathmandu Limited
BOP	Balance of Payments
CAD	Cash Against Document
CIB	Credit Information Bureau
CMD	Currency Management Department
CRRDBL	Central Region Rural Development Bank Limited
CSCs	Citizen Savings Certificates
DBs	Development Bonds
DFID	Department for International Development
DICGC	Deposits Insurance and Credit Guarantee Corporation
EBL	Everest Bank Limited
ERRDBL	Eastern Region Rural Development Bank Limited
GDP	Gross Domestic Product
HBL	Himalayan Bank Limited
HMG	His Majesty's Government
IAS	International Accounting Standard
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
KBL	Kumari Bank Limited
L/C	Letter of Credit
LaBL	Laxmi Bank Limited
LuBL	Lumbini Bank Limited
M ₁	Narrow Money Supply
M ₂	Broad Money Supply
MBL	Machhapuchchhre Bank Limited
MT	Metric Ton
MW	Mega Watt
n.i.e.	not included elsewhere
NaBL	Nabil Bank Limited
NBBL	Nepal Bangladesh Bank Limited
NBL	Nepal Bank Limited
NCCBL	Nepal Credit and Commerce Bank Limited
NDA	Net Domestic Assets
NEA	Nepal Electricity Authority
NEPSE	Nepal Stock Exchange
NFA	Net Foreign Assets
NGOs	Non Governmental Organizations
NICBL	Nepal Industrial and Commercial Bank Limited

NIDC	Nepal Industrial Development Corporation
NRB	Nepal Rastra Bank
NSBIBL	Nepal SBI Bank Limited
NSCs	National Savings Certificates
PRGF	Poverty Reduction and Growth Facility
RBB	Rastriya Banijya Bank
RMDC	Rural Microfinance Development Centre
RSRF	Rural Self Reliance Fund
SBs	Special Bonds
SCBNL	Standard Chartered Bank Nepal Limited
SFCB	Small Farmers' Cooperative Bank
SBL	Siddhartha Bank Limited
STI	Second Tier Institute
TBs	Treasury Bills
TT	Telegraphic Transfer
UK	The United Kingdom
US	The United States
VRS	Voluntary Retirement Scheme
WPI	Wholesale Price Index
WRRDB	Western Region Rural Development Bank

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1 Economic and Financial Situation

Overall Economic Environment

1.1 Gross domestic product (GDP) at producers' price and factor cost witnessed growth of 3.7 percent and 3.6 percent respectively in 2003/04 as a consequence of the growth of agricultural sector by 3.9 percent and that of the non-agricultural sector by 3.3 percent. The growth of the former sector was accounted for by a favourable monsoon whereas the latter's growth was a result of the surge of the sub sectors such as electricity production, trade, restaurant and hotel along with transportation and communication. Last year GDP at producers' price and factor cost had increased by 3.4 percent and 2.7 percent respectively.

1.2 Satisfactory level of production of food grains helped contain the consumer price index (CPI) below last year's level. CPI, which, on average had increased by 4.8 percent last year, increased by 4.0 percent while wholesale price index (WPI), on an annual average basis, increased by 4.1 percent.

1.3 Trade deficit widened significantly owing to the high growth rate of imports compared to that of exports whereas the growth rates of both imports and exports remained at lower levels from their positions last year. Despite the significant deficit the financial account, remarkable surplus in current account along with the high inflow of capital and other items resulted in the surplus of overall balance of payments. Rupee, which had appreciated last year by 4.3 percent with the US dollar, appreciated by 0.8 percent in the review year. As at mid-July 2004, foreign exchange reserve increased by 20.3 percent to Rs 130.2 billion compared to the level of mid-July 2003.

1.4 Narrow money supply (M_1) as well as broad money supply (M_2) increased by 12.2 percent and 12.8 percent respectively. Net foreign assets (NFA) and net domestic asset (NDA), the expansionary factors of money supply, increased by 17.5 percent and 9.4 percent respectively whereas time deposits and net non-monetary liabilities, the contractionary factors, increased by 14.0 percent and 6.5 percent respectively.

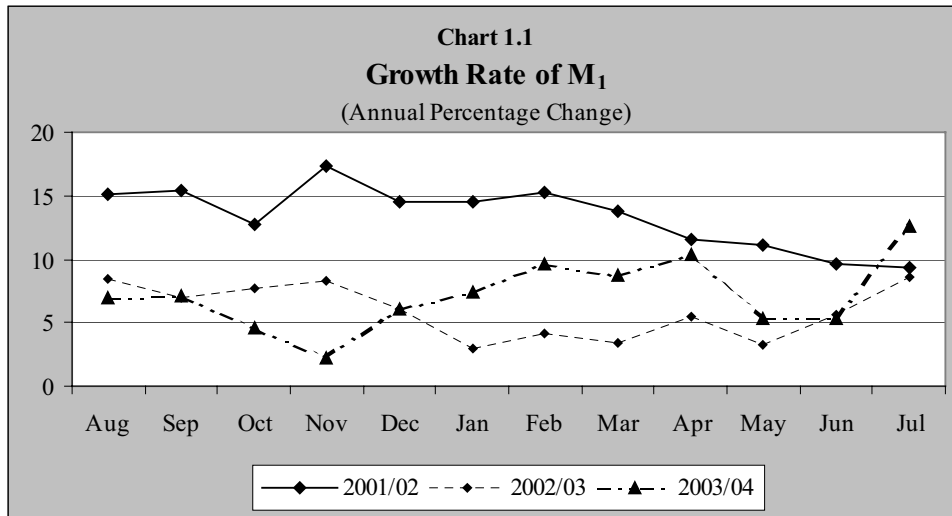
1.5 Total government expenditure, on cash flow basis, increased by 11.1 percent compared to an increase of 2.0 percent last year. Development expenditure, which had decreased by 22.3 percent last year, surged by 47.8 percent following the expansion of developmental activities. Total resource mobilization was maintained at the level of the previous year. Fiscal deficit of HMG widened by 0.2 percent compared to the level of last year.

1.6 In the share market, number of listed companies, their paid up capital and the volume of transaction all increased. The number of companies increased by 6, paid up capital by 1.0 percent and share transaction value by nearly 3 folds.

Monetary Situation

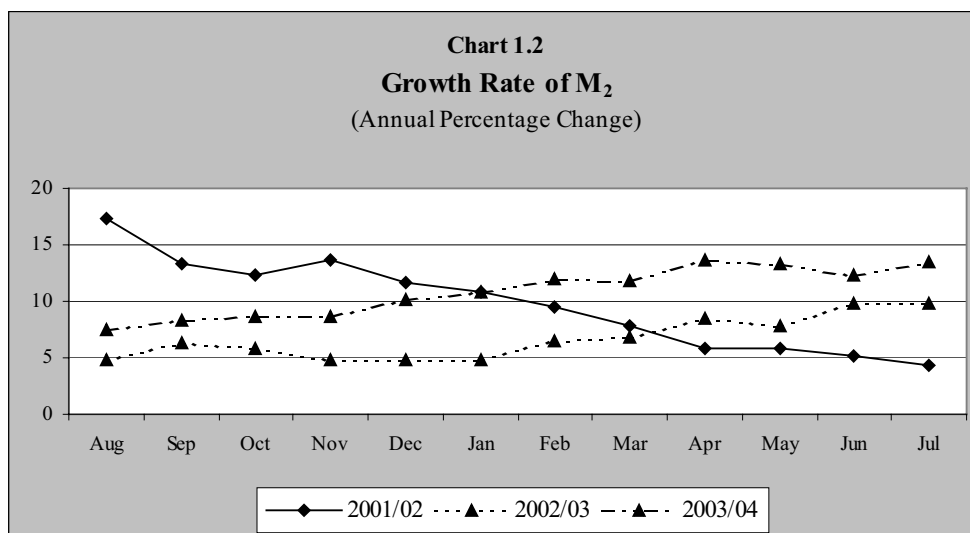
Monetary Aggregates

1.7 In the review year, both monetary aggregates, M_2 and M_1 registered a higher growth compared to growth of the previous year. M_2 increased by 12.8 percent (Rs. 31.4 billion) to Rs. 279.3 billion as at mid-July 2004. Such a monetary aggregate had increased by 9.8 percent (Rs. 21.9 billion) last year. M_1 , which had increased by 8.6 percent (Rs. 6.6 billion), grew by 12.2 percent (Rs. 10.2 billion) in the review year, amounting to Rs. 94.2 billion as at mid-July 2004. A high growth of NFA contributed to such a growth in both monetary aggregates in the review year compared to that of last year.

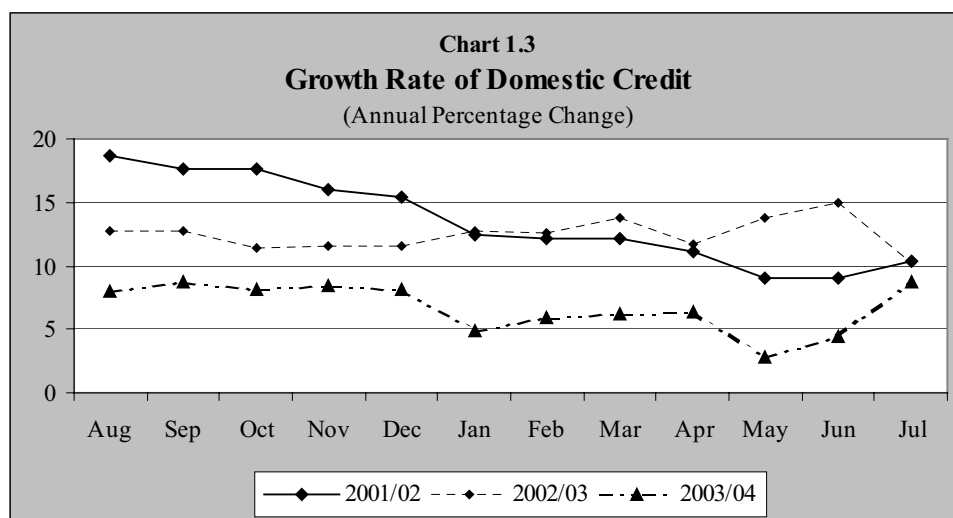


Expansionary Factors of Money Supply

1.8 NFA, an expansionary factor of money supply, increased by 17.5 percent (Rs. 16.0 billion), including adjustment of foreign exchange valuation gain/loss. Last year, such an asset had increased by 4.9 percent (Rs. 4.4 billion). Factors, such as inflow of private sector's remittance, net service income as well as foreign loan and grant contributed to such a significant rise in NFA.

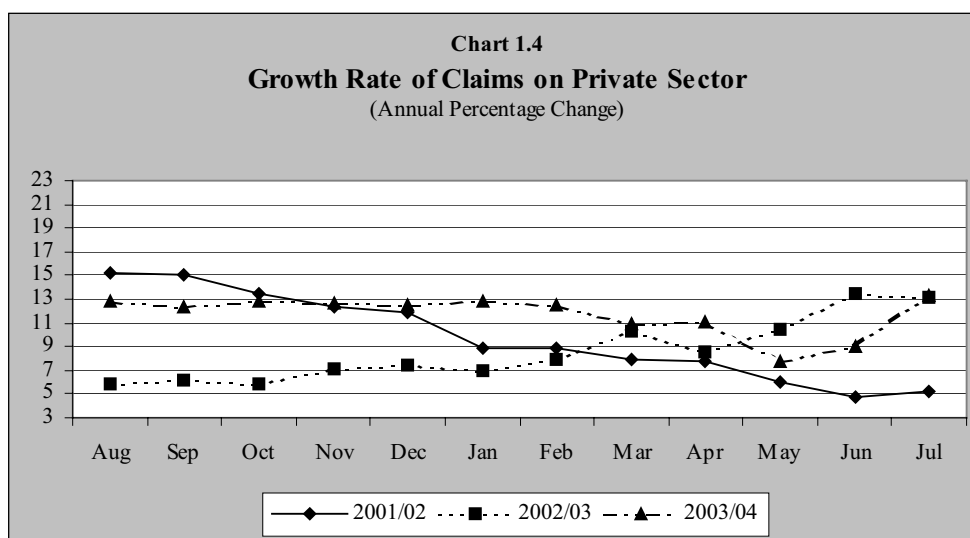


1.9 Total domestic credit, another factor of money expansion, reached Rs. 251.1 billion as of mid-July 2004 with a growth of 9.9 percent (Rs. 22.6 billion). Such a credit had grown by 10.2 percent (Rs. 21.1 billion) in the previous year. Though there was a growth in monetary sector's claims on financial enterprises and claims on private sector, a decline in net claims on government and non-financial government corporation resulted in such a deceleration in total domestic credit.



1.10 Of the total domestic credit, net claims on government declined by 0.8 percent (Rs. 511.4 million) and reached Rs. 62.3 billion as at mid-July 2004. Last year, such claims had increased by 5.5 percent (Rs. 3.3 billion). A number of factors like, payment of treasury bills (TBs), growing receipt of foreign loan and foreign grant caused to low level mobilization of internal borrowing. As a result, net claims on government declined from

the level of last year. Monetary sector's claims on non-financial government corporations, which had declined by 7.9 percent (Rs. 243.0 million) last year, declined further by 21.2 percent (Rs. 600.0 million). Some non-financial government corporation like Birgunj Sugar Factory Limited, Janakpur Cigarette Factory Limited and Rosin and Terpentine Limited repaid the commercial bank's loan which contributed to the decline in claims on non-financial government corporation in the review year. However, claims on financial enterprise increased by 21.1 percent (Rs. 2.5 billion) amounting to Rs. 14.3 billion as at mid-July 2004. Last year, such a claim had increased by merely 4.2 percent (Rs. 484.0 million). Increased deposit of banking branches of Agriculture Development Bank (of Nepal) – ADB/N – at their headquarter was the main reason behind such a growth in claims on financial enterprises. Monetary sector's claims on private sector increased by 13.3 percent (Rs. 20.1 billion) amounting to Rs. 171.1 billion as at mid-July 2004, while such a claim had increased by 13.2 percent (Rs. 17.6 billion) last year. Sluggish economic activities due to the uneased security situation leading to a low demand of credit by the private sector, was the major cause of the low level of growth of claims on private sector.



Contractionary Factors of Money Supply

1.11 Of the contractionary factors of money supply, time deposits registered a growth of 14.0 percent (Rs. 22.7 billion) amounting to Rs. 184.8 billion as at mid-July 2004. Such deposits had increased by 10.4 percent (Rs. 1.5 billion) last year. Regular inflows of private sector's remittance and limited investment opportunities contributed to the growth of time deposits.

1.12 Another contractionary factor of money supply, net non-monetary liabilities (after adjusting foreign exchange valuation gain/loss) increased by 6.5 percent (Rs. 4.8 billion). Last year, such liabilities had gone up by 5.0 percent (Rs. 3.6 billion). Due to an increase in NRB's profit compared to that of the previous year, net non-monetary liabilities increased in the review year.

Commercial Bank's Sources of Fund

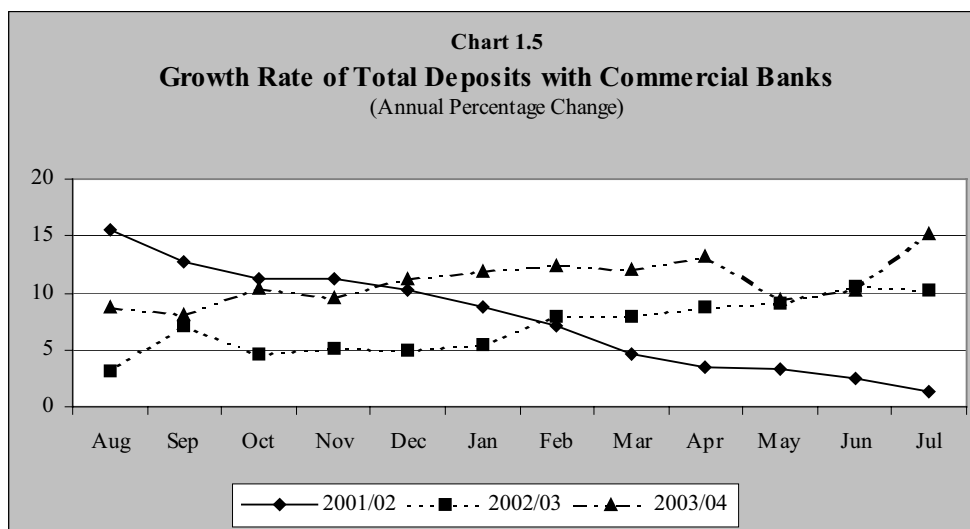
1.13 Total deposits, the primary source of funds of commercial bank, increased by 15.2 percent (Rs. 30.9 billion) and reached Rs. 233.6 billion as at mid-July 2004. Total deposits in the previous year had increased by 10.3 percent (Rs. 19.1 billion). Of the main components of total deposits, saving deposits went up by 17.8 percent (Rs. 17.5 billion) aggregating at Rs. 114.5 billion as of mid-July 2004. Such a saving deposit had registered a growth of 16.0 percent (Rs. 17.4 billion) last year. Fixed deposits another component of total deposits, posted a 10.8 percent (Rs. 8.2 billion) growth in the review year compared to the growth of 1.3 percent (Rs. 975.0 million) last year. Further, current deposits, which had increased by 19.2 percent (Rs. 4.6 billion) last year, exhibited a growth of 18.3 percent (Rs. 5.2 billion) in the review year, amounting to Rs. 33.5 billion as at mid-July 2004. Similarly, margin deposits also posted a growth of 11.5 percent (Rs. 213.0 million) and reached Rs. 2.1 billion as at mid-July 2004. Significant growth in private sector's remittance contributed to the growth in saving and fixed deposits in the review year compared to last year.

1.14 The amount of commercial banks' borrowing from NRB was maintained at Rs. 478.0 million as at mid-July 2004 compared to Rs. 947.0 million as at mid-July 2003. The lower level of sick industries refinance facility availed by commercial banks from NRB contributed to such a decline in commercial banks' borrowing from NRB compared to the that of last year.

1.15 Foreign liabilities of commercial banks, which was Rs. 130.0 million last year, quadrupled and reached Rs. 520.0 million in review year. In the review year, commercial banks' other liabilities increased by 2.6 percent (Rs. 2.3 billion) to Rs. 90.5 billion as at mid-July 2004. Last year, such a liability had gone up by 33.8 percent (Rs. 22.3 billion).

Uses of Commercial Banks' Funds

1.16 On the uses side of commercial banks' funds, liquid funds reached Rs. 48.6 billion as at mid-July 2004 with a growth of 17.7 percent (Rs. 7.3 billion). Last year, such a fund had registered a decline of 12.0 percent. Of the components of total liquid funds foreign currency in hand, in contrast to the 17.0 percent (Rs. 10.5 million) growth of the last year, declined by 35.2 percent (Rs. 254.0 million) to Rs. 468.0 million as at mid-July 2004. However, commercial banks' balances with NRB increased by 45.3 percent (Rs. 7.1 billion) amounting to Rs. 22.8 billion as at mid-July 2004, compared to a decline of 2.9 percent (Rs. 462.0 million) last year. Cash in hand of commercial banks declined by 7.9 percent (Rs. 373.0 million) to Rs. 4.4 billion as at mid-July 2004, while such a cash-in-hand had gone up by 3.8 percent (Rs. 186.0 million) last year. Foreign bank balance of commercial banks, on the other hand, increased by 6.9 percent (Rs. 1.3 billion) and stood at Rs. 20.7 billion as at mid-July 2004 in contrast to a decline of 16.7 percent (Rs. 3.9 billion) in the preceding year. Cash-in-transit posted a decline of 62.4 percent (Rs. 517.0 million) amounting to Rs. 312.0 million as at mid-July 2004. Such a cash had declined by 58.9 percent (Rs. 1.2 billion) last year.



1.17 In the review year, loan and advances, a major part of the uses of commercial banks' funds increased by 12.4 percent (Rs. 25.0 billion) to Rs. 226.8 billion as at mid-July 2004. Such loan and advances had gone up by 16.4 percent (Rs. 28.5 billion) last year. Among the main sectors of loan and advances, credit flows to government from the banking sector went up by 11.0 percent (Rs. 4.3 billion) amounting to Rs. 43.8 billion as at mid-July 2004, compared to a growth of 35.4 percent (Rs. 10.3 billion) last year. Such a deceleration in claims on government was due to the mobilization of internal loans less than the amount mentioned in the budget because of the growing receipts of foreign loans and grants. Compared to a growth of 6.1 percent (Rs. 587.0 million) last year, credit flow to financial enterprises went up substantially by 24.2 percent (Rs. 2.5 billion) to Rs. 12.8 billion as at mid-July 2004. However, the credit flow to non-financial government corporation declined further by 21.2 percent (Rs. 600.0 million) to Rs. 2.2 billion as at mid-July 2004 compared to a decline of 7.9 percent (Rs. 243.0 million) last year.

1.18 Compared to a growth of 13.8 percent (Rs. 17.0 billion) last year, credit flow to private sector from the commercial banks increased by 12.9 percent (Rs. 19.2 billion) to Rs. 167.2 billion as at mid-July 2004. Disturbance of peace and security caused low demand from credit by private sector which contributed to such a deceleration in claims on private sector. Likewise, foreign bills purchased declined by 33.4 percent and stood at Rs. 873.0 million as at mid-July 2004. Such a purchase had declined by 11.4 percent (Rs. 151.0 million) last year.

1.19 Total assets and liabilities of commercial banks went up by 11.3 percent (Rs. 33.0 billion) to Rs. 325.1 billion as at mid-July 2004. Such assets and liabilities had gone up by 16.4 percent (Rs. 41.1 billion) last year.

1.20 At the end of review year, 383 branches of 17 commercial banks and 48 banking branches of ADB/N were providing commercial banking services.

Money Market

1.21 In the review year, under the open market operation and secondary market transaction, NRB mopped up liquidity of Rs. 11.0 billion on the turnover basis by purchasing TBs of Rs. 16.2 billion and selling those of Rs. 27.3 billion. Such amounts were Rs. 20.1 billion and Rs. 53.7 billion respectively last year from which NRB had mopped up Rs. 33.6 billion. Likewise, compared to a cumulative repo transaction of Rs. 45.9 billion in the last year, the review year observed Rs. 51.4 billion. The liquidity (including repo) of Rs. 40.4 billion was injected in the review year compared to liquidity injection of Rs. 12.3 billion last year.

1.22 In the review year, the weighted average TBs rate in the secondary market auction remained at 2.9 percent. This was lower than the previous year's rate by 0.6 points. Likewise, weighted interbank transaction rate of commercial banks also declined by 0.4 points to 3.2 percent in the review year compared to 3.6 percent last year.

1.23 Sell of TBs of 28-day and 182-day by auction has been initiated since September 11, 2003 in addition to the prevailing practice of selling 91-day and 364-day TBs in the market by auction. In 2003/04, TBs of a total of Rs. 65.4 billion were sold in the primary market by auction including 28-day TBs of Rs. 1.9 billion, 91-day TBs of Rs. 31.9 billion, 182-day TBs of Rs. 6.2 billion and 364-day TBs of Rs. 25.4 billion in 16, 52, 16 and 25 times respectively. The weighted annual average discount rate of 28-day TBs remained at 2.3490 percent with a maximum of 3.4306 percent and a minimum of 0.2187 percent whereas such rates for 91-day TBs were 2.8757 percent, 4.1000 percent and 0.4920 percent respectively. In the same way, the annual average, maximum and minimum discount rates of 182-day TBs remained at 3.3609 percent, 4.9002 percent and 1.5000 percent respectively. Such rates for 364-day TBs were maintained at 3.7273 percent, 5.3400 percent and 2.4200 percent respectively.

1.24 To expand and to intensify the secondary market transaction, introduction of instruments like repo, outright sale, outright purchase and tap sale were continued as in the previous year. The sale of government bond under the ownership of NRB was expedited in secondary market owing to the provision of sub clause (7) clause 75 of NRB Act, 2002 which limits the amount of government bonds under NRB's ownership within 10.0 percent of the revenue income of the preceding year. Consequently, compared to the previous year NRB's ownership declined by 26.3 percent to Rs. 15.1 billion at the end of 2003/04.

1.25 In the review year, the exchange rate of Nepalese rupee with US dollar appreciated slightly. Nepalese rupee appreciated by 0.8 percent with US dollar at the end of review year compared to last year. As such, buying rate was 74.14 per US dollar and selling rate was 74.75 per US dollar at mid-July 2004. Such buying and selling rates per US dollar were 74.75 and 75.34 respectively at mid-July 2003.

Financial Institutions

1.26 At the end of 2003/04, with the license of NRB, 17 commercial Banks, 20 development banks, 5 rural development banks, 59 finance companies, 21 cooperative societies engaged in limited banking transaction and 44 non-governmental organizations (NGOs) involving in micro credit activities were in operation. The number of such banks and financial institutions had stood at 17, 17, 5, 57, 34 and 40 respectively last year.

1.27 In the review year, the financial institutions improved their overall loan recovery. The development banks, finance companies, provident fund and insurance companies played an important role in resource mobilizations, as in the past year. Although, Nepal Industrial Development Corporation (NIDC) faced a resource crunch to disburse the additional credit, deposits mobilization and credit disbursements of finance companies increased. Despite a poor security situation, rural development banks witnessed progress both in loan recovery and disbursement. The total number of co-operative societies decreased because of the revocation of license of two such societies and hand over of 10 small farmer co-operative societies to the Small Farmer Development Bank (SFDB). Share transactions in the stock market based on amount and value increased in comparison to that of last year along with some improvements in the share price.

Development Banks

1.28 In the review year, loan disbursement of ADB/N increased marginally by 0.3 percent (Rs. 34.0 million) to Rs. 10.1 billion from Rs. 10.1 billion compared to a sharp increase of 13.8 percent (Rs. 1.2 billion) last year. Likewise, loan recovery increased by 11.0 percent (Rs. 89.7 million) to Rs. 9.5 billion, while such loan recovery had increased by 16.5 percent to Rs. 1.2 billion last year. At the end of review year, the bank's outstanding loans reached Rs. 19.7 billion, which accounts 5.9 percent more than that of the preceding year.

1.29 Loan recovery of NIDC increased, while the loan disbursement decreased in the review year. The loan disbursement decreased by 39.0 percent (Rs. 14.0 million) to Rs. 22.0 million, which had recorded a decline of 52.5 percent last year. However, the loan recovery increased by 14.8 percent (Rs 13.0 million) to Rs. 103.0 million as against a decline of 45.5 percent (Rs. 7.5 million) last year. At the end of 2003/04, total outstanding loan of NIDC reached Rs. 2.2 billion.

Finance Companies

1.30 At the end of 2003/04, the number of finance companies reached 59 from 57 of the last year. The overall financial resources of the finance companies increased significantly by 22.9 percent (Rs. 5.7 billion) to Rs. 27.2 billion at the end of 2003/04 compared to Rs. 22.1 billion in 2002/03 (Table 1.6). Deposit mobilization of these companies, a major component of the resources increased by 17.1 percent (Rs. 2.8 billion) to Rs. 19.3 billion at the end of 2003/04 compared to 2002/03. Likewise, capital fund increased by 13.2 percent (Rs. 423.0 million) to Rs. 3.6 billion. At the end of 2002/03 such deposits and capital fund stood at Rs. 16.5 billion and Rs. 3.2 billion respectively. In the review year, total borrowings of these companies increased by 9.7 fold (Rs. 1.2 billion) to Rs. 1.3

billion, and other resources of the companies also rose by 24.8 percent (Rs. 443.0 million) to Rs. 2.2 billion.

1.31 On the uses side of the total resources available for finance companies, loans and advances increased by 21.6 percent (Rs. 3.1 billion) to Rs. 17.6 billion at the end of 2003/04 from Rs. 14.5 billion last year. In comparison to the last year's investment amount of Rs. 2.39 billion, finance companies' investment moved up by 4.4 percent (Rs. 10.4 million) to Rs. 2.5 billion at the end of 2003/04. In the review year, liquid assets of these companies increased significantly by 65.0 percent (Rs. 1.7 billion) to Rs. 4.4 billion compared to that of last year. Similarly, the amount of other uses headings also increased by 3.9 percent (Rs. 100.0 million) to Rs. 2.7 billion.

Co-operative Societies

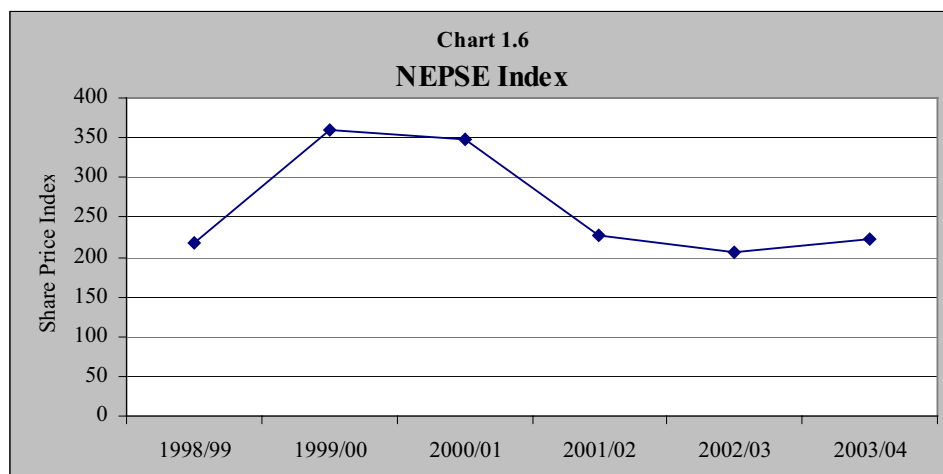
1.32 The number of co-operative societies licensed by NRB for limited banking transaction dropped to 21 at the end of 2003/04 from 34 last year. Consequently, financial resources of the cooperatives declined. Total capital fund of these co-operative societies declined by 9.8 percent (Rs. 27.0 million) to Rs. 246.0 million (Table 1.7) from Rs. 273.0 million last year. Likewise, the deposit mobilization and the borrowings declined by 13.4 percent (Rs. 257.0 million) to Rs. 1.7 billion, and 37.8 percent (Rs. 25.0 million) to Rs. 41.0 million respectively. In the review year, loans and advances of these co-operative societies dropped by 11.3 percent (Rs. 165.0 million) to Rs. 1.3 billion. The NRB licensed co-operative societies with limited banking transaction invested a total amount of Rs. 182.0 million in the HMG securities, fixed account and other sectors in the review year.

Capital Market

Share Market

1.33 The number of companies listed in the Nepal Stock Exchange Ltd. reached 114 at the end of 2003/04 from 108 last year (Table 1.8). The paid-up capital of the listed companies increased marginally by 1.0 percent (Rs. 12.0 million) to Rs. 12.2 billion from Rs. 11.9 billion last year. The annual turnover of the stock market increased by 3.7 fold to Rs. 2.1 billion from Rs. 576.0 million last year.

1.34 Market capitalization of the companies increased by 17.5 percent (Rs. 6.2 billion) to Rs. 41.4 billion at the end of 2003/04 compared to Rs. 35.2 billion last year. As a consequence of the improvements in share price of banks and financial institutions, Nepal Stock Exchange (NEPSE) index at the end of 2003/04 jumped to 222.0 points from 204.9 points last year.



1.35 The ratio of total annual transactions to paid-up capital and market capitalization increased to 17.8 percent and 5.2 percent respectively from 4.8 percent and 1.6 percent last year. Similarly, the ratio of market capitalization to GDP rose to 8.8 percent in the review year from 8.1 percent in the preceding year. However, the ratio of paid up capital to GDP dropped to 2.5 percent from 2.7 percent last year.

Government Securities Market

1.36 In the review year, a total of Rs 5.8 billion debt securities consisting of development bonds (DBs) of Rs. 2.0 billion, national savings certificates (NSCs) of Rs. 90.0 million, TBs of Rs. 2.5 billion, special bonds (SBs) of Rs. 20.5 million and citizen savings certificates (CSCs) of Rs. 24.8 million were issued. Out of total internal debt, 63.8 percent was borrowed from banking sector and 36.2 percent from non-banking sector. On periodical ground, the bonds were issued as 6.7 percent in the first quarter, 13.7 percent in the second quarter, 24.2 percent in the third quarter and 55.4 percent in the fourth quarter. Last year, Rs. 9.0 billion debt securities were issued.

1.37 Of the total issued debt securities, the amount of securities issued for public (NSCs and CSCs) declined in the review year as compared to that of last year, while the amount of securities issued for banks and financial institutions (DBs and TBs) increased.

1.38 In mid-July 2004, NRB owned a total amount of Rs. 15.1 billion bonds comprising TBs of Rs. 9.8 billion, DBs of Rs. 4.14 billion, SBs of Rs. 864.0 million, NSCs of Rs. 404.0 million and CSCs of Rs. 46.0 million. This amount of debt securities owned by NRB registered a decline of 26.3 percent compared to that of last year.

1.39 Of the total securities owned by the NRB, securities of Rs. 6.8 million, which was 12.6 percent of last year's, government revenue income, was maintained under the ceiling as mentioned by NRB Act, 2002, clause 75 (7). The excessive holding of bonds by NRB beyond the limit was due to the unsold bonds and delay in receiving payment from HMG.

Gross Domestic Product

1.40 In the review year, agricultural GDP witnessed a growth of 3.7 percent particularly due to a high growth rate of paddy production (7.8 percent) caused by favorable weather. Despite the adverse impact observed in industrial sector due to poor law and order situation; the growth of electricity; trade, restaurant and hotels; and transportation and communication sub-sectors witnessed an improvement, which helped increase the non-agricultural sector by 3.3 percent. As a consequence, GDP increased by 3.7 percent at producers' price and 3.6 percent at factor cost. These growth rates remained higher than the last year's growth of 3.1 percent and 2.7 percent respectively.

Agricultural Sector

1.41 Paddy production that constitutes about 20.0 percent weight in the overall agricultural production, increased by a historical high growth of 7.8 percent in the review year as against a decline of 0.8 percent last year. The timely plantation of paddy was the main reason leading to the notable growth. Along with the paddy, potato and fishery also witnessed a significant growth and other crops showed a general growth trend leading to the overall agricultural growth by 3.7 percent (Table 1.9) in the review year compared to 2.5 percent last year. However, there was a set back in the production of barley, sugarcane, tobacco, jute and fruits.

1.42 In the review year, the total production of food grains reached 7.745 thousand metric tons (MT) from 7,360 thousand MT last year. Likewise, the production of wheat, maize and millet increased by 3.2 percent, 1.3 percent and 0.2 percent respectively, while the barley production declined by 11.2 percent in the review year. With regard to the principal cash crops, the production of potato and oilseeds rose by 7.3 percent and 6.4 percent respectively whereas the production of tobacco, sugarcane and jute declined by 4.3 percent, 1.6 percent and 0.9 percent respectively. Among other crops, the production of vegetables and pulses increased by 4.9 percent and 2.1 percent whereas fruits production decreased by 1.7 percent. With regard to livestock, the production of milk, meat and eggs increased by 2.5 percent, 2.1 percent and 3.3 percent respectively while the fishery production rose by 9.4 percent.

Industrial Sector

1.43 In the review year, electricity, gas and water sub-sector registered slightly higher growth of 7.6 percent compared to a growth of 7.5 percent last year basically due to the commencement of some small and medium hydel projects like Chilime (20 MW), Puluwa Khola (3 MW) including "Kaligandaki A" whose production has already been transmitted into national grid of Nepal Electricity Authority (NEA). Although the government's capital expenditure could not increase as per anticipation, in comparison to last year, such expenditure rose by 0.3 percent higher than that of last year and on the other hand private residential construction work in the urban areas of the kingdom including the capital city increased. As a result of these activities, the construction sub-sector recorded a marginal growth. Similarly the mining and quarrying sub sector's output increased by 2.5 percent due to increasing limestone, concretes, sands production used for cement production. Due to increasing ailing industries, lack of conducive environment for

investment and obstacles in supply situation created by the insurgency; the manufacturing sub-sector has been hit hard for the last couple of years. However, the cease fire and initiation of peace talks the beginning of review year accompanied by increasing imports of capital goods helped increase the manufacturing sub-sector's growth by 2.5 percent in the review year compared to 2.0 percent of the preceding year.

1.44 The annual production index of 33 industrial goods increased by 1.4 percent as against a decline of 6.5 percent last year. Among 15 manufacturing groups, production index of 10 sub-groups increased at the rates ranging from 1.1 percent to 33.3 percent, while the production of the rest 5 sub-groups declined at the rates ranging from 0.5 percent to 5.5 percent. Commodity wise, the production of steel utensils, liquor, detergent powder, cement, straw board, tea, iron rod and angles, synthetic clothes, shoes, bricks and tiles, noodles, cigarette, plywood, soft drinks, slippers, cotton clothes, squash and jute goods went up. An increase in domestic demand and total exports accounted for the rise in the production of such goods. However, the production of vegetable ghee, matches, sugar, paper, plastic goods, beer, biscuits, bidi, animal feeds, processed leather, GI/HV wires, ACSR conductor, PVC cable, dry cell batteries and soap went down.

1.45 Despite some improvements observed in industrial production with the onset of peace talks at the beginning of the review year, the industrial production could not increase as expected due to the breakdown of peace talk which immediately resulted in increasing insecurity, frequent occurrence of Nepal Banda (closure), ailing industrial conditions and so on.

Services Sector

1.46 The services sector that comprises trade, restaurant and hotel, transportation, communications and storage, finance and real estate, and community and social services witnessed a growth of 4.2 percent in the review year compared to the 3.3 percent growth last year. Sub-sector wise, the production of trade restaurants and hotels increased by 5.8 percent while that of transport, communication and storage rose by 5.6 percent, community and social services by 3.1 percent and finance and real estate by 2.8 percent.

1.47 Due to increase in the agricultural production, internal migration and thereby increased domestic demand, significant increase in tourist arrivals and strengthened supply condition caused by increased imports and domestic production helped grow the trade, restaurant and hotel sub-sector by 5.8 percent compared to 4.1 percent last year. With the involvement of private sector in the communications sector and increased telecom services including both wireless and mobile phones, transport, communication and storage sub-sector increased by 5.6 percent in the review year compared to 3.9 percent last year. Expansion of security services together with appointments of officials in local bodies resulted an increase in community and social services by 3.1 percent in the review year than that of 2.4 percent last year. The growth of finance and real estate sub-sector remained at last year's level of 2.8 percent.

1.48 Though the tourism industry hit hard by several factors such as international terrorism, frequent Nepal Banda (closures), strikes and lockouts, Nepal has been accepted as a leading tourist destination as she is considered as secured compared to other tourist destinations over the world. Increase in the inflow of middle-class Indian tourists as a

consequence of rise in their income level due to increased economic growth and spread out of epidemics such as SARS and bird-flu over the South East Asian countries also helped discover Nepal as an alternative tourist destination.

1.49 The number of total tourist arrivals via air route in 2003 increased significantly by 21.5 percent to 266 thousand, basically due to the successful completion of campaigns like Golden Jubilee Ceremony of Mount Everest Expedition, Destination Nepal Year 2003 and so on. In 2003, Indian tourist arrivals noticeably increased by 21.8 percent to 81 thousand while the other country tourist arrivals also significantly increased by 21.4 percent to 25.3 thousand. The average duration of stay of the tourists remained at 9.5 days and the hotels' bed capacity increased by 1.7 percent in 2003.

Consumption, Investment and Savings

1.50 The share of total consumption in gross domestic product declined by 0.6 percentage points to 87.8 percent in the review year from 88.4 percent last year (Table 1.1). Out of total consumption, the private sector consumption increased by 8.0 percent whereas government consumption increased by 8.1 percent. The ratio of investment to GDP increased by 0.9 percentage points to 26.7 percent in the review year from 25.8 percent last year. Similarly, the ratio of gross domestic savings to GDP marginally increased by 0.6 percentage points to 12.2 percent in the review year from 11.6 percent last year.

Inflation

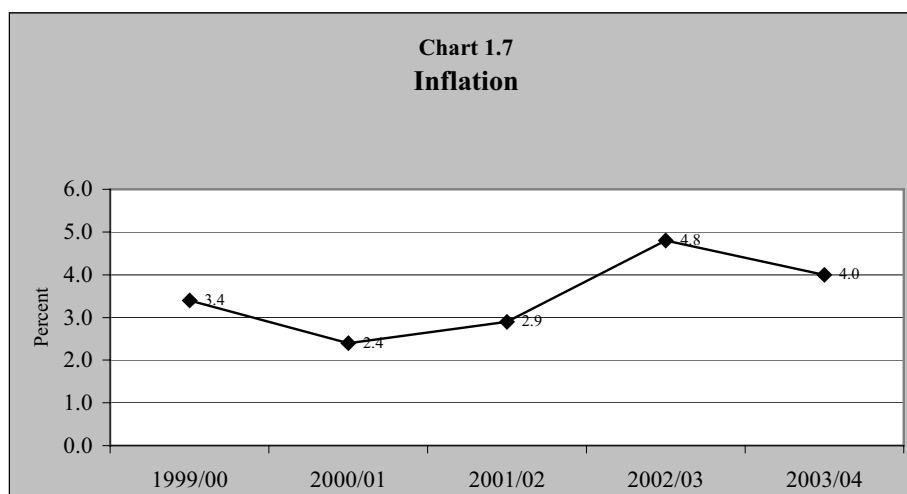
Consumer Inflation

1.51 The annual average rate of inflation as measured by national urban CPI registered a rise of 4.0 percent in 2003/04 compared to an increase of 4.8 percent last year. The slow growth in the price index compared to that of last year was mainly attributable to the good harvest and strong supply situation of food grains, milk and milk products as well as off-seasonal vegetables.

1.52 Groupwise, the index for food and beverage group increased by 3.3 percent compared to the 4.4 percent increase in the corresponding period last year. In the review year, the indices of oil and ghee (12.3 percent), meat fish and eggs (6.8 percent), restaurant meals (5.2 percent), spices (4.0 percent), vegetables and fruits (3.4 percent), milk and milk products (1.8 percent), grain and cereals product (1.2 percent), pulses (0.6 percent) and beverages (0.3 percent) increased whereas index of sugar and related products declined by 0.4 percent.

1.53 The index for non-food and services group on a yearly basis surged up by 4.7 percent compared to the 5.0 percent rise in the previous year. Sub groupwise, the index of transportation and communication went up at a faster pace of 7.5 percent and that of housing goods and services by 6.6 percent. Similarly, the indices for education, reading and recreation (4.6 percent), medical and personal care (3.7 percent), cloth, clothing and sewing services (1.8 percent) tobacco and related products (1.8 percent) and footwear (0.5 percent) moved up.

1.54 Regionwise, on an annual average basis, the indices of Kathmandu Valley, Hills and Terai increased by 5.9 percent, 3.2 percent and 3.1 percent respectively as against the respective increase of 3.8 percentage each in the Kathmandu Valley and Hills and 5.7 percent in the Terai in the previous year.



1.55 The index for food and beverage group in the Kathmandu Valley, Hills and Terai recorded an increase of 5.9 percent, 3.0 percent and 2.0 percent respectively, whereas that for non-food and services group surged up by 6.0 percent, 3.4 percent and 4.5 percent respectively in the previous year.

Wholesale Price Inflation

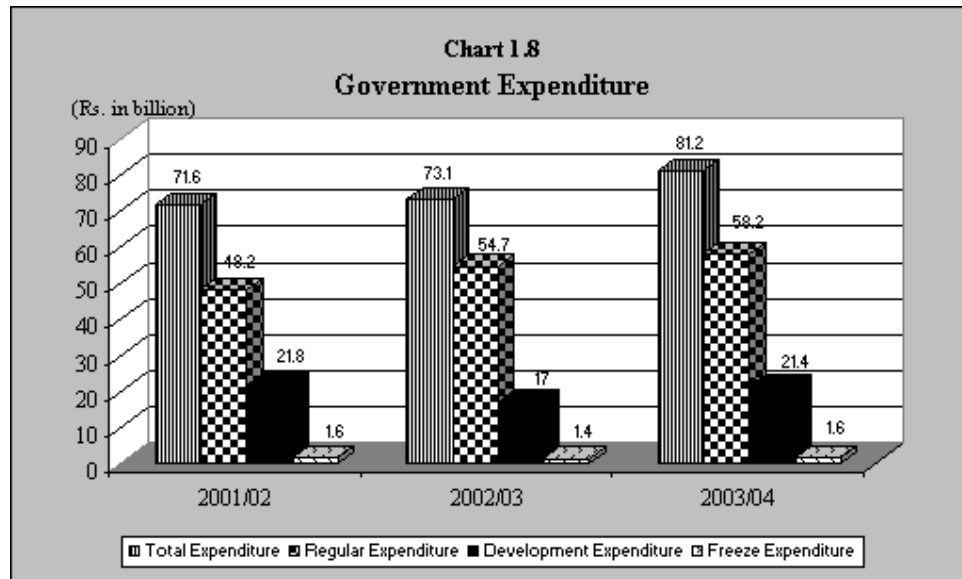
1.56 The national WPI (1999/00 = 100), on an annual average basis increased by 4.1 percent in 2003/04 compared to a rise of 3.8 percent in the previous year. Groupwise indices for imported, domestic manufactured and agriculture commodities moved up by 6.2 percent, 5.2 percent and 2.1 percent respectively. Such indices had increased by 4.3 percent, 2.8 percent and 3.8 percent respectively last year. The indices of sub-groups construction materials as well as petroleum products and coal depicted a sharp increase of 15.5 percent and 12.3 percent respectively. In contrast, the index of cash crops, food grains and electric and electronic goods declined by 8.5 percent, 1.7 percent and 1.6 percent respectively in the review year.

Government Finance

Expenditure

1.57 According to NRB records, total expenditure of HMG, on a cash basis, increased by 11.1 percent to Rs. 73.5 billion in 2003/04. The government expenditure had increased by 2.0 percent in 2002/03 (Table 1.12). Of the total expenditure, revenue expenditure, which had increased by 13.4 percent last year rose by 6.3 percent this year to Rs. 58.2 billion. The development expenditure, which had decelerated by 22.1 percent in

2002/03, shot up by 26.2 percent to Rs. 21.4 billion in 2003/04 mainly due to expansion of development activities. The freeze expenditure which had gone down by 12.5 percent in 2002/03 went up by 18.3 percent to Rs. 1.6 billion in 2003/04.

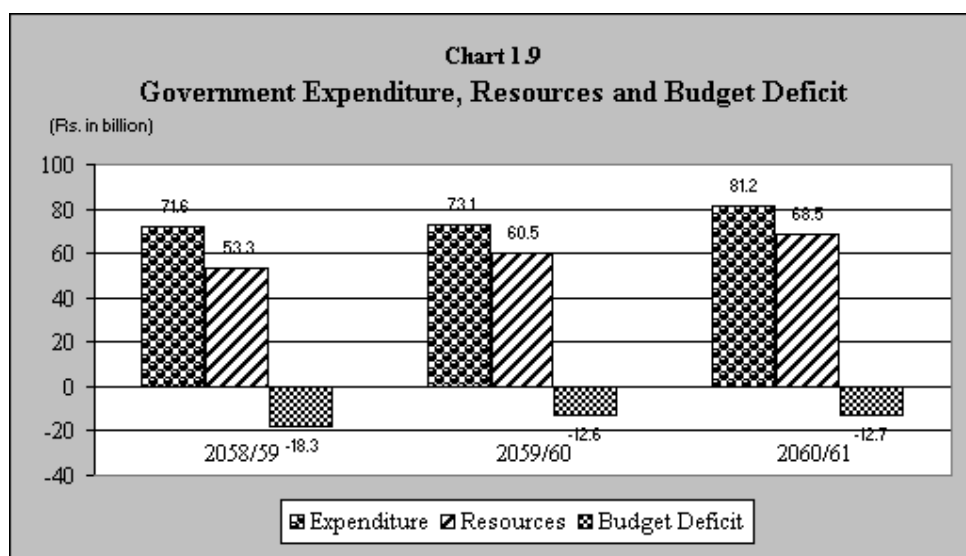


Resources

1.58 The non-debt resources (revenue, non-budgetary and other receipts and foreign grants) which had increased by 13.6 percent in 2002/03 increased by 13.3 percent to Rs. 68.5 billion in 2003/04. Internal revenue, the major sources of government resources which had increased by 11.5 percent in 2002/03 rose by 10.9 percent to Rs. 62.3 billion in 2003/04. Government had received Rs. 2.5 billion as foreign cash grants in 2002/03 which increased to Rs. 5.2 billion in 2003/04. Non-budgetary receipts, net went down by 46.7 percent to Rs. 860.0 million in 2003/04 from Rs. 1.6 billion in 2002/03.

Budget Deficit

1.59 Although the non-debt resources remained at the same level of the last year, the budget deficit of the government increased by 0.7 percent to Rs. 12.7 billion in 2003/04, mainly due to the higher growth rate of government expenditure. The budget deficit had decreased significantly by 31.4 percent to Rs. 12.6 billion in 2002/03. To meet the budget deficit a total of Rs. 13.3 billion was mobilized through loan of which Rs. 5.6 billion was mobilized through domestic borrowings and Rs. 7.7 billion through external loan. Of the internal loans Rs. 2.5 billion was raised through TBs, Rs. 2.0 billion through DBs, Rs. 900.0 million through NSCs and Rs. 250.0 million through CSCs. The remaining Rs. 750.0 million was deposited at the government account and Rs. 120.0 million was placed as cash balance in other headings. Last year, Rs. 460.0 million was maintained as a surplus in government account.



Domestic Borrowing

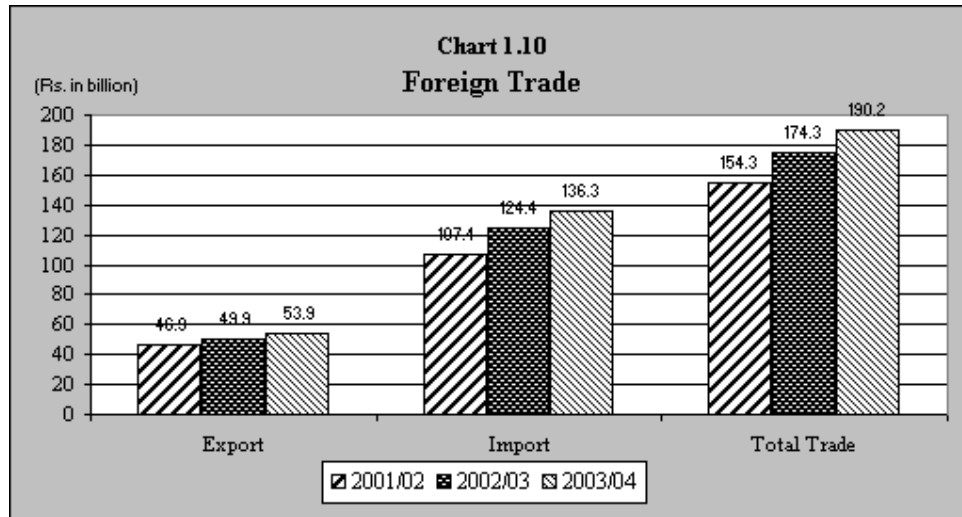
1.60 In 2003/04, HMG mobilized internal resource of Rs. 5.6 billion and paid some matured domestic borrowings. As a result, the outstanding domestic borrowing of HMG increased by 1.4 percent to Rs. 85.4 billion (Table 1.13) as at mid-July 2004. Last year, the outstanding domestic borrowing of HMG had increased by 5.9 percent as at mid-July 2004. Total outstanding domestic borrowing of HMG included TBs of Rs 49.4 billion, DBs of Rs 17.6 billion, NSCs of Rs 9.3 billion, CSCs of Rs 1.2 billion and SBs of Rs 9.0 billion. At the end of 2003/04, HMG maintained a cash balance of Rs 750.0 million with NRB.

External Sector

Overall Trade Situation

1.61 The external sector of the economy witnessed a mixed performance in 2003/04. There was a decline in the growth rate of total exports and imports as compared to those in the previous year. Due to the higher growth of imports compared to exports, trade deficit expanded significantly in comparison to the previous year. Based on customs data, total exports increased by 8.0 percent (Rs. 4.0 billion) to Rs. 53.9 billion compared to an increase of 6.4 percent last year (Table 1.14). Though the total exports went up slightly due to a marked increase in exports to India, the ratio of total exports to GDP declined marginally to 10.9 percent from 10.3 percent of the previous year. Likewise, total imports which had increased by 15.8 percent last year, increased by 9.6 percent. While total imports of goods amounted to Rs. 124.4 billion with the ratio of total imports to GDP at 27.3 percent in the previous year, the total import of goods reached Rs. 136.3 billion in the review year with the ratio of total imports to GDP at 27.5 percent. Due to the lower growth rate of both exports and imports, the total trade, which had increased by

12.9 percent in the previous year, rose by 9.1 percent in the review year. Trade deficit expanded by 10.7 percent to Rs. 82.4 billion as compared to an increase of 23.1 percent to Rs. 74.4 billion in the previous year. Consequently, the ratio of trade deficit to GDP rose to 16.6 percent from 16.3 percent in the previous year (Table 1.1).



1.62 The review year experienced an expansion in exports to India. Exports to India, which had declined by 5.5 percent last year recorded a rise of 16.4 percent (Rs. 4.4 billion) to Rs. 30.8 billion in the review year (Table 1.14). As a result, the share of exports to India in total exports increased to 57.1 percent from 52.9 percent in the previous year. In the review year, especially, the export of toothpaste, soap, M.S. pipe, polyester yarn, skin, juice, plastic utensils, readymade garments, zinc sheet, G.I. pipe, chemicals, thread, etc. increased while that of vegetable ghee, pulses, dry ginger, ginger, cardamom, noodles, stone/sand, zinc oxide, paper, ayurvedic medicine, copper wire and sheet, pashmina, etc. towards India decreased.

1.63 Exports to countries other than India went down by 1.6 percent (Rs. 0.4 billion) to Rs. 23.1 billion as against a growth of 23.8 percent in the previous year. In the review year, among the major goods exported to overseas countries, export of readymade garments decreased by 19.7 percent (Rs. 2.3 billion) to Rs. 9.6 billion as against an increase of 51.8 percent in the previous year (Table 1.15). However, there was an increment in the exports of handicrafts, tanned skin, pulses, herbs, silverware and jewellery, Nepalese paper and paper products, tea etc to third countries. In the review year, export of woolen carpets went up by 6.7 percent (Rs. 0.4 billion) to Rs. 5.7 billion. In the previous year, export of woolen carpets had plummeted by 14.4 percent. Similarly, export of pashmina to other countries, which had declined by 7.0 percent to Rs. 1.2 billion in the previous year, fell further by 8.1 percent to Rs. 1.1 billion in the review year. Likewise, export of other commodities such as nigerseed, readymade leather goods, etc. declined in the review year.

1.64 In the review year, imports from India rose by 11.0 percent (Rs. 7.8 billion) and aggregated Rs. 78.7 billion as compared to a rise of 25.3 percent in the previous year

(Table 1.14). Especially, the import of goods such as medicine, M.S. wire rod, pulses, industrial chemicals, other machinery and parts, transport vehicles, petroleum products, cold rolled sheet in coil, M.S. billet, etc from India increased in the review year. However, import of goods such as agricultural equipment and parts, thread, hot rolled sheet in coil, textiles, paper, etc. from India declined. Of the total imports from India, goods worth Rs. 15.3 billion (19.4 percent of total imports from India) were imported on payment of convertible currency. Last year, such import was Rs. 11.7 billion (16.5 percent of total imports from India). As per this provision, the major goods that seemed to have been imported included M.S. billet, M.S. wire rod, industrial chemicals, polyester fiber, hot rolled sheet, cold rolled sheet, nylon yarn, caustic soda, etc. Trade deficit with India that had soared by 55.2 percent in the previous year increased by 7.8 percent in the review year. As a result, the share of trade deficit with India in total trade deficit declined to 58.2 percent in the review year from 59.8 percent in the previous year. Similarly, the share of imports from India in total imports increased to 57.8 percent from 57.0 percent last year.

1.65 In the review year, imports from other countries increased by 7.7 percent and amounted to Rs. 57.5 billion compared to a rise of 5.2 percent last year. Import of gold that had declined by 87.9 percent last year declined further by 33.2 percent. Apart from gold, import of commodities such as silver, clove, medical equipment, textiles, television and parts, readymade garments, computer parts, transport equipment and parts, raw silk, office equipment, camera, watches, etc from other countries went down while import of betelnut, crude palm oil, chemical fertilizer, writing and printing paper, thread, copper wire, other machinery and parts, aircraft spare parts, raw wool, steel rod and sheet, crude soybean oil, etc. from other countries increased in the review year. Trade deficit with other countries increased by 15.0 percent as against a decline of 5.8 percent in the previous year. Similarly, the share of imports from other countries in total imports dropped to 42.2 percent from 43.0 percent of the preceding year.

Balance of Payments

1.66 In the review year, total exports increased by 8.8 percent to Rs. 55.2 billion while total imports expanded by 9.8 percent to Rs. 132.9 billion (Table 1.16). Consequently, trade deficit increased by 10.5 percent to Rs. 77.7 billion in the review year compared to a rise of 31.7 percent last year.

1.67 On the services front, receipts from travel increased by 54.5 percent to Rs. 18.1 billion while receipts under government n.i.e. went up by 7.8 percent to Rs. 7.1 billion in 2003/04. Last year, receipts from travel had expanded by 35.7 percent while receipts under government n.i.e. had contracted by 25.5 percent. Receipts under other services that had grown by 36.7 percent last year went up by 10.8 percent to Rs. 9.0 billion in the review year. As a consequence, total service receipts increased by 29.4 percent to Rs. 34.3 billion in the review year compared to a rise by 12.8 percent a year earlier. On the payment side, transportation, travel and other services expenses went up by 8.9 percent, 62.4 percent and 24.7 percent, respectively, resulting in the increase in total service payment by 29.6 percent to Rs. 25.2 billion. As a result, net services income increased by 28.7 percent and aggregated to Rs. 9.1 billion compared to a growth of 79.0 percent in the previous year. Accordingly, the surplus in the services sector covered 11.7 percent of

trade deficit resulting in total goods and services' deficit of Rs. 68.6 billion which was higher than that of the previous year by 8.5 percent.

1.68 In the review year, on the income front, income receipts declined by 14.4 percent to Rs. 3.8 billion while payments under this heading increased by 7.0 percent to Rs. 5.5 billion. As a result, the overall deficit in goods, services and income account rose by 10.0 percent to Rs. 70.3 billion. Last year, such deficit had gone up by 27.8 percent.

1.69 On the transfers front, grant increased by 41.3 percent and reached Rs. 19.6 billion in the review year compared to a growth of 9.4 percent last year. Review year, workers' remittances rose by 8.1 percent and aggregated to Rs. 58.6 billion. Pension receipts increased by 7.9 percent to Rs. 7.9 billion whereas other transfers receipts (Indian Excise Refund) went up by 30.0 percent and reached Rs. 3.1 billion. In the review year, transfer payment rose by 91.4 percent to Rs. 4.3 billion. Last year, it had gone up by 13.2 percent.

1.70 Current account experienced a surplus of Rs. 14.6 billion (2.9 percent of GDP). Last year, such surplus was Rs. 11.6 billion (2.5 percent of GDP).

1.71 Transfers under the capital account decreased by 73.1 percent and amounted to Rs. 1.5 billion compared to a decrease of 5.3 percent last year.

1.72 With regard to the financial account, other investment assets rose by Rs. 32.3 billion of which trade credit comprised Rs. 2.2 billion. Last year, other investment assets had increased by Rs. 34.6 billion. Under other investment liabilities, trade credit went up by Rs. 3.6 billion. In the review year, the inflow of government loan was Rs. 9.2 billion while principal repayment amounted to Rs. 5.8 billion. As a result, net government loan amounted to Rs. 3.5 billion. In the review year, currency and deposit liabilities rose by Rs. 4.1 billion. Consequently, the financial account has become negative by Rs. 21.5 billion.

1.73 Although the financial account was largely negative, reserve and related items increased by Rs. 20.1 billion in the review year due to the significant surplus in the current account and significant inflow of miscellaneous capital amounting to Rs. 25.6 billion. As a result, the overall BOP remained in surplus by Rs. 16.0 billion. Last year, the BOP had recorded a surplus of Rs. 4.4 billion.

Foreign Exchange Reserve

1.74 Foreign exchange holdings of the banking system aggregated to Rs. 130.2 billion as at mid-July 2004. In the total reserve, NRB's share was 82.9 percent (Table 1.17). Last year, foreign exchange holdings of the banking system amounted to Rs. 108.2 billion out of which the NRB's share was 80.4 percent. Compared to the figures of mid-July 2003, the rate of growth of convertible currency reserves was 20.6 percent while inconvertible reserves increased by 17.9 percent. Last year, convertible currency reserves had risen by 20.8 percent whereas inconvertible currency reserves had declined by 56.1 percent. As at mid-July 2004, the shares of convertible and inconvertible currencies in total foreign exchange reserves remained at 89.8 percent and 10.2 percent, respectively. Last year, the share of convertible currencies was 89.6 percent and that of inconvertible currency was 10.4 percent. As at mid-July 2004, convertible currency reserves aggregated Rs. 117.0 billion. On the basis of import statistics of the review year, the foreign exchange reserve of mid-July 2004 was enough to cover goods import of 11.5 months and merchandise and services import of 9.7 months.

Table 1.1
Macroeconomic Indicators

S.No.	Particulars	2001/02	2002/03	2003/04
Percentage Change				
1.	At Producers' Prices			
2.	(A) GDP (at 1994/95 Prices)	-0.6	3.4	3.7
3.	(B) GDP (at current prices)	2.8	7.9	8.6
4.	Gross National Product (at current prices)	3.2	7.1	7.6
5.	Total Consumption	6.4	8.2	7.9
6.	Total Investment	2.8	16.2	14.1
7.	Gross National Savings	-11.0	1.4	6.0
8.	Gross Fixed Capital Formation	4.6	6.6	9.3
9.	Gross Domestic Savings	-17.4	6.2	13.8
10.	Narrow Money Supply (M ₁)	9.3	8.6	12.2
11.	Broad Money Supply (M ₂)	4.4	9.8	12.8
12.	Domestic Credit	10.4	10.2	9.9
13.	Time Deposits	2.1	10.4	13.1
14.	Total Exports	-15.6	6.4	8.0
15.	Total Imports	-7.2	15.8	9.6
16.	Total Foreign Exchange Reserves	0.7	2.2	20.3
17.	Government Revenue	3.2	11.5	10.7*
18.	Government expenditure	0.3	4.9	9.6*
19.	Revenue Surplus	-69.7	-32.3	690.1*
20.	Government Budget Deficit	-5.2	-28.3	12.1*
21.	Internal Borrowings#	25.5	-22.0	-38.5*
22.	National Urban Consumer Price Index	2.9	4.8	4.0
23.	National Wholesale Price Index	4.9	3.8	4.1
As Percentage of GDP (at Producer's Price)				
1.	Total Consumption	87.9	88.1	87.5
2.	Total Investment	24.1	26.0	27.3
3.	Gross National Savings	16.4	15.5	15.1
4.	Gross Fixed Capital formation	19.3	19.1	19.2
5.	Gross Domestic Savings	12.1	11.9	12.5
6.	Narrow Money Supply (M ₁)	18.3	18.4	19.0
7.	Broad Money Supply (M ₂)	53.0	54.1	56.0
8.	Domestic Credit	49.1	50.2	50.7
9.	Time Deposit	34.8	35.6	37.0
10.	Total Exports	11.1	11.0	10.9
11.	Total Imports	25.4	27.3	27.5
12.	Total Foreign Exchange Reserves	25.1	23.8	26.3
13.	Government Revenue	11.9	12.3	12.6*
14.	Government Expenditure	18.9	18.4	18.6*
15.	Revenue Surplus	0.4	0.3	2.0*
16.	Government Budget Deficit	5.4	3.6	3.7*
17.	Internal Borrowings #	3.6	2.6	1.5*
18.	Trade Balance	-14.3	-16.4	-15.7
19.	Current Account Balance	4.3	2.6	2.9

Includes the changes in cash balance.

* Revised estimates.

Table 1.2
Monetary Survey
(Mid-July)

Rs. in million

	2002	2003	2004*	Change			
				2002/03		2003/04*	
				Amount	Percent	Amount	Percent
1. Foreign Assets, Net	88419.1	91407.0	108804.6	4363.5 ¹	4.9	16005.1 ¹	17.5
1.1. Foreign Assets	106996.2	109306.3	131366.0	2310.1	2.2	22059.7	20.2
1.2 Foreign Liabilities	18577.1	17899.3	22561.4	-677.8	-3.6	4662.1	26.0
2. NDA	135568.5	154504.1	168501.2	17560.0 ²	13.0	15389.7 ²	10.0
2.1. Domestic Credit	207323.0	228443.8	251088.9	21120.9	10.2	22645.1	9.9
a. Net Claims on Govt.	59576.6	62825.0	62313.7	3248.4	5.5	-511.4	-0.8
Claims on Govt.	59576.6	63286.7	63066.7	3710.1	6.2	-220.0	-0.3
Govt. Deposits	0.0	461.7	753.0	461.7	0.0	291.3	63.1
b. Claims on Non Financial Govt. Enterprises	3076.0	2833.2	2914.9	-242.8	-7.9	81.7	2.9
c. Claims on Financial Enterprises	11355.1	11828.7	13343.9	473.6	4.2	1515.2	12.8
Government	11323.1	11739.0	13203.3	415.9	3.7	1464.3	12.5
Non-Government	32.0	89.7	140.6	57.7	180.3	50.9	56.7
d. Claims on Private Sector	133315.3	150956.9	172516.5	17641.6	13.2	21559.6	14.3
2.2. Net Non-monetary Liabilities	71754.5	73939.8	82587.7	3560.9	5.0	7255.4	9.8
3. Broad Money (M₂)	223987.6	245911.1	277305.9	21923.5	9.8	31394.8	12.8
3.1. Narrow Money (M ₁)	77155.5	83753.9	93969.5	6598.4	8.6	10215.6	12.2
Currency	55658.3	56885.7	63218.9	1227.4	2.2	6333.1	11.1
Demand Deposits	21497.2	26868.2	30750.7	5371.0	25.0	3882.5	14.5
3.2. Time Deposits	146832.1	162157.2	183336.4	15325.1	10.4	21179.2	13.1

* Estimated

1 Adjusting the exchange valuation loss of Rs. 1375.6 million.

2 Adjusting the exchange valuation gain of Rs 1392.5 million.

Table 1.3
Condensed Assets and Liabilities of Commercial Banks
(Mid-July)

Rs. in million

	2002	2003	2004	Change			
				2002/03		2003/04	
				Amount	Percent	Amount	Percent
1. Total Deposits	183728.1	202733.8	232576.3	19005.7	10.3	29842.5	14.7
1.1 Demand Deposits	23749.2	28299.4	33038.7	4550.2	19.2	4739.3	16.7
a. Domestic Deposits	19247.5	23188.2	28065.2	3940.7	20.5	4877.0	21.0
b. Foreign Deposits	4501.7	5111.2	4973.5	609.5	13.5	-137.7	-2.7
1.2 Saving Deposits	83817.7	97236.4	114106.3	13418.7	16.0	16869.9	17.3
a. Domestic Deposits	79984.4	92889.4	107497.2	12905.0	16.1	14607.8	15.7
b. Foreign Deposits	3833.3	4347.0	6609.1	513.7	13.4	2262.1	52.0
1.3 Fixed Deposits	74373.7	75348.4	83268.2	974.7	1.3	7919.8	10.5
a. Domestic Deposits	65060.2	67418.2	73676.2	2358.0	3.6	6258.0	9.3
b. Foreign Deposits	9313.5	7930.2	9592.1	-1383.3	-14.9	1661.9	21.0
1.4 Margin Deposits	1787.5	1849.6	2163.1	62.1	3.5	313.5	16.9
2. Borrowings from Rastra Bank	1043.7	947.4	477.9	-96.3	-9.2	-469.5	-49.6
3. Foreign Liabilities	228.4	134.2	521.4	-94.2	-41.2	387.2	288.5
4. Other Liabilities	65933.2	88234.2	75655.4	22301.0	33.8	-12578.9	-14.3
4.1 Paid-up Capital	6183.4	7726.0	8350.6	1542.6	24.9	624.6	8.1
4.2 General Reserves	2540.1	38961.9	13747.1	36421.8	1433.9	-25214.8	-64.7
4.3 Other Liabilities	57209.7	41546.3	53557.6	-15663.4	-27.4	12011.3	28.9
Assets = Liabilities	250933.4	292049.6	309230.9	41116.2	16.4	17181.3	5.9
5. Liquid Funds	46951.9	41330.0	50385.0	-5621.9	-12.0	9055.0	21.9
5.1 Cash in Hand	4908.9	4723.3	4283.8	-185.6	-3.8	-439.5	-9.3
5.2 Balance with Rastra Bank	16152.1	15690.3	24227.0	-461.8	-2.9	8536.7	54.4
5.3 Foreign Currency in Hand	616.9	721.6	435.5	104.7	17.0	-286.1	-39.6
5.4 Balance Held Abroad	23258.3	19366.1	20798.6	-3892.2	-16.7	1432.5	7.4
5.5 Cash in Transit	2015.7	828.7	640.1	-1187.0	-58.9	-188.6	-22.8
6. Loans and Advances	173319.2	201822.5	228234.9	28503.3	16.4	26412.4	13.1
6.1 Claims on Government	29143.8	39469.3	43796.3	10325.5	35.4	4327.0	11.0
6.2 Claims on Non-Financial Govt. Ent.	3068.5	2825.7	2907.4	-242.8	-7.9	81.7	2.9
6.3 Claims on Financial Ent.	9692.0	10278.7	11783.3	586.7	6.1	1504.6	14.6
6.4 Claims on Private Sector	130088.4	148073.2	168692.8	17984.8	13.8	20619.6	13.9
a. Principal	106906.0	121144.0	135081.2	14238.0	13.3	13937.2	11.5
b. Interest Accrued	23182.4	26929.2	33611.6	3746.8	16.2	6682.4	24.8
6.5 Foreign Bills Purchased & Discounted	1326.5	1175.6	1055.1	-150.9	-11.4	-120.5	-10.2
7. Other Assets	30662.2	48897.1	30611.0	18234.9	59.5	-18286.1	-37.4

Table 1.4
List of Licensed Banks and Financial Institutions
(Mid-July 2004)

Commercial Banks					
S. No		Head Office	S. No		Head Office
1.	Nepal Bank Ltd.®	Kathmandu	2.	Rastriya Banijya Bank	Kathmandu
3.	Nabil Bank Ltd.®	Kathmandu	4.	Nepal Investment Bank Ltd.®	Kathmandu
5.	Standard Chartered Bank Nepal Ltd.®	Kathmandu	6.	Himalayan Bank Ltd.®	Kathmandu
7.	Nepal SBI Bank Ltd.®	Kathmandu	8.	Nepal Bangladesh Bank Ltd.®	Kathmandu
9.	Everest Bank Ltd.®	Kathmandu	10.	Bank of Kathmandu Ltd. ®	Kathmandu
11.	Nepal Credit and Commerce Bank Ltd.	Siddharthanagar	12.	Nepal Industrial and Commercial Bank Ltd.®	Biratnagar
13.	Lumbini Bank Ltd.	Narayangadh	14.	Machhapuchchhre Bank Ltd.	Pokhara
15.	Kumari Bank Ltd.	Kathmandu	16.	Laxmi Bank Ltd.	Birganj
17.	Siddhartha Bank Ltd.	Kathmandu			
Development Banks					
1.	Agricultural Development Bank	Kathmandu	2.	Nepal Industrial Development Corporation	Kathmandu
3.	Nepal Development Bank Ltd.®	Kathmandu	4.	Uddyam Development Bank Ltd.	Chitawan
5.	Nirdhan Utthan Bank Ltd.	Siddharthanagar	6.	Malika Development Bank Ltd.	Kailali
7.	Rural Microfinance Development Centre	Kathmandu	8.	Siddhartha Development Bank Ltd.	Butwal
9.	Development Credit Bank Ltd.®	Kathmandu	10.	United Development Bank Ltd.	Bara
11.	Nepal Cottage and Small Industries Development Bank Ltd.	Kathmandu	12.	Deprosc Development Bank Ltd.	Chitawan
13.	Narayani Industrial Development Bank Ltd.	Chitawan	14.	Chhimek Development Bank Ltd.	Hetauda
15.	Swawalamban Development Bank Ltd.	Janakpur	16.	Small Farmers' Development Bank Ltd.	Kathmandu
17.	Paschimanchal Development Bank Ltd.	Rupandehi	18.	Sahayogi Development Bank Ltd.	Janakpur
19.	Pashupaih Development Bank Ltd.	Banepa	20.	Karnali Development Bank Ltd.	Nepalgunj
Rural Development Banks					
1.	Eastern Region Rural Development Bank Ltd.	Biratnagar	2.	Far Western Region Rural Development Bank Ltd.	Dhangadhi
3.	Western Region Rural Development Bank	Butwal	4.	Mid Western Region Rural Development Bank Ltd.	Nepalgunj
5.	Mid-Western Region Rural Development bank	Janakpur			

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Finance Companies					
1.	Nepal Housing Development Finance Co.Ltd. @	Kathmandu	2.	Nepal Finance and Savings Co.Ltd. @	Kathmandu
3.	NIDC Capital Markets Ltd. @	Kathmandu	4.	National Finance Co.Ltd. @	Kathmandu
5.	Annapurna Finance Co. Ltd. @	Pokhara	6.	Nepal Share Market and Finance Ltd. @	Kathmandu
7.	Peoples Finance Ltd. @	Kathmandu	8.	Marcantile Finance Co. Ltd.	Birgunj
9.	Kathmandu Finance Ltd. @	Kathmandu	10.	Himalaya Finance and Savings Co.Ltd.	Kathmandu
11.	Union Finance and Leasing Co. Ltd. @	Kathmandu	12.	Narayani Finance Ltd. @	Bhartpur
13.	Gorkha Finance Co. Ltd. @	Birgunj	14.	Paschimanchal Finance Co. Ltd. @	Butwal
15.	Nepal Housing and Leasing Finance Co. Ltd. @	Kathmandu	16.	Universal Finance and Ltd. @	Kathmandu
17.	Samjhana Finance Co. Ltd. @	Banepa	18.	Goodwill Finance and Ltd. @	Kathmandu
19.	Shree Investment & Finance Co. Ltd. @	Kathmandu	20.	Siddhartha Finance Ltd. @	Siddharthanagar
21.	Lumbini Finance and Leasing Co. Ltd. @	Kathmandu	22.	Investa Finance Ltd.	Birgunj
23.	Yeti Finance Co. Ltd. @	Hetauda	24.	Standard Finance Ltd.	Kathmandu
25.	Ace Finance Co. Ltd. @	Kathmandu	26.	International Leasing and Finance Co. Ltd. @	Kathmandu
27.	Mahalaxmi Finance Co. Ltd. @	Birgunj	28.	Lalitpur Finance Co. Ltd. @	Kathmandu
29.	United Finance Co. Ltd.	Kathmandu	30.	Merchant Finance Co. Ltd.	Kathmandu
31.	Bhajatratna Finance and Saving Co. Ltd.	Kathmandu	32.	General Finance Ltd. @	Kathmandu
33.	Nepal Sri Lanka Merchant Bank Ltd. @	Kathmandu	34.	Alpic Everest Finance Ltd. @	Kathmandu
35.	Nepal Merchant Banking and Finance Ltd. @	Kathmandu	36.	Nava Durga Finance Co.Ltd.	Bhaktapur
37.	Pokhara Finance Ltd. @	Pokhara	38.	Janaki Finance Co. Ltd. @	Janakpur
39.	Central Finance Co. Ltd.	Lalitpur	40.	Premier Finance Co. Ltd.	Lalitpur
41.	Arun Finance and Saving Co. Ltd.	Dharan	42.	Multipurpose Saving and Investment Co. Ltd	Rajbiraj
43.	Butwal Finance Ltd.	Butwal	44.	Nepal Bangladesh Finance and Leasing Co. Ltd. @	Biratnagar
45.	Shrijana Finance Ltd.	Lahan	46.	Om Finance Ltd.	Pokhara
47.	Cosmic Merchant Banking and Finance Ltd.	Kathmandu	48.	World Merchant Banking and Finance Co. Ltd.	Hetauda
49.	Capital Merchant Banking and Finance Ltd.	Kathmandu	50.	Crystal Finance Ltd.	Kathmandu
51.	Royal Merchant Banking and Finance Ltd.	Kathmandu	52.	Guheshwori Merchant Banking and Finance Ltd.	Lalitpur

53.	Patan Finance Co. Ltd.	Lalitpur	54.	Kist Merchant Banking and Finance Ltd.	Kathmandu
55.	Fewa Finance Co. Ltd.	Pokhara	56.	Everest Finance Co. Ltd.	Siddharthanagar
57.	Birgunj Finance Ltd.	Birgunj	58.	Prudential Marchent Banking & Finance Ltd.	Kathmandu
59.	Investment Credit & Finance Co. Ltd.	Kathmandu			
Co-operative Societies (With Limited Banking Transaction)					
1.	Nabajivan Co-operative Society Ltd.	Dhangadi	2.	Nab-Kshitij Co-operative Society Ltd	Kathmandu
3.	Sagun Co-operative Society Ltd.	Kathmandu	4.	Nepal Co-operative Society Ltd.	Kathmandu
5.	Makalu Transport Co-operative Society Ltd.	Biratnagar	6.	The Sahara Loan, Savings and Investment Co-op. Soc. Ltd.	Sarlahi
7.	Bindabasini Saving and Fund Co-operative Society Ltd.	Kavre	8.	Mahila Co-operative Society Ltd.	Kathmandu
9.	Nepal Bahoouddesiyi Co-operative Society Ltd.	Jhapa	10.	Rajshree Saving and Invest.Co-op Society Ltd	Sarlahi
11.	Sahakari Financial Co-operative Society Ltd.	Nepalgunj	12.	Manakamana Co-operative Society Ltd.	Banepa
13.	Bheri Co-operative Society Ltd.	Nepalgunj	14.	Biku Saving and Loan Co-operative Society Ltd.	Nawalparasi
15.	Amarawati Bahoouddesiyi Co-operative Society Ltd.	Kathmandu	16.	Kisan Bahoouddesiyi Co-operative Society Ltd.	Kailali
17.	United Saving and Fund Co-operative Society Ltd.	Kathmandu	18.	Himalayan Co-operative Society Ltd.	Kathmandu
19.	Star Bahoouddesiyi Saving and Loan Co-operative Society Ltd.	Kathmandu	20.	Yeti Saving & Loan Co-operative Society Ltd.	Kathmandu
21.	Upakar Saving Fund & Loan Co-operative Society Ltd.	Syangja			
Non Governmental Organizations (Micro Credit Transaction)					
1.	Nepal Grameen Bikas Samaj Kendra	Biratnagar	2.	Nepal Grameen Bikas Sanstha	Kathmandu
3.	Nepal Sikara Grameen Bikas Karyakram	Chitwan	4.	Chartare Yuba Club	Baglung
5.	Mahuli Samudyik Bijkas Kendra	Saptari	6.	Samudayik Yuba Club	Bardiya
7.	Samudayik Mahila Bikas Kendra	Saptari	8.	Grameen Samudayako Lagi yojana Pratavuti, Nepal	Dhankuta
9.	Grameen Jagaran Manch (Programme Co-ordination Office)	Baglung	10.	Sarbodaya Grameen Bikas Sangh	Saptari
11.	Jan Jagaran Manch	Rasuwa	12.	Rastriya Shaichik Tatha Samajik Bikas Sanstha	Parbat

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13.	Dhaulagiri Community Research Dev. Centre	Baglung	14.	Nepal Environment and Pollution Eradication UNESCO Nepal	Gangabu
15.	Society of Local Volunteers Efforts Nepal (Solve)	Dhankuta	16.	Women Enterprises Association of Nepal	Kathmandu
17.	Center for Women's Right and Development	Kathmandu	18.	MANUSHI	Kathmandu
19.	Life Development Society	Morang	20.	Women Development and Child Care Foundation	Saptari
21.	Mahila Adarsha Sewa Kendra	Kathmandu	22.	Patan Business and Professional Women	Lalitpur
23.	Women Development Centre	Chitwan	24.	Womens Self -Reliant Society	Chitwan
25.	Women Development Centre of Nepal	Lalitpur	26.	Bhagawan Yuva Club	Kathmandu
27.	Srijanatmak Mahila Batabaran Bikas Sanstha	Kathmandu	28.	Srijana Samudayik Bikas Kendra	Siraha
29.	Srijana Development Centre	Pokhara	30.	Sigana Yuva Club	Baglung
31.	Cottage and Small Industry Association	Kathmandu	32.	Rural Sector Development and Research programme	Parbat
33.	Adarsha Yuva Club	Bhaktapur	34.	Society Welfare Action Nepal (SWAN)	Dang
35.	Social Upgrade Invest of Education Region	Dang	36.	Nepal Mahila Samudayik Sewa Kendra	Dang
37.	Grameen Mahila Utsukata Bikas Manch	Sunsari	38.	Grameen Mahila Bikas Sanstha	Dang
39.	Ama Samaj Sangh	Chitawan	40.	Grameen Mahila Utthan Kendra	Dang
41.	Khurkot Yuva Club	Parbat	42.	Tharu Tatha Raji Mahila Samaj	Kailali
43.	Nari Abhudaya Kendra	Chitawan	44.	Mahila Upakar Manch	Banke

No. of Postal Savings Banks (As at mid-July 2004): 117

@ Public share issued

No. of Listed Banks and Financial Institutions:

Banks: 10
 Development Banks: 2
 Finance Companies: 33

Table 1.5
Credit Operation of ADB/N, NIDC and EPF

Rs. in million

	2001/02	2002/03	2003/04	Amount Change		Percentage Change	
				2002/03	2003/04	2002/03	2003/04
Agricultural Development Bank							
1. Loans Disbursed	8,888.9	10,115.3	10,148.9	1,226.4	33.6	13.8	0.3
2. Loans Repaid	6,997.5	8,173.3	9,050.3	1,175.8	877.0	16.8	10.7
3. Loans Outstanding	16,673.7	18,615.7	19,714.3	1,942.0	1,098.6	11.6	5.9
Nepal Industrial Development Bank							
1. Loans Disbursed	77.2	36.7	21.4	(40.5)	(15.3)	(52.5)	(41.7)
2. Loans Repaid	165.2	90.0	103.3	(75.2)	13.3	(45.5)	14.8
4. Loans Outstanding	1,996.3	1,943.0	1,861.1	(53.3)	(81.9)	(2.7)	(4.2)

Note: Figures in parenthesis indicate a decline

Table 1.6
Sources and Uses of Funds of Financial Companies

Rs. in million

	Mid – July			Amount Change		Percent Change	
	2002	2003	2004	2002/03	2003/04	2002/03	2003/04
Sources of Funds							
Capital Funds	2,662.1	3,205.2	3,446.3	543.1	20.4	241.1	7.5
Deposits	13,453.9	16,510.3	19,473.7	3,056.4	22.7	2,963.4	18.0
Borrowings	244.8	134.3	1,312.9	(110.5)	-45.3	1,178.6	879.9
Others	1,825.5	1,788.5	2362.5	(37.0)	-2.0	574.0	32.1
P/L Account	266.4	478.2	665.4	211.8	79.7	187.2	39.1
Sources =Uses	18,452.7	22,116.5	27,260.8	3,663.8	19.9	5,144.3	22.3
Uses of Funds							
Liquid Funds	2,862.4	2,674.0	5,048.8	(188.4)	-6.6	2,374.8	88.8
Investments	1,623.4	2,392.4	1,865.3	769.0	47.4	(527.1)	-22.0
Loans and Advances	11,949.6	14,473.7	17,833.6	2,524.1	21.1	3,359.9	23.2
Others	2,017.3	2,576.4	2513.1	559.1	27.7	(63.3)	-2.4

Table 1.7
Sources and Uses of Funds of Cooperative Societies

Rs. in million

	Mid – July			Amount Change		Percent Change	
	2002 ¹	2003 ²	2004 ³	2002/03	2003/04	2002/03	2003/04
Sources of Funds							
Capital Funds	246.9	273.0	246.3	26.1	10.6	-26.7	-9.8
Deposits	1,570.7	1,924.5	1,667.4	353.8	22.5	-257.1	-13.4
Borrowings	58.7	66.4	41.3	7.7	13.1	-25.1	-37.8
Others	413.5	394.6	427.7	-18.9	-4.6	33.1	8.4
P/L Account	4.9	-8.1	-41.4	-13.0	-255.3	-33.3	411.1
Sources =Uses	2,294.7	2,650.4	2,341.3	355.7	15.5	-309.1	-11.7
Uses of Funds							
Liquid Funds	448.6	389.1	413.1	-59.5	-13.3	24.0	6.2
Investments	188.8	251.9	181.5	63.1	33.4	-70.4	-27.9
Loans and Advances	1,313.5	1,463.2	1,298.3	149.7	11.4	-164.9	-11.3
Others	343.8	532.1	448.4	188.3	54.8	-83.7	-15.7
P/L Account	0.0	14.1	0.0	14.1	0.0	-14.1	-100.0

1 No. of cooperative societies in 2002 = 34

2 No. of cooperative societies in 2003 = 34

3 No. of cooperative societies in 2004 = 21

Table 1.8
Stock Market Indicators

S.N.	Particulars	2001/02	2002/03	2003/04
1	No. of listed companies	96	108	114
2	Paid-up capital of listed share (Rs. in million)	8,680.2	11,898.0	12,016.8
3	Market capitalization (Rs. in million)	34,704.0	35,240.4	41,424.8
4	Annual turnover (Rs. in million)	1,540.6	576.0	2,144.3
5	Market day	246	238	243
6	No. of companies traded	69	80	92
7	No. of transactions	42,028	69,163	85,533
8	No. of listed shares (in '000)	122,685	159,958	161,141
9	The ratio of paid-up capital to GDP (%)	2.1	2.6	2.4
10	The ratio of turnover to paid-up capital (%)	17.7	4.8	17.8
11	The ratio of turnover to market capitalization (%)	4.4	1.6	5.2
12	The ratio of market capitalization to GDP (%)	8.6	7.7	8.4
13	NEPSE index (closing)	227.5	204.9	222.0

Source: Nepal Stock Exchange Ltd.

Table 1.9
Sectoral Growth Rates of Gross Domestic Product
(At 1994/95 Prices)

(In Percent)

Particular	Growth rate			Sectoral Contribution		
	2001/02	2002/03	2003/04*	2001/02	2002/03	2003/04*
(a) Agricultural Sector	2.2	2.5	3.9	39.0	38.8	39.0
Food grains	1.0	1.6	5.2	-	-	-
Cash Crops	5.4	3.7	2.0	-	-	-
Other Crops	3.3	4.6	3.4	-	-	-
Livestock	3.8	3.2	3.0	-	-	-
Fishery	5.2	4.4	9.4	-	-	-
Forestry	1.5	-3.0	2.4	-	-	-
(b) Industrial Sector	-2.9	3.0	1.0	22.9	22.9	22.4
Manufacturing	-10.0	2.0	1.7	-	-	-
Mining	1.6	1.9	0.6	-	-	-
Construction	1.1	1.7	0.2	-	-	-
Electricity, Gas and Water	10.0	16.8	2.3	-	-	-
(c) Services Sector	-1.4	3.3	4.3	38.2	38.3	38.6
Trade, Restaurant and Hotel	-10.1	3.3	6.4	-	-	-
Transport, Communication and Storage	1.6	4.3	5.4	-	-	-
Finance and Real Estate	3.3	3.3	2.9	-	-	-
Community and Social Services	1.7	2.7	2.7	-	-	-
GDP (A+B+C)	-0.4	2.9	3.4	100.0	100.0	100.0

* Revised estimates.

Source: Central Bureau of Statistics/NRB.

Table 1.10
National Urban Consumer Price Index
(1995/96 = 100)

Groups & sub-groups	Weight %	2001/02	2002/03	2003/04	Percentage Change	
					2002/03	2003/04
OVERALL INDEX	100.00	142.1	148.9	154.8	4.8	4.0
FOOD & BEVERAGES	53.20	137.9	144.0	148.8	4.4	3.3
Grains and Cereal Products	18.00	127.7	138.2	139.8	8.2	1.2
Rice and Rice Products	(14.16)	125.8	136.6	138.0	8.6	1.0
Pulses	2.73	123.9	125.3	126.1	1.1	0.6
Vegetables and Fruits	7.89	135.0	135.7	140.3	0.5	3.4
Spices	1.85	156.1	142.3	148.0	-8.8	4.0
Meat, Fish and Eggs	5.21	143.5	148.2	158.3	3.3	6.8
Milk and Milk Products	4.05	146.4	147.8	150.4	1.0	1.8
Oil and Ghee	3.07	114.5	136.9	153.7	19.6	12.3
Sugar and Related Products	1.21	133.8	124.4	123.9	-7.0	-0.4
Beverages	2.28	151.2	161.6	162.1	6.9	0.3
Restaurant Meals	6.91	168.2	174.1	183.2	3.5	5.2
NON-FOOD & SERVICES	46.80	147.2	154.6	161.8	5.0	4.7
Cloth, Clothing & Sewing Services	8.92	133.8	135.7	138.1	1.4	1.8
Cloths	(2.28)	125.5	124.6	126.3	-0.7	1.4
Clothings	(5.75)	133.5	136.6	138.1	2.3	1.1
Footwear	2.20	131.2	132.7	133.3	1.1	0.5
Housing Goods & Services	14.87	144.5	153.0	163.1	5.9	6.6
Fuel, Light and Water	(5.92)	168.6	182.6	200.8	8.3	10.0
Transport and Communication	4.03	162.4	172.2	185.2	6.0	7.5
Medical and Personal Care	8.03	156.5	163.2	169.3	4.3	3.7
Education, Reading and Recreation	7.09	159.3	174.1	182.1	9.3	4.6
Tobacco and Related Products	1.66	146.3	150.5	153.2	2.9	1.8
Urban Consumer Price Index : Kathmandu Valley						
Overall Index	100.00	136.5	141.7	150.1	3.8	5.9
Food & Beverages	51.53	133.8	137.5	145.6	2.7	5.9
Non-food & Services	48.47	139.4	146.3	155.0	4.9	6.0
Urban Consumer Price Index : Terai						
Overall Index	100.00	144.0	152.2	156.9	5.7	3.1
Food & Beverages	54.98	138.0	146.3	149.2	6.0	2.0
Non-food & Services	45.02	151.5	159.3	166.4	5.1	4.5
Urban Consumer Price Index : Hills						
Overall Index	100.00	146.2	151.8	156.6	3.8	3.2
Food & Beverages	53.04	144.1	148.5	153.0	3.1	3.0
Non-food & Services	46.96	148.6	155.5	160.8	7.2	3.4

Table 1.11
National Wholesale Price Index
(Base Year 1999/2000 = 100)

Groups and Sub-groups	Weight %	2001/02	2002/03	2003/04	Percentage Change	
					2002/03	2003/04
Overall Index	100.0	106.4	110.4	114.9	3.8	4.1
Agricultural Commodities	49.6	105.6	109.6	111.9	3.8	2.1
Foodgrains	16.6	87.5	95.3	93.7	8.9	-1.7
Cash Crops	6.1	139.6	131.7	120.5	-5.6	-8.5
Pulses	3.8	111.4	114.5	115.3	2.8	0.7
Fruits and Vegetables	11.2	107.0	112.3	121.3	4.9	8.0
Spices	1.9	103.3	97.8	106.1	-5.3	8.4
Livestock Production	10.0	111.4	117.2	126.2	5.2	7.7
Domestic Manufactured Commodities	20.4	105.5	108.4	114.5	2.8	5.6
Food Related Products	6.1	103.2	107.2	109.0	3.8	1.7
Beverages and Tobacco	5.7	108.2	112.1	116.3	3.6	3.7
Construction Materials	4.5	109.0	109.5	126.4	0.5	15.5
Others	4.1	101.4	104.0	107.3	2.5	3.2
Imported Commodities	30.0	108.4	113.1	120.1	4.3	6.2
Petroleum Products and Coal	5.4	125.8	141.0	158.3	12.1	12.3
Chemical Fertilizers and Chemical Goods	2.5	120.8	122.9	127.6	1.7	3.8
Transport Vehicles and Machinery Goods	7.0	101.4	102.9	108.3	1.4	5.3
Electric and electronic Goods	1.9	99.3	97.6	96.1	-1.6	-1.6
Drugs and Medicine	2.7	102.0	103.2	107.0	1.2	3.6
Textile related Products	3.1	101.9	105.8	110.8	3.8	4.8
Others	7.4	105.8	109.9	115.9	3.9	5.5

Table 1.12
Government Budgetary Operations*
(On Cash Flow Basis)

Rs. in million

Heads\ Mid-month	2001/02		2002/03		2003/04	
	Amount	Percent	Amount	Percent	Amount	Percent
Expenditure	71594.2	4.0	73050.2	2.03	81162.5	11.1
1. Regular	48253.3	13.5	54736.2	13.44	58149.9	6.3
2. Development	21773.4	-13.8	16922.0	-22.28	25007.9	47.8
3. Others (Freeze Account)	1567.5	47.9	1358.2	-13.35	1621.3	19.4
Resources	53254.1	0.6	60484.2	13.58	68499.7	13.3
1. Revenue	50445.6	3.2	56236.9	11.48	62331.0	10.8
2. Foreign Cash Grants	2070.6	-27.4	2458.8	18.75	5153.6	109.6
3. Non Budgetary Receipts, net	1623.6	27.1	1679.6	3.45	855.9	-49.0
4. Others	-840.9	969.8	135.9	-116.16	164.5	21.0
5. VAT Deposit	-44.8	52.9	4.1	-109.15	-5.3	-229.3
Deficit (-) Surplus(+)	-18340.1	15.2	-12636.0	-31.10	-12662.8	0.2
Sources of Financing Deficit	18340.1	15.2	12518.7	-31.74	12662.8	1.2
1. Domestic Loans*	13869.1	14.4	8194.1	-40.92	4971.0	-39.3
<i>a. Treasury Bills</i>	1500.0	-15.8	1768.5	17.90	2460.0	39.1
<i>b. Development Bonds</i>	5372.1	216.0	6394.3	19.03	2000.0	-68.7
<i>c. National Saving Bonds</i>	499.8	-76.2	400.0	-19.97	900.0	125.0
<i>d. Citizen Saving Bonds</i>	628.1	0.0	251.3	-59.99	247.8	-1.4
<i>e. Overdrafts*</i>	5898.3	-9.9	-461.4	-107.82	-753.0	63.2
<i>f. Others</i>	-29.2	0.0	-68.3	133.77	116.2	-270.2
2. Foreign Cash Loans	4471.0	17.9	4280.3	-4.27	7691.8	79.7

* As per NRB records.

Table 1.13
Outstanding Domestic Debt of HMG

Rs in million

	Name of Bonds/Ownership	2001/02	2002/03	2003/04	Percentage Change	
					2002/03	2003/04
1.	Treasury Bills	41106.5	48860.7	49429.6	18.9	1.2
	a. Banking Sector	38293.7	46990.7	45958.7	22.7	-2.2
	<i>i. Nepal Rastra Bank</i>	15263.9	15816.9	9804.4	3.6	-38.0
	<i>ii. Commercial Banks</i>	23029.8	31173.8	36154.3	35.4	16.0
	b. Non-Banking Sector	2812.8	1870.0	3470.9	-33.5	85.6
2.	Development Bonds	11090.7	16059.2	17549.2	44.8	9.3
	a. Banking Sector	7692.8	9036.9	9885.7	17.5	9.4
	<i>i. Nepal Rastra Bank</i>	2266.2	1796.0	3298.3	-20.8	83.7
	<i>ii. Commercial Banks</i>	5426.6	7240.9	6587.4	33.4	-9.0
	b. Non-Banking Sector	3397.9	7022.3	7663.5	106.7	9.1
3.	National Saving Certificates	11536.3	9629.8	9029.8	-16.5	-6.2
	a. Banking Sector	138.5	110.0	450.8	-20.6	309.8
	<i>i. Nepal Rastra Bank</i>	20.7	0.0	340.8	-100.0	0.0
	<i>ii. Commercial Banks</i>	117.8	110.0	110.0	-6.6	0.0
	b. Non-Banking Sector	11397.8	9519.8	8579.0	-16.5	-9.9
4.	Citizen Saving Bonds	628.1	931.1	1178.9	48.2	26.6
	a. Banking Sector	3.1	0.0	45.8	-100.0	0.0
	<i>Nepal Rastra Bank</i>	3.1	0.0	45.8	-100.0	0.0
	b. Non-Banking Sector	625.0	931.1	1133.1	49.0	21.7
5.	Special Bonds	9259.3	9164.5	8946.2	-1.0	-2.34
	a. Banking Sector	7355.4	6954.3	6530.9	-5.5	-6.1
	<i>i. Nepal Rastra Bank</i>	6568.4	6009.7	5586.3	-8.5	-7.1
	<i>ii. Commercial Banks</i>	787.0	944.6	944.6	20.0	0.0
	b. Non-Banking Sector	1903.9	2210.2	2415.3	16.1	9.3
6.	Short Term Loan & Advances	5898.3	-461.7	-753.0	-107.8	63.1
	Nepal Rastra Bank	5898.3	-461.7	-753.0	-107.8	63.1
7.	Grand Total	79519.2	84183.6	85380.7	5.9	1.4
	a. Banking Sector	59381.8	62630.2	62118.9	5.5	-0.8
	<i>i. Nepal Rastra Bank</i>	30020.6	23160.9	18322.6	-22.9	-20.9
	<i>ii. Commercial Banks</i>	29361.2	39469.3	43796.3	34.4	11.0
	b. Non-Banking Sector	20137.4	21553.4	23261.8	7.0	7.9

Source: NRB

Table 1.14
Direction of Foreign Trade*

Rs. in million

	2001/02	2002/03	2003/04 ^R	Percentage Change	
				2002/03	2003/04
Total Exports	46944.8	49930.6	53910.7	6.4	8.0
To India	27956.2	26430.0	30777.1	-5.5	16.4
To Other Countries	18988.6	23500.6	23133.6	23.8	-1.6
Total Imports	107389.0	124352.1	136277.1	15.8	9.6
From India	56622.1	70924.2	78739.5	25.3	11.0
From Other Countries	50766.9	53427.9	57537.6	5.2	7.7
Total Trade Balance	-60444.2	-74421.5	-82366.4	23.1	10.7
With India	-28665.9	-44494.2	-47962.4	55.2	7.8
With Other Countries	-31778.3	-29927.3	-34404.0	-5.8	15.0
Total Foreign Trade	154333.8	174282.7	190187.8	12.9	9.1
With India	84578.3	97354.2	109516.6	15.1	12.5
With Other Countries	69755.5	76928.5	80671.2	10.3	4.9

* Based on Customs data

R Revised

Table 1.15
Export of Selected Commodities to Other Countries

(Rs. in million)

		2001/02	2002/03	2003/04 ^R	Percentage Change	
					2002/03	2003/04
1	Woolen Carpet	6212.5	5320.0	5677.5	-14.4	6.7
2	Readymade Garments	7833.0	11890.1	9550.0	51.8	-19.7
3	Pashmina	1245.0	1157.6	1064.1	-7.0	-8.1
4	Tanned Skin	464.7	227.3	309.0	-51.1	35.9
5	Silverware and Jewelleries	274.1	347.7	368.7	26.9	6.0
6	Nepalese Paper & Paper Products	200.5	262.0	279.6	30.7	6.7
7	Pulses	216.0	214.9	280.7	-0.5	30.6
	Total	16445.8	19419.6	17529.6	18.1	-9.7

R=Revised

Table 1.16
Summary Balance of Payments

Rs. in million

Particulars	2001/02	2002/03	2003/04 ^R	Percentage Change	
				2002/03	2003/04
A. Current Account	18161.1	11614.7	14598.0	-36.0	25.7
Goods: exports f.o.b.	57983.5	50760.7	55228.3	-12.5	8.8
Oil	10452.1	0.0	0.0	-100.0	-
Other	47531.4	50760.7	55228.3	6.8	8.8
Goods: imports f.o.b.	-111342.0	-121053.0	-132909.9	8.7	9.8
Oil	-22136.5	-18811.6	-20167.3	-15.0	7.2
Other	-89205.5	-102241.4	-112742.6	14.6	10.3
<i>Balance on Goods</i>	<i>-53358.5</i>	<i>-70292.3</i>	<i>-77681.6</i>	<i>31.7</i>	<i>10.5</i>
Services Net	3938.4	7049.7	9074.9	79.0	28.7
Services: credit	23508.2	26518.9	34315.9	12.8	29.4
Travel	8654.3	11747.7	18147.4	35.7	54.5
Government n.i.e.	8894.5	6624.0	7143.9	-25.5	7.8
Other	5959.4	8147.2	9024.6	36.7	10.8
Services: debit	-19569.8	-19469.2	-25241.0	-0.5	29.6
Transportation	-8854.4	-8618.4	-9382.1	-2.7	8.9
Travel	-5731.1	-6171.5	-10021.5	7.7	62.4
Other	-4984.3	-4679.3	-5837.4	-6.1	24.7
<i>Balance on Goods and Services</i>	<i>-49420.1</i>	<i>-63242.6</i>	<i>-68606.7</i>	<i>28.0</i>	<i>8.5</i>
Income Net	-604.9	-675.7	-1683.9	11.7	149.2
Income: credit	4297.0	4487.0	3841.5	4.4	-14.4
Income: debit	-4901.9	-5162.7	-5525.4	5.3	7.0
<i>Balance on Goods, Services and Income</i>	<i>-50025.0</i>	<i>-63918.3</i>	<i>-70290.6</i>	<i>27.8</i>	<i>10.0</i>
Current transfers Net	68186.1	75533.0	84888.6	10.8	12.4
Current transfers: credit	70157.3	77765.1	89161.8	10.8	14.7
Grants	12650.5	13842.2	19557.8	9.4	41.3
Workers' remittances	47536.3	54203.3	58587.6	14.0	8.1
Pensions	8269.6	7327.3	7906.2	-11.4	7.9
Other	1700.9	2392.3	3110.2	40.6	30.0
Current transfer: debit	-1971.2	-2232.1	-4273.2	13.2	91.4
B. Capital Account	5694.0	5393.9	1452.2	-5.3	-73.1
<i>Total, Groups A plus B</i>	<i>23855.1</i>	<i>17008.6</i>	<i>16050.2</i>	<i>-28.7</i>	<i>-5.6</i>
C. Financial Account(exclu. group E)	-37333.4	-17198.9	-21540.1	-53.9	25.2
Direct investment in Nepal	-282.3	961.4	0.0	-440.6	-100.0
Other investment: assets	-35136.9	-34629.5	-32591.2	-	-
Trade credits	-1294.5	1041.0	-2247.6	-180.4	-315.9
Other	-33842.4	-35670.5	-30343.6	5.4	-14.9
Other investment: liabilities	-1914.2	16469.2	11051.1	-960.4	-32.9
Trade credits	-5279.0	16899.3	3629.8	-420.1	-78.5
Loans	2899.6	-52.4	3325.2	-101.8	-6445.8
General Government	2963.5	-432.8	3479.1	-114.6	-903.9
Drawings	8040.3	5236.0	9244.7	-34.9	76.6
Repayments	-5076.8	-5668.8	-5765.6	11.7	1.7
Other sectors	-63.9	380.4	-153.9	-695.3	-140.5
Currency and deposits	465.2	-377.7	4096.1	-181.2	-1184.5
Nepal Rastra Bank	-197.4	-23.4	-77.4	-88.1	230.8
Deposit money banks	662.6	-354.3	4173.5	-153.5	-1278.0
Other liabilities	0.0	0.0	0.0	-	-
<i>Total, Groups A through C</i>	<i>-13478.3</i>	<i>-190.3</i>	<i>-5489.9</i>	<i>-98.6</i>	<i>2784.9</i>
D. Net Errors and Omissions	10600.6	4176.1	25591.2	-60.6	512.8
<i>Total, Groups A through D</i>	<i>-2877.7</i>	<i>3985.8</i>	<i>20101.3</i>	<i>-238.5</i>	<i>404.3</i>
E. Reserves and Related Items	2877.7	-3985.8	-20101.3	-238.5	404.3
Reserve assets	3203.4	-3685.2	-20658.0	-215.0	460.6
Nepal Rastra Bank	-1712.7	-7809.9	-19507.8	356.0	149.8
Deposit Money Banks	4916.1	4124.7	-1150.2	-16.1	-127.9
Use of Fund credit and loans	-325.7	-300.6	556.7	-7.7	-285.2
Change in Net Foreign Assets(-increase)	3342.9	-4363.5	-16005.2	-230.5	266.8

R = Revised.

Table 1.17
Gross Foreign Exchange Holding of the Banking Sector

Rs. in million

	2002	2003	2004	Percent Change	
				2003	2004
Nepal Rastra Bank	80699.5	86966.1	107915.9	7.8	24.1
Convertible	56699.5	76752.0	96235.9	35.4	25.4
Inconvertible	24000.0	10214.1	11680.0	-57.4	14.4
Commercial Bank	25201.7	21263.3	22289.2	-15.6	4.8
Convertible	23609.7	20249.2	20734.8	-14.2	2.4
Inconvertible	1592.0	1014.1	1554.4	-36.3	53.3
Total Reserve	105901.2	108229.4	130205.1	2.2	20.3
Convertible	80309.2	97001.2	116970.7	20.8	20.6
Inconvertible	25592.0	11228.2	13234.4	-56.1	17.9

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2 | Activities of Nepal Rastra Bank

Monetary Policy for 2003/04

2.1 In the process of monetary policy formulation and implementation in order to maintain macroeconomic stability as mandated by NRB Act, 2002, a monetary policy report for 2003/04 was made public on July 24, 2003 for second time to make objectives and strategies of monetary policy transparent to public. Monetary policy for 2003/04 was formulated in consistent with the fiscal policy of the government and on the background of existing macroeconomic situations. The monetary policy report incorporated background, overall economic situation, review of monetary policy and financial sector reform programme implemented in 2002/03, existing problems of monetary policy, monetary policy framework and programme for 2003/04, financial sector and foreign exchange reforms, challenges of monetary policy for 2003/04 and projections of monetary aggregate and the conclusion.

2.2 Important points of the monetary policy for 2003/04 were as follows:

Objectives	To strengthen the economic and financial sector stability, to maintain the macroeconomic indicators favourable, to keep lending rates at appropriate level by managing liquidity required for the economy.
Ultimate targets	To attain price stability and BOP consolidation by maintaining real effective exchange rate stable.
Intermediate targets	Money supply and domestic credit
Operating targets	NDA of NRB
Major monetary instruments	<ul style="list-style-type: none"> • Open market operations and short-term interest rate. • The provision of maintaining 2.0 percent balance at commercial bank's vault as a part of compulsory reserve requirement (CRR) was withdrawn by introducing the provision of maintaining 6.0 percent of commercial bank's total domestic deposit liabilities at NRB as CRR. • The bank rate was kept unchanged at 5.5 percent. Other refinance rates maintained as (a) 2.0 percent for export credit in foreign currencies, (b) 2.0 percent from existing 3.0 percent for sick industries refinancing and (c) 4.5 percent for rural development banks and export credit in domestic currency.

	<ul style="list-style-type: none"> • Auction system to be introduced for other short-term treasury bills in addition to the existing 91-day and 364-day treasury bills. • The issue calendar for government securities to be made public, the existing secondary market system to be strengthened, and government securities to be gradually converted into marketable securities. • Refinance facility of Rs. 1.5 billion to be made available to commercial banks for the rehabilitation of sick industries (including the industries in the industrial districts). Arrangements was made for commercial banks to reduce their lending rate for sick industries to 5.5 percent from 6.5 percent as the refinance rate revised downward to 2.0 percent from the existing 3.0 percent. • A penalty on shortfall up to 25.0 percent of the priority and deprived sector lending requirement as per the NRB's directive was waived for 2002/03. • The minimum risk-weighted capital adequacy ratio for 2003/04 was to be 11.0 percent, with the core capital of 5.5 percent. • NRB to allocate 5.0 percent of its profit of 2003/04 to the Rural Self-Reliance Fund.
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Financial Sector Reform

2.3 The ongoing Financial Sector Reform Programme (FSRP), with the loan assistance of the World Bank and grant assistance of the Department for International Development (DFID) of the UK government has incorporated programmes like re-engineering of NRB, restructuring and ownership reform of the NBL and RBB, and capacity building in the financial sector.

Re-engineering of NRB

2.4 Regulatory measures of international standard has been implemented after its formulation with the help of foreign consultant to enhance the regulatory capacity of NRB in the context of evolution in the banking sector with the technological development. In addition, on-site inspection and supervision manual of international standard have also been introduced with a view to enhancing the inspection and supervision function of NRB. For re-engineering of NRB, IOS Partners a US based company has been appointed as a consultant. Necessary works as per the re-engineering plan have been initiated since March 1, 2003. An NRB/Re-engineering Steering Committee has also been constituted in order to accelerate the re-engineering process and

also to evaluate and suggest the ways of implementation of the consultant's recommendations. The progress of the NRB re-engineering were as follows:

- a) Effective from November 25, 2003, a new organizational structure of NRB was introduced according to the nature of the work.
- b) With a view to avoid the duplication, the structure of departments was modified with effect from November 25, 2003 by merging similar functions of one department into another.
- c) On-the-Job training was provided to 30 employees by the consultant to increase the efficiency and perfection of inspection and supervision works.
- d) A training was provided to 46 external auditors to increase their efficiency.
- e) Inspection and supervision manual was updated. The inspection and supervision work has been more clarified and made effective.
- f) Off-site manual was prepared and implemented.
- g) Charts of accounts was prepared in order to make the accounting system IAS-standard.
- h) Valuable comments were received for the improvement of Internal Audit Manual, which shall be incorporated in the new manual.
- i) Job description of employees were prepared.
- j) Number of employees necessary for NRB was ascertained. Accordingly, a voluntary retirement scheme (VRS) was introduced on March 31, 2003 through which 351 employees took voluntary retirement. In the second phase of VRS implementation on March 31, 2004, a total of 102 employees took voluntary retirement.
- k) An increment in allowances was made for the employees after the accomplishment of study on revision of salary and allowances.
- l) A study of the rationality of recommendations made by the consultants for the modification of staff policy of the bank was underway.
- m) Training needs were identified to improve the skills and knowledge of the human resource of the bank. Accordingly, plans to conduct training programmes in order to raise the level of skill of the employees were made.
- n) Second phase of the re-engineering programme of NRB was visualized. Computerization of the bank, increasing the effectiveness of inspection and supervision works and improvement of the accounting manual in order to make it IAS-compliant would be the major objective of the programme.

Restructuring of RBB and NBL

2.5 Management Plan, Budget Plan and Procedures, Charts of Account and new Credit Policy Guidelines, which were prepared by a team of Nepalese and foreign consultants under the leadership of a US national Mr. Bruce F. Henderson, Chief executive Officer of RBB, were implemented by the bank in course of the restructuring process. Audit of accounts up to 2002/03 has been completed. Loss of the bank came down to Rs. 4.8 billion in 2002/03 from Rs. 7.1 billion in 2001/02. As shown in provisional financial statements of 2003/04, the bank could earn a profit of Rs. 1.0 billion. The target of the management team was to recover or restructure non-performing assets of Rs. 4.0 billion

within 2003/04. In the period of one and a half year, the management team recovered non-performing loans of Rs. 3.3 billion in cash. In order to keep the number of human resources at desired level, a VRS was introduced in which 1,038 employees took voluntary retirement. For the computerization of banking transactions, necessary items were in the process of supply after opening the L/Cs after the selection of supplier for hardware and software.

2.6 Under the financial sector reform programme of HMG, a management team of ICC Consulting from Bank of Scotland (Ireland) has been working for the restructuring of NBL since July 22, 2002. A marked improvement observed in the losses of the bank after completing the audit of 1999/00 to 2002/03. Loss of the bank decreased to Rs. 250.0 million in 2002/03 from Rs. 3.1 billion in 2001/02. As per the provisional financial statements of 2003/04, the bank could earn a profit of Rs. 720.0 million. The management team received consent of NRB and the World Bank for the financial report, budget plan for 2003/04 and management plan. The bank prepared and submitted a detailed human resource development plan. The bank purchased computer hardware and software in order to computerize its transactions. Credit policies and directives of the international standard and assets/liabilities management have been prepared and implemented in the bank. Having finalized the portfolio review, recovery and restructuring of loans were underway. In addition, with a view to modernizing loan administration, different departments and units were formed and started their functions. Similarly, in last two year's period, the management team recovered non-performing loans of Rs. 4.1 billion in cash. The bank has been approaching continuously the big borrowers and trying to recover or restructure their loans. In the VRS introduced for maintaining human resources at appropriate level, a total of 1,351 employees of the bank took voluntary retirement.

Bank and Financial Institutions Ordinance, 2004

2.7 A draft of Bank and Financial Institutions Act was prepared in order to unify different acts governing different banks and financial institutions, and submitted to the Ministry of Finance. As a consequence, Banks and Financial Institutions Ordinance (BAFIO), 2004 has been issued since August 5, 2004.

Control over Commercial Banks

2.8 A management committee, constituted as per sub-clause (2) of clause 86 of NRB Act, 2002, has been operating NBL after the take over of management of the bank by NRB as per sub-clause (1) of the same clause with effect from March 14, 2002. The same committee was allowed to work for two more years after extending the duration of the take over for the same period as the financial position of NBL found to improve after taking the measure. In the same way, the management of the Lumbini Bank Limited was also taken under control with effect from March 20, 2002. After that date, a management committee has been operating the bank. The period of control extended for one year at first and later for eight months with effect from March 17, 2004 as per sub-clause (5) of clause 86. Overall financial position of the bank also found to improve after controlling over the management of the bank by NRB. The period of control, as mentioned above, extended for eight months because of unavoidable circumstances faced by the management committee despite its subsequent efforts to issue public shares by March 19,

2004 in order to arrange to operate the bank by a board of directors including representatives from ordinary shareholders. However the prospectus was issued within the set time frame.

Regulation of Banks and Financial Institutions

Revision of Regulations and Directives

2.9 In a process of timely revision of existing regulation and directives, NRB has attempted to clarify certain ambiguous clauses, repeal some directives and amend several regulatory directives. The major regulations and directives amended and issued 2003/04 were as follows:

- (a) A promoter of the bank holding more than 1.0 percent of the total share was prohibited from the use of loan facility from the same bank.
- (b) Several clauses of the existing directives regarding the increase in the bank's paid-up capital, swap loan, formation of audit committee, adjustment in loan loss provisioning, various aspects of corporate governance, rescheduling and restructuring of loans, etc. were revised.
- (c) Directives were issued regarding the issuance of financial guarantee.
- (d) For 2002/03 only, if banks collect cent percent of their interest income and restructure the loans, a loan loss provision of 1.0 percent was allowed.
- (e) Loan advanced to the Small Farmers Development Bank Limited shall be deemed as loan to the deprived sector.
- (f) Directives were issued regarding the use of promoter's share as a collateral.
- (g) A simple revision was made to the provision of capital fund and a directive was issued, based on its risk-weighted assets, requiring banks to maintain capital fund at 11.0 percent (of which primary capital fund should be 5.5 percent at minimum) in 2003/04 and 12.0 percent (of which primary capital fund should be at least 6.0 percent) from 2004/05 onwards.
- (h) The provision of permitting adjustment on the interest rate of loans by a margin of 0.5-percentage point, with mutual understanding between the bank and the borrower, was abolished.
- (i) A provision was made to protect small and medium scale industries up to Rs. 10.0 million through Deposit Insurance and Credit Guarantee Corporation (DICGC).
- (j) A directive was issued regarding the loans advanced under consortium financing by NRB licensed institutions.

Classification of Banks and Financial Institutions

2.10 In accordance with clause 31 of BAFIO, 2004, the classification of the banks and financial institutions based on the minimum paid-up capital was made as follows:

Class	Required minimum Paid-up Capital				
	National Level	Regional Level [*]	4-10 Districts [*]	1-3 Districts [*]	1 District [*]
'A'	Rs. 1 billion	Rs. 250 million	-	-	-
'B'	Rs. 320 million	-	Rs. 50 million	Rs. 20 million	-
'C'	Rs. 150 million ⁺	-	-	-	Rs. 20 million
	Rs. 50 million	-	-	-	Rs. 10 million ⁺⁺
'D' ^{**}	Rs. 100 million	Rs. 60 million	Rs. 20 million	Rs. 10 million	-

* Excluding Kathmandu Valley.

** Financial institutions dealing in micro-finance business only.

+ Applicable only to financial institutions conducting leasing business.

++ Limited only to any one district of either Mid-Western or Far-Western Development Region.

Application and License Fees

2.11 As per the clause 4(1) of the BAFIO, 2004, while submitting an application to the NRB for registration of a bank or financial institution by the concerned individual, based on the prevailing law, an arrangement of charging a fee equal to 0.01 percent of the issued capital of the respective bank and financial institution was made.

2.12 In accordance with the clause 29(2) of the BAFIO, 2004, while applying for the license to carry out financial transactions, a provision has been made to pay fee equal to 0.02 percent of the issued capital of the respective bank or financial institution.

2.13 In case of the financial institutions that obtained the approval, and those already established as per the prevailing law and have submitted the application for license of carrying out financial business, the fee as specified in paragraph 2.12 shall be charged by that specified in paragraph 2.11 shall be waived.

Revision of Policy Related to Commercial Banks

2.14 A commercial bank with its headquarter outside the Kathmandu Valley shall operate throughout the country including the Kathmandu Valley only if its operations for at least three years is found satisfactory, its paid-up capital has been raised to a minimum of Rs. 1.0 billion and it has met other conditions as prescribed. With regard to already established regional level commercial banks, upon submission of an application, a provision was made whereby it can open its office in Kathmandu Valley even before the completion of three years, if it raises its paid-up capital to Rs 1.0 billion and entered into a three-year technical services agreement with a foreign bank. Likewise, the other conditions to be met for opening an office in Kathmandu Valley by banks operating outside the Kathmandu Valley for three years were also laid down.

Policy Provisions for Finance Companies

2.15 To calculate capital fund, risk weights on loans were revised as follows:

Loans advanced against the security of government/NRB bonds or fixed receipts	0.00
Loans forwarded against the security of fixed receipts of other financial institutions approved by NRB.	0.20

2.16 While mobilizing deposits, a provision has been made to allow finance companies to accept saving deposits not exceeding 2.5 times of their primary capital.

2.17 With regard to compulsory cash reserve ratio, finance companies were needed to deposit at least one percent of their total deposit liabilities and borrowing by opening an account with NRB; but from now onwards, they could deposit that amount in a separate current account in nearby commercial bank, and such deposit, too, shall be deemed as compulsory cash reserve. Regarding the compulsory reserve and liquid assets for the finance companies, the provision of including "reserve held as deposit in a national level development bank" under liquid assets was revised to include "reserve held as deposit in development banks (except those involved in micro-finance business)." Finance companies were required to submit the details of cash reserve held in their vault at the end of every fiscal year (at mid-July), after getting it certified by the chief executive of the company, to the Banks and Financial Institutions Regulation Department and the Financial Institutions Supervision Department of NRB.

2.18 For rescheduling and restructuring of loans and advances and leasehold assets, there must be the collection of at least 25% of accrued interest income on such transactions but a provision of loans rescheduling or restructuring by capitalizing the accrued interest into arrears is prohibited. Similarly, in case of the loans swapped by other banks and financial institutions, the finance company swapping the loans should categorize the loans in its original categorization and should adjust the loan loss provision as per current loan loss provisioning arrangement. In addition, the finance company swapping the loan should obtain the certified details of the category of such loans from the concerned bank or financial institution.

2.19 Some of the provisions regarding related borrowers as a single group were revised.

2.20 Finance companies were prohibited to invest in promoter's share of other banks and financial institutions licensed by NRB.

2.21 The following directives were issued regarding financial guarantee:

- (a) Banks and financial institutions, while issuing financial guarantee, should form a clear policy on ceiling, security, margin, power of attorney and information system, and implement such policy after approval of their Board of Directors along with notification to NRB.
- (b) The Board of Directors should formulate the policy based on the following criteria:
 - A bank or financial institution could issue financial guarantee in favour of its client for other banks and financial institutions only if he has a

credit transaction with the bank or financial institution and if additional credit to the client exceeds single borrower limit.

- While issuing the financial guarantee as mentioned above, the guarantee issuing bank and financial institution should issue the financial guarantee not exceeding the single borrower limit prescribed for non-fund based transactions.
- (c) After the expiry of the guarantee period issued before the issuance of this directive, if the guarantee could not be issued according to this directive, renewal was not permitted; and if this directive was not followed, a 100 percent credit provisioning was required.
- (d) Provision should not be applicable in case of guarantees as specified below:
- The guarantee issued against the counter guarantee of an international standard foreign bank,
 - Bid bond,
 - Performance bond,
 - Advance payment guarantee,
 - Other guarantees except financial guarantee.

2.22 As per Income Tax Act, 2002, to operate a retirement fund scheme for staff, including staff of even other organized institutions by the finance companies, and if such fund requires the approval of NRB, an arrangement was made whereby only finance companies that fulfilled the following criteria could approach NRB for approval.

- (a) having a primary capital of Rs. 100.0 million,
- (b) listed at Nepal Stock Exchange Limited after selling shares to general public,
- (c) being operated on net profit continuously for the last three years,
- (d) fulfilling the compliance with the prevailing law and NRB's directives.

2.23 In order to present all the important indicators related to a finance company in a transparent manner before its shareholders and depositors along with general public interested in or dealing with it, the provision regarding the accounting and financial framework (directive no. 14) to be followed was issued with the purpose of reflecting the financial situation of the finance company suitably and realistically together with bringing uniformity in its account policies and financial details.

2.24 The term "financial interest" was defined as the financial interest of promoter, chief executive or individuals holding one percent or more shares or family members of such individuals, or individual having the right to choose a board member. It also meant the interest of the promoter or director or individual holding one percent or more shares or chief executive or family members of such individuals who were associated with the firm, company or organized institution which had purchased separately or jointly 10.0 percent or more of the total paid-up capital of such firm, company or organized institution.

Policy Provisions for Development Banks (Performing Micro-finance Activities)

2.25 At the end of 2003/04, altogether 11 development banks conducting micro-finance business, including five NRB approved regional-level rural development banks, 4 private sector development banks and 2 national-level development banks (Rural Microfinance Development Center – RMDC) and SFDB were undertaking financial transactions.

2.26 Some provisions of the directives issued for these development banks were revised with effect from mid-February 2003. Under the revised directives, a loan loss provisioning of at least one percent was required for good loan; and for the installment based on collection of loans and advances, each of such loans was to be classified based on maturity period and loan loss provisioning should be made for such loans.

Policy Provisions for Co-operative Societies

2.27 The number of co-operative societies licensed by NRB to conduct limited banking transactions, which was 34 previous year, declined to 21 owing to handover of regulatory, inspection and supervision functions of 11 institutions to SFDB and the revocation of licenses of two other institutions.

2.28 Some provisions of the directives issued on mid-July 2002 to Saving and Credit Co-operative Society (excluding Small Farmers' Cooperative Societies) licensed to conduct limited banking transactions were amended. Accordingly, with effect from mid-July 2003, co-operative societies were required to deposit a minimum of 0.5 percent of their total deposits and credit fund as compulsory reserve in NRB or in a separate current account opened in a commercial bank, in an area where NRB is not located.

Policy Provisions for Non-Governmental Organizations

2.29 The number of financial institutions dealing in micro-finance business has been increasing since the enactment of the Financial Intermediaries Act (First Amendment), 1999. As at mid July 2004, the number of NGOs licensed by NRB to act as financial intermediaries reached 44. In the review year, licenses were granted to 'Khurkot Yuwa Club', Parbat, 'Tharu Tatha Raji Mahila Samaj', Kailali, 'Nari Abhyudaya Kendra', Chitwan, and 'Mahila Upakar Manch', Banke on September 14, September 25, October 24 and October 29, respectively.

2.30 As the amendment of the aforementioned Act necessitated the revision of Financial Intermediaries Regulations, 1999, some regulations were revised and some were added and forwarded to HMG for approval; accordingly, approval was granted on March 25, 2004.

2.31 A ten-member Steering Committee was formed based on the decision taken on October 17, 2003, for operating the project "Institutional Strengthening of NRB for Regulation and Supervision of Rural Finance (TA No. 3580-NEP)", run with assistance of ADB; on the same date, another seven-member Project Management Committee was formed to provide necessary assistance to the aforementioned committee.

2.32 For the effective regulation and supervision of micro-finance, the above-mentioned project presented four working papers already and conducted three seminars. In

accordance with the report submitted by the above project, a Second Tier Institution (STI) Committee was formed to develop infrastructure for establishing the STI.

Provisions for Non-Banking Assets

2.33 If the non-banking assets acquired by banks and financial institutions as at the end of 2002/03 were not sold by 2005/06, a hundred percent loan loss provisioning, as specified below, were to be maintained within three fiscal years for such assets.

Year	Loss Provisioning
2003/04	33.33 percent
2004/05	66.67 percent
2005/06	100.00 percent

However, regarding the sale of such assets, if the time limit specified in the Act/Directive (7 years for a commercial bank and 5 years for a finance company) remains less than three years, then the following loan loss provisioning was to be maintained.

- (a) If the period specified in the Act/directives was going to expire on 2004/05, cent percent loan loss provisioning was required for such non-banking assets by the end of 2003/04.
- (b) If the specified in the Act/ directives was going to expire on 2005/06, 50.0 percent loan loss provisioning was to be maintained in 2003/04 and cent percent loan loss provisioning was to be maintained by the end of 2004/05 for such non-banking assets.

2.34 In case of non-banking assets acquired by banks and financial institutions in and after 2003/04, 25.0 percent loan loss provisioning has to be maintained in the fiscal year of acquisition and the following loss provisioning was required to be maintained within the next three fiscal years.

Year	Loss Provisioning
First year	50.0 percent
Second year	75.0 percent
Third year	100.0 percent

2.35 Under the condition of sale of non-banking assets, the necessary account adjustment could be made for the loan loss provisioning raised for such assets in the profit/loss account of the same fiscal year when the sale occurred.

2.36 For the investment in shares of Credit Information Bureau (CIB), it is no longer required to show expenses in the profit/loss account and deposit in Investment Adjustment Fund.

2.37 To maintain accuracy and appropriateness in the loans extended by commercial banks and financial institutions, it was considered necessary to regulate and manage the operation of information system and work relating to blacklisting of default borrowers

from one place. Hence, a new directive, with revision, was issued to banks and financial institutions regarding the provision of credit information and blacklisting. Accordingly,

- (a) the existing provision, through which a borrower borrowing Rs. 1.0 million or more was placed in the blacklist if he did not settle the payment on time, was revised and the limit was raised to Rs. 2.5 million;
- (b) the earlier provision of blacklisting a borrower when the repayment date of principal or its installment or interest was overdue by six months was revised and the time limit was raised to nine months;
- (c) the existing provision of including all the shareholders of private limited company and shareholders owning 10.0 percent or more of the total shares of public limited company in the blacklist was changed to include shareholders holding 15.0 percent or more shares of the private or public limited company;
- (d) a provision was formed to delete the name of individual, firm, company or organized institutions from the blacklist of CIB on repayment of both principal and interest amounting Rs. 1.0 million to Rs. 2.5 million, and to update and to place them in the blacklist after updating in accordance with this directive; and
- (e) the provision requiring every commercial bank and financial institution to obtain information about the borrower from CIB before advancing new loans, renewing old loan, restructuring and rescheduling loans equivalent to Rs. 0.5 million or more was changed and such limit was raised to Rs. 1.0 million or above.

Financial Institutions for the Provision of Loan Recovery

2.38 As per Clause 3 (d) of the Banks and Financial Institutions Debt Recovery Act, 2002, for the cases regarding loan recovery of financial institutions in the line with the Act, NRB specified, finance companies established as per the Finance Company Act, 1985 and development banks (except performing micro-finance activities) established as per the Development Bank Act, 1995.

Inspection and Supervision of Banks and Financial Institutions

Commercial Banks

2.39 On-site inspection of NBL, RBB, Nabil Bank Ltd. (NaBL), Nepal SBI Bank Ltd. (NSBIBL), Nepal Bangladesh Bank Ltd. (NBBL), Everest Bank Ltd. (EBL), Bank of Kathmandu Ltd. (BOKL), Nepal Credit and Commerce Bank Ltd.(NCCBL), Lumbini Bank Ltd.(LuBL), Nepal Industrial and Commercial Bank Ltd. (NICBL), Machapuchare Bank Ltd.(MBL), Kumari Bank Ltd. (KBL) and Siddhartha Bank Ltd (SBL) was concluded in 2003/04.

2.40 To further strengthen the supervisory role of NRB, Off-site Supervision Manual was implemented effective January 15, 2004.

2.41 In the process of effective implementation of policy and directives, enforcing all banks and financial institutions to provide necessary data on a timely basis, online data and thereby off-site early warning indications have been received since last year. Commercial banks were submitting their action plan regarding the implementation of directives within ninety days of completion of on-site inspection together with the

inspection report. Regular monitoring and inspection was being conducted about the implementation of the directives given after on-site inspection.

2.42 Regarding the provision of maintaining 11.0 percent as capital fund including 5.5 percent of primary capital by commercial banks, in 2003/04, based on the investigation and study of data of all commercial banks except NBL, RBB, NCCBL, and NBBL were found to maintain the fund as per directives.

2.43 Regular monitoring was done through on-site inspection and off-site supervision regarding the implementation of directives given to commercial banks to reduce the non-performing assets and allocating adequate provisioning for bad loans.

2.44 To facilitate the provision of maintaining 6.0 percent of the total deposit liabilities as cash reserve by commercial banks with NRB, a new software was developed and put into use by upgrading the existing one. Six commercial banks, namely, NBL, RBB, Standard Chartered Bank Nepal Ltd. (SCBNL), NCCBL, NICBL and KBL that failed to maintain the required reserve were penalized a sum of Rs. 6.2 million.

2.45 Of their total lending, commercial banks were required to lend certain percentage as specified by the NRB to the priority and deprived sectors. If commercial banks failed to meet this requirement, there was a legal provision under which they are penalized. In 2003/04, five banks namely HBL, EBL, NCCBL, LuBL and Laxmi Bank Ltd. (LaBL) were penalized a sum of Rs.0.94 million.

2.46 To make the inspection and supervision compatible with international standard, a concept paper was by under preparation examining the effectiveness of 'New Capital Accord Basel II' prepared by 'Basel Committee on Banking Supervision' in context of Nepal.

Financial Institutions

2.47 With the increase in the number of financial institutions, competition among the financial institutions as well as the nature of transactions and service delivery were increased. As this increased the risks and complexity in the financial system, it has become necessary to identify and minimize the risk on time. Acknowledging that it was necessary to revise the inspection system timely, 'On-site Inspection Directives' and 'Inspection and Supervision Regulations 2004' were prepared with technical assistance of the World Bank. Among others, this led mainly to overall corporate inspection of financial institutions at least once in two years; while conducting on-site inspection of financial institutions excluding micro-finance development banks, cooperatives and NGOs, CAMELS rating should also be done compulsorily and based on its report (for internal use only) the overall situation of the related financial institutions would be assessed. With the assistance of the IOS Partner, Offsite Supervision Manual would be prepared and based on CAMELS Rating the offsite (annual) supervision report would be prepared. After the preparation of Offsite Supervision Manual, the supervision work would begin accordingly. Lastly, Offsite Supervision Manual was in the final stage of completion.

2.48 In 2003/04, on-site inspection of 54 financial institutions, including 9 development banks, 29 finance companies, 7 cooperatives and 9 NGOs, was completed and necessary instructions were given regarding the remarks found through inspection.

2.49 Directives were issued on capital fund, mobilization of financial resources, required reserve and liquidity, loan classification and loan loss provisioning, sectoral credit limit, interest rate on the basis of off-site supervision of 55 finance companies, 21 development banks (including those undertaking micro-finance transactions), and 18 cooperatives based on financial audit report up to 2002/03. Necessary instructions were given regarding investment arrangement, net profit and dividend arrangement together with the instructions given based on remarks found on the basis of compliance of directives relating to audit report.

2.50 Based on the weekly monitoring of the liquidity position, the following development banks, cooperatives, and finance companies those failed to maintain minimum required cash reserves ratio and liquid assets as per the directives of NRB were penalized as per the rules.

(A) Development Banks

- Nepal Cottage and Small Industry Development Bank Ltd.
- Malika Development Bank Ltd.
- United Development Bank Ltd.
- Narayani Industrial Development Bank Ltd.
- Pashupati Development Bank Ltd.

(B) Finance Companies

- Crystal Finance Company Ltd.
- Alpic Everest Finance Company Ltd.
- Patan Finance Company Ltd.
- Lalitpur Finance Company Ltd.
- Cosmic Merchant Banking and Finance Company Ltd.
- NIDC Capital Market Ltd.
- Capital Merchant Banking and Finance Company Ltd.
- Everest Finance Company Ltd.
- Guheshwori Merchant Banking and Finance Ltd.
- Butwal Finance Company Ltd.
- Peoples Finance Company Ltd.
- Himalayan Finance Company Ltd.
- Central Finance Company Ltd.
- Birgunj Finance Company Ltd.
- General Finance Company Ltd.
- Yeti Finance Company Ltd.
- Investa Finance Company Ltd.
- Kathmandu Finance Company Ltd.

(C) Cooperatives

- Nabajiban Cooperative Ltd.
- Sagun Cooperative Ltd.
- Nepal Financial Cooperative Ltd.
- Amarabati Cooperative Ltd.

2.51 In 2003/04, special inspection of four development banks and four finance companies, and monitoring and inspection of a development bank, a finance company and a cooperative were accomplished.

2.52 Due to the lack of progress towards necessary implementation of directives regarding the remarks found during on-site inspection, Nepal Development Bank Ltd was prohibited to collect deposits effective from July 8, 2004 until the conditions set by the NRB would fulfilled.

2.53 Due to inadequate capital fund shown by off-site supervision report of United Development Bank Ltd., a deposit ceiling of Rs. 80.0 million was imposed on it as per the decision dated March 9, 2004.

2.54 For not following the directives to correct anomalies and inconsistencies seen in the on-site inspection and not complying with the directives issued by NRB, licenses of limited banking transactions issued to the following cooperatives were revoked:

- (a) National Development Cooperative Society
- (b) Nepal Cooperative Ltd.

2.55 Based on the comments of the off-site supervision, it was not in the interest of member depositors to permit the following cooperatives for additional deposit collection. Thus, directives were issued to collect deposit based within the limit allowed for deposit collection:

- (a) Nawa Chitiz Cooperative Society
- (b) Sagun Cooperative Society
- (c) United Savings and Credits Cooperative

2.56 Board of Directors of the following finance companies were asked to furnish this bank within 35 days, the detail capital plan to increase capital fund as per the directives issued by this bank to maintain total capital fund at least 11.0 percent of the risk weighted assets for 2002/03 and also the provision of clause 42 (2) of BAFIO, 2004 regarding core capital and capital fund. These companies were also asked to explain the reason for not maintaining the required capita fund.

- (a) Merchant Finance Company Ltd.
- (b) Nepal Finance and Savings Company Ltd.
- (c) Lumbini Finance and Leasing Company Ltd.
- (d) Janaki Finance Company Ltd.

2.57 The following finance companies that did not maintain the required capital fund on the basis of risk-weighted assets as per the directives, were instructed to fulfill the requirement:

- (a) Nepal Sri Lanka Merchant Bank Ltd.
- (b) Cosmic Merchant Banking and Finance Company Ltd.
- (c) Siddhartha Finance Company Ltd.
- (d) Crystal Finance Company Ltd.
- (e) Butwal Finance Company Ltd.
- (f) Alpic Everest Finance Company Ltd.
- (g) Multipurpose Investment and Savings Finance Company Ltd.
- (h) Samjhana Finance Company Ltd.
- (i) Janaki Finance Company Ltd.
- (j) Lumbini Finance Company Ltd.
- (k) Nepal Finance and Savings Company Ltd.
- (l) Merchant Finance Company Ltd.

2.58 Finance companies are allowed to invest in share and debentures of listed companies or companies that are going to be listed within one year in the Nepal Stock Exchange. If the institution is not enlisted within one year, the amount equivalent to the investment must be deposited in the investment adjustment fund as per the directives. Some finance companies engaged in the underwriting of the sale of shares of Himalayan Distillery Private Ltd., purchased the unsold portion of the shares by paying fifty percent of the face value. Although the Himalayan Distillery Private Ltd. had asked the finance companies to pay 100 percent of the face value of shares, the following finance companies did not make the payment after which a notice was published relating to the confiscation of shares, and a directive was issued to these finance companies to maintain provision for possible loss the amount equivalent to the value of the confiscated shares by mid-July 2003:

- (a) National Finance Company Ltd.
- (b) Universal Finance Company Ltd.
- (c) Central Finance Company Ltd.
- (d) Annapurna Finance Company Ltd.
- (e) Goodwill Finance Company Ltd.
- (f) Nepal Share Markets and Finance Company Ltd.
- (g) Lalitpur Finance Company Ltd.
- (h) Cosmic Merchant Banking Finance Company Ltd.
- (i) Premier Finance Company Ltd.
- (j) Lumbini Finance Company Ltd.
- (k) Nepal Sri Lanka Merchant Bank Ltd.
- (l) Nepal Finance and Savings Company Ltd.

2.59 The following finance companies that did not make provision of adequate risk bearing fund by classifying loan as per the directive of this bank were again directed to allocate additional provisioning of loan loss:

- (a) Paschimanchal Finance Company Ltd.
- (b) Nepal Share Markets and Finance Company Ltd.
- (c) Nava Durga Finance Company Ltd.
- (d) Premier Finance Company Ltd.
- (e) Crystal Finance Company Ltd.
- (f) Bhajuratna Finance Company Ltd.
- (g) Lalitpur Finance Company Ltd.
- (h) Merchant Finance Company Ltd.
- (i) General Finance Company Ltd.
- (j) Nepal Sri Lanka Merchant Bank Ltd.
- (k) Kist Merchant Banking and Finance Company Ltd.
- (l) Universal Finance Company Ltd.
- (m) Patan Finance Company Ltd.
- (n) Lumbini Finance and Leasing Company Ltd.
- (o) Janaki Finance Company Ltd.
- (p) Nepal Finance and Savings Company Ltd.
- (q) Samjhana Finance Company Ltd.

2.60 As the single borrow limit exceeded as per the direction of this bank, the following finance companies were directed to provision 100 percent for additional loan loss provisioning.

- (a) Crystal Finance Company Ltd.
- (b) Kist Merchant Banking and Finance Company Ltd.
- (c) Alpic Everest Finance Company Ltd.
- (d) Patan Finance Company Ltd.
- (e) Nepal Sri Lanka Merchant Bank Ltd.
- (f) Hisef Finance Company Ltd.

2.61 The following finance companies that provided credit beyond the sectoral limit fixed by NRB were directed to provision 25.0 percent of the excess credit as additional loan loss provision.

- (a) Crystal Finance Company Ltd.
- (b) Investa Finance Company Ltd.
- (c) Multipurpose Finance Company Ltd.

2.62 The following finance companies raising financial resources beyond the maximum limit of their core capital were directed to deposit the excess amount in a separate account at NRB:

- (a) Crystal Finance Company Ltd.
- (b) Hisef Finance Company Ltd.
- (c) Cosmic Merchant Banking and Finance Company Ltd.
- (d) Samjhana Finance Company Ltd.

- (e) Alpic Everest Finance Company Ltd.
- (f) Janaki Finance Company Ltd.
- (g) Premier Finance Company Ltd.

2.63 Out of these, Samjhana Finance Company Ltd. was directed to deposit such excess fund equivalent to Rs. 2.3 million at NRB on non-interest bearing account on July 1, 2004. The amount would neither allowed to be counted as liquid asset nor could be withdrawn without the approval of NRB. All other companies brought the excess fund raised during in review period within the approved limit.

2.64 The following finance companies that were found to invest on bond and debenture of organized companies in excess of a fixed limit were directed to bring the investment within the limit by mid-July 2004.

- (a) Nepal Finance and Saving Company Ltd.
- (b) Hisef Finance Company Ltd.
- (c) Goodwill Finance Company Ltd.
- (d) Crystal Finance Company Ltd.
- (e) Merchant Finance Company Ltd.
- (f) National Finance Company Ltd.
- (g) Universal Finance Company Ltd.
- (h) Nepal Bangladesh Finance and Leasing Company Ltd.

2.65 Shree Investment and Finance Company Ltd., Gorkha Finance Company Ltd. and Premier Finance Company Ltd. acted against the Company Act 1996 and directive of NRB by distributing the dividend to promoter shareholders only as of mid-July 2001. Therefore, these companies were instructed to refund the dividend. Similarly, the board of directors were warned as per NRB Act, 2002 for not distributing the profit according to the existing rules.

2.66 Against the directive of NRB, National Finance Company was found providing fund and non-fund based facilities to promoters and directors. It was instructed to follow the directives of NRB and to regularize these facilities as per the direction.

2.67 The Cosmic Merchant Banking and Finance Company Ltd. was asked to clarify for not following the directive of NRB by taking more than one member of the board of director from the single family. Likewise, the same person was found to be a member of board of directors of more than one finance company in the case of Gorkha Finance Company Ltd. and Samjhana Finance Company Ltd. Therefore, these companies were instructed to keep the director only in one finance company licensed by NRB.

2.68 Instructions were given to the directors of International Leasing and Finance Company Ltd. to repay the extra charge of mobile telephone as only the minimum fee was permitted while providing the mobile telephone. Instructions were given for immediate clearance of advance taken as pre-operation expenses by the staff of World Merchant Banking and Finance Company Ltd. Similarly, instructions were given for recovering the loan provided to founders and directors of Peoples Finance Company Ltd within mid-July 2004. .

2.69 Standard Finance Company Ltd., Lalitpur Finance Company Ltd., Universal Finance Company Ltd., Siddhartha Finance Company Ltd. and Cosmic Merchant Banking and Finance Company Ltd. were banned from distributing profit for not following the directives of this bank. The ban imposed on Nava Durga Finance Company Ltd. and Nepal Bangladesh Finance and Leasing Company Ltd. from distributing dividend was withdrawn.

2.70 Janaki Finance Company Ltd. was instructed to appoint chief executive and directors as per clause 26(2) and 19(b) of the BAFIO, 2004. Similarly, clarifications was sought for going against the directive and providing loan to promoters, directors and their family members.

2.71 As Alpic Everest Finance Company Ltd. approved the issue of bonus share through the general meeting of the shareholders and not through the special proposal submitted in the annual general meeting as per clause 68(d) of Company Act 1996, it was directed not to distribute the bonus share as it was against the law. Similarly, the Company was directed to seek approval of the general meeting relating to the sale of rights share.

2.72 Out of 29 finance companies whose on-site inspection was completed in 2003/04, on-site inspection reports were already sent to 25 finance companies, while such reports of the remaining 4 companies were in the process of being dispatch.

2.73 Of the total finance companies that had responded to the questions raised on the on-site inspection report, 17 companies already implemented the directives, follow-up was done for 7 companies who did not implement the directives, and action was being taken against a company regarding its response.

2.74 Directives were given to Arun Finance Company Ltd., Dharan, to improve the situations noticed during the on-site inspection and off-site supervision of the Company.

2.75 Mercantile Finance Company Ltd., Birgunj, was asked to clarify for conducting the general meeting without approval of NRB.

2.76 Action was initiated on the responses provided by Nepal Finance and Savings Company Ltd. and Merchant Finance Company Ltd. relating to the ban on deposit collection. A maximum of 15 days was provided for making the clarifications. Apart from this, action was taken to Nepal Finance and Saving Company Ltd. pertaining to the response relating to the business work plan and strategy that was to be submitted in 30 days' time.

2.77 As per the letter of the Commission on Investigation of Abuse of Authority (CIAA) relating to a case that was filed concerning corruption while purchasing building for the National Finance Company Ltd., an investigation was conducted and a letter was dispatched to CIAA.

2.78 As the Crystal Finance Company Ltd. sold and purchased shares without taking approval from NRB as per the decision of the Implementation Committee on Policy and Directions of April 11, 2004, a self declaration letter was demanded based on the clarifications sought by NRB regarding new additional share holders including their

educational qualifications, experiences, tax clearance, whether included in the blacklist or not etc.

Foreign Exchange Management

2.79 The following directives were issued during the period between July 17, 2003 and July 15, 2004 on the foreign exchange management front:

- a) The limit of imports from third country paying convertible foreign currency through draft/TT was raised to US\$ 30,000 from US\$ 3,000.
- b) While importing goods from third countries via Kolkata Port, without opening L/C, as the license issued by the Department of Commerce, HMG is necessary as directive was issued to notify all concerned importers about such requirement.
- c) Arrangements were made to provide exchange facility up to US\$ 2,000 for one time in a fiscal year for Nepalese nationals visiting abroad, except India, on personal or formal visits.
- d) In case of export through Cash Against Document (CAD) mechanism, the limit of US\$ 50,000 for exports was raised to US\$ 100,000 from US\$ 50,000 whereas the bank guarantee ratio to be submitted by exporters was reduced to 10.0 percent from the existing level of 25.0 percent.
- e) Arrangement of opening usance L/Cs for imports paying convertible foreign currency from countries other than India under 'deferred payment' or 'suppliers credit' facility was made applicable for all types of imports including the industrial ones. In addition, this type of L/C can be discounted under the prevail provisions provided the Nepalese commercial banks are willing.
- f) Manpower agencies were given permission to open convertible foreign currency accounts in commercial banks with their earnings as service charge in foreign currency as per the existing rules.
- g) Commercial banks were allowed to undertake inter-bank transactions in Indian rupees.
- h) Arrangements were made to waive margin if the foreign exchange control form (*Bi. Bi. Ni. Fa. No.4*) was accompanied by the following documents at the time of issuance and if it was in accordance with the existing provisions of L/C:
 - Bonded warehouse certificate issued by HMG, Department of Customs in favor of the concerned importer (the certificate must be renewed, if necessary)
 - A copy of bank guarantee issued in favour of the concerned customs office of HMG in order to release the imported goods.
- i) Bitumen, odoriferous substances, mixed alkylbenzenes, papers, synthetic filament yarn, polythene and polypropylene were added to the current list of 33 items, which could be imported from India by paying convertible foreign currency.
- j) Apart from the above-mentioned items, all types of cotton yarn, artificial yarn, partially oriented polyester yarn, synthetic filament yarn and artificial yarn

(excluding hosiery yarn) could also be imported by completing the additional procedure.

- k) Provision of maintaining within one percent the maximum spread of selling and buying rates of convertible foreign currencies by commercial banks was abolished as commercial banks maintained such a spread within the desired limit.
- l) With a view to make the buying and selling procedure of Indian rupees more convenient, a provision to issue license, with conditions, for individuals to buy Indian rupees was initiated in addition to the existing provisions. However such individuals should follow the procedure mentioned below:
- Individuals should apply for the license,
 - Copies of Nepalese citizenship certificate and academic transcripts along with original receipt of Rs. 100 deposited in the NRB's account must be attached with the application.
- m) A renewable license shall be issued to the appropriate individual applicant for one year with the following criteria:
- Licensee should only purchase Indian rupees from the general public.
 - Licensee should deposit the purchased Indian rupees (at least Indian Rs. 100,000 or more but exactly divisible by 10,000) in the nearest office of NRB or a commercial bank maintaining an IC chest of NRB. Individuals shall be reimbursed immediately at the existing buying rate.
 - At the end of each month, the aggregate commission (at the rate of 7.5 paisa per Indian Rs. 100) will be paid by the NRB depending on the amount exchanged.
 - Individual should be responsible for the arrangement of cash necessary to purchase Indian rupees and transfer of such cash to NRB.
 - License shall be revoked at any time if any offend of the above-mentioned criteria and Foreign Exchange Regulation Act is made.
- n) Arrangements were made to allow the payment of L/Cs in advance, opened to import of goods and services under the prevailing system. The following conditions must be satisfied while making such advance payments:
- Normally, the beneficiary should provide a bank guarantee of an amount equal to the amount of such a payment in the name of a bank within Nepal.
 - In case if such a bank guarantee could not be provided, 10 percent of the amount of advanced payment should be deposited in the concerned commercial bank as security and withdrawal of such an amount is prohibited without a written permission of NRB.
 - After receiving the proof of completion of transaction, the NRB shall notify, in written, to the concerned commercial bank to refund such an amount.
 - The maximum time period granted for providing the proof of completion of transaction shall be of six months.

- In case if the proof of completion of transaction could not be provided within the set time frame, it shall be considered as the abuse of foreign exchange and further action shall be taken in accordance with the prevailing laws.
- o) Permission was granted to the opening of accounts in convertible foreign currency and to deposit a maximum of Pound Sterling 10,000 per person in such accounts in the name of Gorkha soldiers of the 'British Gorkha' force, who were treated as prisoners of war during World War II, or their family members who receive compensation from the British Government.
- p) The following provisions were added to the existing provision of providing exchange facility on passport on one time basis in a fiscal year to Nepalese nationals traveling abroad (except India) on personal or formal visits:
- Banking offices of NRB shall provide such a facility, as per the prevailing provisions, to the employees of HMG and NRB.
 - The banking offices of NRB shall not provide such a facility and other types of exchange facilities to any other individuals.
 - If it becomes unavoidable to provide such a facility to other individuals and also to purchase foreign currencies from individuals, the banking offices of NRB shall do so only after getting a written permission, based on rationale, of the Chief Manager.

2.80 Following amendments were made with effect from August 8, 2003 on the provisions imposed on August 16, 2001 regarding the payment for exports of goods to countries other than India:

- a) If the amount of foreign currency received as a payment of negotiated export document or documents sent in collection is less than that mentioned on the documents and such shortfall occurred due to various charges deducted by the importer's bank, the commercial banks shall settle on such cases themselves excluding them from the category of shortfall. However, while making such decisions, commercial banks shall confirm that the shortfall amount is merely the charges deducted by the corresponding banks abroad and not the amount deducted by foreign importers.
- b) While receiving the payment of any export documents negotiated or sent for collection, if the payment received or possibly received is less by US\$ 1,000 (or equivalent other convertible currency) or 2 percent of the foreign currency amount mentioned on the document, whichever is greater, commercial banks can accept and make foreign currency payment to the concerned exporter with his consent provided that it find appropriate after observing the concerned papers. In addition, each L/C in such cases need to be treated separately.
- c) The L/Cs received in name of Nepalese exporters, which includes conditions such as deduction or payment of handling charges or commissions in foreign currencies shall be treated in general as unacceptable. However commercial banks shall accept such L/Cs if the amount to be deducted or paid is lower than two percent of the amount mentioned in document or US\$ 1,000 (whichever one is larger in value).

Micro Finance

Activities of Programms, Project and Funds

2.81 Under Production Credit for Rural Women programme which was commenced from 1981/82 with a view to improving economic and social status of rural women by enhancing the access of institutional credit and thereby generating income and employment for deprived rural women, a total of Rs. 234.6 million was disbursed to participating financial institutions, namely, NBL, RBB and ADB/N as of mid-July 1998. As the project period was already been phased out, the loan recovery process from the participating financial institutions was in progress. In this regard, NRB repaid the principal amount of Rs. 69.4 million and interest amount of Rs. 33.8 million to HMG till mid-July 2004. Of the loan disbursed under the program, a total of Rs. 114.0 million remained outstanding with the two participating banks. However, NBL already repaid the entire amount of loans disbursed under the program.

2.82 Micro Credit Programme for Rural Women was initiated as a supplementary project for Production Credit for Rural Women programme in accordance with the loan agreement between HMG and ADB in 1993. The implementation period was already phased out in 2002. Under the programme, the entire loan amount disbursed to two participating banks— NBL and RBB was already repaid, while NRB paid a sum of Rs. 39.9 million as principal and interest to HMG by mid-July 2004.

2.83 With an aim to uplifting the socio-economic condition of deprived groups by providing micro credits through 16 branches of Western Region Rural Development Bank (WRRDBL), Mid-Western Region Rural Development Bank (MWRRDBL), Far-western Region Rural Development Bank (FWRRDBL), Nirdhan Utthan Bank and Self-reliance Development Center and making the participating branches Self-Sustained, Western Terai Poverty Alleviation Project came into operation since 1998/99 under the loan agreement between the HMG and the IFAD in 1997.

2.84 Of the additional loan of Rs. 131.5 million disbursed to the participating financial institutions as at mid-July 2003 under the supplementary loan agreement between HMG and NRB, Rs. 39.9 million was repaid while Rs. 91.5 million remained as outstanding. After completing the mid-term evaluation on effectiveness of this project in 2003/04, orientation seminars regarding the evaluation and new credit program were conducted.

2.85 With an aim to enhance the income level of marginal farmers by increasing agricultural production under the Agriculture Perspective Plan of HMG, Community Groundwater Irrigation Sector Project came into operation in 12 districts of Eastern and Central Terai in accordance with a loan agreement between HMG and ADB signed on November 17, 1998. By mid-July 2004, NBL, Eastern Region Rural Development Bank Ltd. (ERRDBL), Central Region Rural Development Bank Ltd. (CRRDBL), Sahara Nepal Savings and Credit Co-operatives Ltd and DEPROSC Development Bank, Chhimek Development Bank, Arunodaya Savings and Credit Co-operatives and Krishak Upakar Savings and Credit Co-operatives were selected as participating financial intermediaries under this project. In order to accommodate additional financial institutions as participating intermediaries, the existing policy of selecting new institutions as a bi-

annual basis has also been changed in this fiscal year so that any financial institution intended to participate can apply any time during the fiscal year. Replacing the existing policy that limits the participating financial institutions to disburse loans at the particular sectors determined by the project itself, the participating financial intuitions, under the revised policy to be effective from the coming year, are allowed to disburse loans to any sector that falls within their respective working areas in order to enhance the loans facility to the farmers more competitively.

2.86 By mid-July 2004, participating organizations working under this project, invested Rs. 45.0 million to 1,862 shallow tubewells including 1,854 for groups and 8 for individuals. Consequently, 8,014 marginal farmers were benefited directly through the expansion of irrigation facility in an area of around 8,541 bighas.

2.87 With an aim to make the program effective, separate units were set up in NRB's branches at Biratnagar, Birgung and Jankpur while ADB has opened a separate 'Imprest Account' in the name of Nepal Rastra Bank as well.

2.88 Under the Third Livestock Development Project operating as per the loan agreement between HMG and NRB entered in 1996, altogether 19 participating financial institutions including two commercial banks, three development banks, 4 Rural Bank replicators, eight Co-operatives and two NGOs were taking part in financing the project. Under this program, 17 financial institutions received a reimbursement amounting to Rs. 170.5 million from NRB by mid-July 2004. In this period, a total of Rs. 79.4 million was repaid from the various financial institutions while Rs. 91.0 million was remained as outstanding amount.

2.89 By mid-July 2004 a loan amount of Rs. 72.8 million was disbursed to 50 NGOs and 159 Co-operatives from RSRF. Of the total credit disbursed, Rs. 58.3 million was recovered, whereas Rs. 22.7 million remained as outstanding. The loan recovery rate remained at 92.0 percent as at mid- July 2004. NGOs and Co-operatives provided credit facility to 26 and 40 districts respectively with the credits made available to them from the Fund. By mid-July 2004, 8986 households of 47 districts were directly benefited.

2.90 NRB provided Rs. 100.0 million and Rs. 74.8 million from its profit of 2002/03 and 2003/04 respectively to the Fund. In 2003/04, Rs. 57.0 million was invested from the Fund. However, the Fund started its operation on its own income from 2003/04.

2.91 As per the provision to repay the loans received by NRB for operating cottage and small industry project every six months at 22 installments, principal amount of Rs. 77.9 million into 14 installments by mid-July 2003 and the remaining amount of Rs. 44.5 million in 8 installments were repaid to HMG on 26 August 2003 and all the accounts of the project were closed accordingly.

Rural Development Banks' activities

2.92 Rural Development Banks disbursed Rs. 10.7 billion loan to 146,277 rural women members by mid-July 2004. Of which, Rs. 9.4 billion was already recovered, while Rs. 1.35 billion remained as outstanding. Rural Development Banks were extending micro credit services through 4,900 centers in 966 Village Development Committees of 43 districts of the kingdom.

2.93 With an aim to privatize profit making regional Rural Development Banks gradually, the process of handing over the 51.0 percent share out of 61.0 percent of WRRDB owned by NRB has already been initiated. Accordingly, by the end of mid-July 2004, 35.18 percent share was handed over to the private sector. Similarly, out of 66.75 percent share of ERRDB owned by NRB, 56.75 percent shares was decided to sell out, holding 10.0 percent shares with the NRB itself. As such, 31.75 percent shares were allocated to the group members of the ERRDB, 5 percent to the personnel of the bank, 10.0 percent to micro-finance institutions and 10.0 percent to the general public. The privatization process of the bank was started after holding a special general meeting of the bank on June 19, 2004. As per the policy guidelines to appoint efficient, experienced and expert person for the post of Executive Director of the Rural Development Banks through open competition, Executive Directors for three Rural Development Banks were selected accordingly. In order to bring uniformity on personnel byelaws of the entire 5 Rural Development Banks, personnel by-regulation 2004 were effective from mid-April 2004.

2.94 Under the refinance/revolving line of credit facility provided by NRB to banks and financial institutions with a provision of withdrawal or deposits either at once or time to time within the given ceiling, a total of Rs. 90.0 million refinance facilities comprising Rs. 20.0 million to ERRDBL, Rs. 10.0 million to CRRDB, Rs. 50.0 million to WRRDB, Rs.10.0 million to FWRRDB, were made available. Nonetheless, by mid-July 2004, Rs. 10.0 million, Rs. 1.7 million and Rs. 10.0 million remained outstanding at ERRDBL, CRRDB, FWRRDB respectively.

Refinance Facilities

2.95 Of the refinance made available by NRB to ADB from 1996/97 to 2002/03 with an objective of developing commercial farming of exportable agro-based commodities with national priority like orthodox and CTC tea, apple, raw silk, large cardamom, dry ginger powder, herbs, cut flowers, tissue culture, Rs. 23.8 million remained as outstanding by the end of mid-July 2004.

2.96 Similarly, after rescheduling the refinance made available to the NIDC at a rate of 6.5 percent, a total of Rs.77.3 million remained outstanding as at mid-July 2004. Of the NRB's investment on debenture of the NIDC, Rs. 50.0 million was recovered by the end of mid-July 2004. NRB invested a total of Rs. 47.0 million in share participation on the corporation till 2003/04.

Currency Management

2.97 Notes of various denominations reached Rs. 68.2 billion (including notes issued by Sadar Mulukikhana) as at mid-July 2004 (Table 2.2). Of the total notes issued Rs. 1.2 billion was deposited with the Banking Office of NRB and the remaining Rs. 6.6 billion was in circulation. The total notes, issued as at mid-July 2003 was Rs. 62.0 billion. Composition of the assets held as securities against the issuance of notes showed that the share of gold, gold coins and silver was 2.0 percent, share of foreign currency and foreign security was 91.6 percent and the share of HMG's security was 6.4 percent in 2003/04 (Table 2.3).

2.98 In 2003/04, Rs. 10.4 billion was deposited to different offices of NRB by fund transfer activity and Rs. 22.5 billion was transferred from these offices. In 2003/04, NRB deposited Rs. 14.2 billion at different branches of RBB and Rs. 6.3 billion was deposited at NRB from those branches. Similarly, NRB deposited Rs. 6.3 billion to different branches of NBL and Rs. 21.0 million was deposited to NRB from those branches. The total fund transfer from NRB to the branches of NBL and RBB reached Rs 20.6 billion and the total fund transfer from these banks to NRB reached Rs. 68.7 million, as at mid-July 2004.

2.99 In the review year, notes chests transactions were conducted from the Currency Management Department (CMD) and 7 offices of NRB, as well as 43 branch offices of RBB and 20 branches of NBL.

2.100 In 2003/04, soiled notes amounting to Rs. 12.7 billion were destroyed by burning at CMD and other offices of NRB.

2.101 In 2003/04, total coins of Rs. 29.7 million with 25,979,924 pieces were minted including 10,000 pieces of Rs. 25/- coins, 6,187,182 pieces of Rs. 2/- coins, 16,947,581 pieces of Rs. 1/- coins and 2,834,961 pieces of 50 paisa coins.

2.102 In 2003/04, a total of 1,650 pieces of gold coins including 592 pieces of 10 gram gold coins, 45 pieces of 5 gram gold coins, 1,013 pieces of 2.5 gram gold coins were produced and sold.

2.103 The following coins and medalians were minted and sold in 2003/04.

- (a) 2,000 pieces of commemorative gold coins each of 5 grams on the Golden Jubilee Occasion of Pokhara Commerce Association,
- (b) 10,000 pieces of commemorative silver coins each worth Rs. 300.00 on the occasion of export year 2003,
- (c) 10,000 pieces of commemorative coins each worth Rs. 25.00 on the Silver Jubilee Occasion of Netra Jyoti Sangh,
- (d) 5,000 pieces of commemorative silver coins each worth Rs. 500.00 on the Golden Jubilee Occasion of Tribhuvan University, Faculty of Management,
- (e) 10,000 pieces of commemorative silver coins each worth Rs. 250.00 on the occasion of 50th Anniversary of Marwari Sewa Samiti, and
- (f) 4,740 pieces of silver coins of Shree Laxmi Medation each of 1 tola (11.664 grams).

2.104 In 2003/04, a total of 3,764 kg silver was sold from the silver chest established for providing silver to exporters. In the same period 139 kilogram 540 gram silver, 6 kilogram 580 gram 500 miligram gold and 3,441 pieces of 50 gram gold pieces were sold.

Miscellaneous Activities of Nepal Rastra Bank

Research

2.105 On the occasion of NRB's 49th anniversary celebration, 16th volume of the Economic Review, an occasional paper, was released.

2.106 A web based journal 'NRB Working Paper' was launched with a view to publish research papers prepared by NRB employees on various macroeconomic issues. Such papers would be published in the 'Economic Review' after consideration of the comments and suggestions from readers.

2.107 Research Department, NRB conducted various research works in 2003/04. Some of them are listed below:

- (a) Inter-relationship between Money Market and Capital Market,
- (b) Difference between budget deficit, principal repayment and outstanding government debt,
- (c) Export potentiality and structure of agro-based products,
- (d) Wholesale and Retail prices of some essential commodities in the Kathmandu markets,
- (e) A feasibility study of improving the quality of current publications of the Research Department and potentiality of new publications.

Corporate Planning

2.108 With a view to bringing uniformity and effectiveness in the working procedure of NRB, a day-long interaction program for the chief of the Departments/Offices- was organized. Identification of the contemporary problems of management, enhancement of the efficiency and productivity of Departments/Offices by applying an efficient management information system and empowerment of the policy formulation and implementation aspects of NRB were other purposes of the programme.

2.109 A day-long Management Workshop focused on the follow-up and evaluation of annual working plan for the review year and annual working plan and budget formulation for 2004/05, was conducted. The workshop finalised the budget formulation process after detailed discussion, analysis, and revision.

2.110 Various feasibility studies were done in order to cater the objectives stipulated in the NRB Act, 2002. Such studies were aimed at transforming NRB into a modern, dynamic and trustworthy central bank by enhancing the bank's efficiency and upgrading the quality of 'NRB Re-engineering Programme'. Reports of studies on restructuring of the Mint Department and Bankers' Training Centre along with Cash Management System were under implementation in addition to the reports on establishment of Supervision Office in Chitwan, modernization of the payment system and detaching the Bankers' Club from organization structure of NRB. Reports on handover of Kakarvitta Counter to NBL, shifting of the government transactions of Birgunj Custom Office from NBL to NRB, downsizing of Ilam Office, outsourcing the subsidiary works like gardening and

sanitation were accomplished. Similarly, the Budget Directives 2004 was also prepared and imposed.

Law

2.105 Drafts of ordinances related to Assets Management Corporation, Money Laundering, Secured Transaction, and NRB Act (first amendment), 2004 were forwarded to HMG for necessary actions.

2.106 In order to make bank's internal expenditure system more transparent and well managed, NRB, based on NRB Act, 2002 issued and executed NRB Expenditure Management Regulations 2004, as well as NRB Auction Directives, 2004 effective from April 18, 2004.

2.107 Pertaining to the provision of clause 110(2) of NRB Act, 2002, a draft of NRB Staff By-regulation, 2004 was completed in order to replace NRB Staff Regulation 1992. Similarly, a draft for the amendment on the existing Co-operative Act, 1991 to manage the structural and legal aspects of co-operative bank and institutions, was forwarded to HMG on its request. In addition, study on how financial institutions and NGOs, acting as financial intermediaries could be brought into regulatory and supervisory grip was underway.

2.108 Among the 60 cases filed in the court, 18 cases were conferred verdict and almost cases were decided in the favour of NRB. Land ownership certificate was received for the land (area 43 Ropanies) at Banking Office, Kathmandu as well as the land that is located at Sanothimi Bhaktapur which was acquired from HMG as a substitution of the land that was located at Khumaltar, Lalitpur and previously owned by NRB.

Internal Auditing

2.109 Special audits were performed in 2003/04 for some of the NRB's departments including Public Debt Management Department, Information Technology Department, Bank Supervision Department and Financial Sector Reform Project.

2.110 As a new practice, functional auditing was performed in 2003/04 by conducting an off-site and management audit of Janakpur and off-site audit of Biratnagar Office. Follow-up of accounting transaction of Banking Office and Financial Management Department became easily accessible after the adoption of new information technology.

2.111 A manual of Internal Audit was prepared and executed right from 2003/04. Moreover, to make the Internal Audit mechanism more effective and efficient, IOS partners, the group of advisors of NRB Re-engineering Project had studied various aspects of the Internal Audit Department and also submitted study reports thereon.

Financial Management

2.112 Special audit of financial statement for 2003/04 was completed by an international auditor named 'Lodha & Company, Kolkotta', the auditor appointed by the Department of Auditor General. The audit was completed as per the requirements of Safeguard Assessment Report, affiliated to Poverty Reduction and Growth Facility (PRGF) programme of International Monetary Fund (IMF). Under the Safeguard

Assessment Report, NRB, in order to comply with the provision of NRB Act, 2002 and terms and condition set forth by IMF, has adopted the accounting system based on the IAS.

2.113 In accordance with the authority granted by Clause 110(2) of the NRB Act, 2002, and to comply with the provision of Clause 63(1) of Income Tax Act, an autonomous Retirement Fund was established in the bank after the approval of NRB, Retirement Fund Rules – 2002 by HMG.

2.114 Aforementioned Retirement Fund includes the balance amount at the employee's provident fund and the amount up to 300 thousand as per the provision made by rule 21 of Income Tax Regulation, 2002 or the amount assessed as taxable income and an equivalent amount contributed by the employer, the amount of retirement contribution as well as the interest earned by the investment of the fund. In addition, the amount which is 12.0 percent of the annual salary of the staffs and as deposited by NRB and the profit incentive are also deposited in the same fund in the way that it does not exceed the upper limit, mentioned earlier. Except in the case of retirement or death or any special circumstances, 90.0 percent of the balance available at the fund can be withdrawal at most twice a year by those who have been to members of this fund for at least two years. The balance sheet & financial statement of the fund shall be audited annually as the fund is established as an autonomous entity.

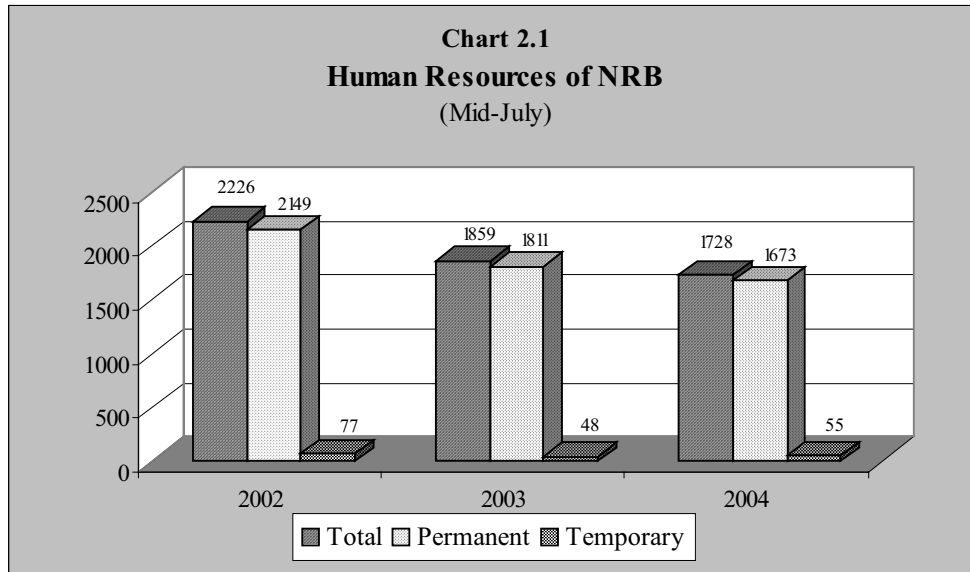
Human Resources Management

2.115 At the end of 2003/04, total number of employees in NRB counted as 1,728, as against to 2,859 at the end of 2002/03 (Table 2.4).

2.116 Total 275 vacancies have been fulfilled in between 2003 May and 2004 March. Of the total vacancies in the officer level, 8 were fulfilled from free competition and the rest 91 from the performance appraisal, whereas, all 176 vacancies in the non-officer level were fulfilled by performance appraisal only.

2.117 Total 232 staffs participated in 151 programs including trainings, workshops, seminars and meetings held abroad in 2003/04 (Table 2.6). 150 staffs participated in 13 programs including domestic training, seminar, workshops, meetings conducted by the organizations other than NRB (Table 2.7).

2.118 In 2003/04, four employees were sent for higher studies in England and India (two persons for each country).



Public Debt Management

2.119 An effort was made whereby the annual public debt issue schedule was developed and placed into the NRB website to notify the public and the potential investors of public debt as well as to enhance the capacity of debt management.

2.120 "The primary debt issue and the secondary market rules 2003", was drafted and submitted to HMG for the necessary approval and expected that the legal document would be helpful to set an infrastructure so as to sell development bonds and other long-term debentures through primary auction market and to enlist them in the stock exchange for the secondary market operation.

Information Technology

2.121 A training program entitled "Operating System and Banking System Operation" was conducted for the COGs officers and other staffs in the district based offices of the bank. Similarly, banking software was improved upon the request of office of the controller of the treasury and account, so that the software could generate a soft copy of revenue-related statements.

2.122 A training related to the software operation of balance-sheet was conducted to the staffs of Financial Management Department of the bank in order to manage accounts of the different sections. Moreover, the unclaimed accounts were computerized.

2.123 With coordination of Corporate Planning Department and Banking Office, payment procedures of HMG accounts in Banking Office was simplified and other non-computerised sections were computerised. The Government related Transactions of NRB, Ilam Office was shifted to NBL Ilam. The banking software operation training was provided to the staffs of NBL at the same time.

2.124 A software, assessing the depreciation of fixed assets was installed. In addition, software generating monthly balance-sheet as per the requirement of Research Department and Foreign Exchange Management Department were improved thereby bringing uniformity in the codes of foreign exchange accounts. Likewise, the use of BOP software, which was developed last year began after necessary trial.

2.125 'Administrative Control Panel' was installed in the bank's Website and the capacity of this website was upgraded to 256 kbps from 128 kbps band with leased line. The documentation of banking software of Banking Office was prepared, about 240 computers and related parts/spares were repaired and computer systems were provided to different seminars and interactions upon their request.

Training, Workshop, Seminar, Interaction

2.126 In 2003/04, trainings and workshops were conducted by Banker's Training Center for 495 trainees comprising 241 officers and 254 non-officers from various financial institutions including NRB, Commercial Banks and other Financial Institutions (Table 2.5). Similarly, 34 executives participated in the program 'Art of Living' conducted by the Center.

2.127 Two seminars (one day each) were conducted on inspection manual of bank and financial institutions based on international standard. In addition, a seminar was conducted with the participation of external auditors of the commercial banks. Similarly, a joint seminar participated by the office of the Company Registrar, Security Board and Nepal Stock Exchange were conducted by the Centre.

2.128 Some Interaction programs were conducted in Kathmandu, Siddharthanagar, Janakpur and Pokhara including a special interaction program at Dhulikhel in order to provide information regarding public debt to the general people, associations, institutions and market makers.

2.129 One day interaction program was conducted on October 5, 2003, with the participation of all chief executives of the commercial banks and departmental head related to statistics and information with a view to retrieve timely data and information from commercial banks.

2.130 To improve the condition of weak reporting and statistical information system, six different workshops related to statistical information were conducted with the participation of concerned officers and other staffs of commercial banks and other financial institutions. Among them, three were related to commercial banks, two for finance companies and one for the development bank.

2.131 Four one-day interaction programs were organized in order to identify the major problems arising in the commercial banks, development banks, finance companies and co-operatives and to recommend remedial measures accordingly. Informative discussion program about regulations and policy issues related to bank and financial institutions was also held for the district based NRB officers.

2.132 One day workshop on 'anti money laundering' was organized for the departmental heads of NRB and the chief executives of the commercial banks and one day workshop on 'presentation skills' in the participation of the representatives of the

member banks, was conducted by Banking Promotion Committee. Likewise, one day interaction program related to world Trade Organization hosted by the same committee and assisted by the Nepal Management Association, one day interaction program on Monetary Policy hosted by Nepal Economic Association and one day interaction program on BAFIO, 2004 hosted by Law Research Development Forum were conducted in the same period.

2.133 A discussion program was held with the board of directors and chief executives of 12 financial institutions in coordination with the departments related to policy formulation in order to receive commitments from the directors of the financial institutions as against the serious and sensitive discrepancies indicated in the inspection reports of such institutions. Similarly, two workshops related to development banks, two related to Inspection & Supervision by laws and one related to external auditors of financial institutions were conducted. Likewise, two interaction programmes related to the exchange of ideas and one related to the effectiveness of the inspections were completed in 2003/04.

Hospitality

2.134 Around 200 participants including NRB officials, HMG officials and other invitees participated in the talk program entitled 'Into the New Horizon: Looking Beyond', where Indian Finance Minister, P. Chidambaram was also present as the chief speaker.

2.135 Ten persons from Nepal and 13 from other SAARC countries participated in the programme "Promoting Financial Stability: The Roles of the Central banks" was organised by NRB with collaboration of Bank for International Settlements (BIS) under the SAARCFINANCE program on 15-18 March, 2004. The ex-Governors of the Central Bank of Sri Lanka Mr. A.S. Jayawardane presented keynote speeches to the program. The resource persons were invited from BIS, Reserve Bank of India and Bank of Thailand.

2.136 A workshop seminar entitled "Managing Non-performing Assets" was hosted by NRB, in November 12-13, 2003. Keynote speeches were presented by the Governor of NRB, governor Dr. Seung Park from Bank of Korea and governor Dr Fakhruddin Ahmed from Bangladesh Bank.

Other Activities

2.137 Under the reengineering programme, sanitation related activities, a subsidiary service that can be conducted by the private sectors as well, was privatized through the tender process right from 2003/04.

2.138 In 2003/04, various constructions and maintenance related works such as guard house with watch tower in the central office and Birgunj office, repair of old strong room and hall along with the improvement of the main building of central office and the construction of officers quarters, boundary wall, generator house, road and drainage of Birgunj office were completed. Similarly five branded cars and one bus were purchased for the official purposes.

2.139 An issue of the 'Mirmire' monthly magazine including economic articles as well as the other regular issues were published on the occasion of 49th Anniversary of NRB.

2.140 Blood donation, children art competition, children talk competition, volleyball, snooker, table tennis, badminton, musical chair, running and special poet programs were organized on the same occasion.

2.141 Half yearly publication of 'Public Debt Newsletter' was started from September 2003. 40th and 41st issues of 'Banking and Financial Statistics' were published in the review year. Banking Promotion committee published the 16th and 17th volumes of 'Banking Prawardhan' and 11 volumes of 'Banking Khabarpatra'. Likewise, NRB Expenditure Management Regulations, 2004, NRB Auction Directives, 2004 and BAFIO, 2004 were published and distributed for the official purpose.

2.142 An effort was under way for the preparation of a concept paper regarding the study on effectiveness of 'New Capital Accord II', a BIS paper of banking supervisory norms which is presented by the Basel Committee and related to enhancing inspection & supervision procedure. Moreover, two studies were completed, where the first has talked much about the effects of existing tendency of banking sector's deposit and lending rate on the economy as a whole, whereas the later threw lights on the impact of commercial bank branches contraction policy on the rural economy and alternative measures to be adopted against that.

2.143 39 banks and financial institutions were licensed to act as market makers in order to conduct the transaction of government bonds.

2.144 To comply with the provision of Inspection & Supervision By-laws, an annual report of Bank Supervision Department for 2003/04 was disclosed through bank websites. The report, inter alia, covers current scenario of financial sector, inspection and supervision related matters and various supervisory aspects like deposit, loans and advances, interest rate, liquidity, earning, capital fund and collateral security. In addition, major supervisory actions conducted by the bank were disseminated through press or media.

Activities of the Offices

(a) Banking Office

In 2002/03, the Banking Office cleared 38,95,369 checks and drafts worth of Rs. 2,452.7 billion under the clearing house transaction while in 2003/04 these transaction declined to 11,53,882 checks and drafts worth Rs. 382.8 billion were cleared.

On the remittance transaction in 2002/03, Banking Office transacted a total of 18,635 pieces of draft, T.T. and mail transfer worth Rs. 184.3 billion whereas a total of 12,227 pieces of draft, T.T. and mail transfer worth Rs. 75.1 billion were transacted in 2003/04.

In 2003/04, two separate division of the government transaction were merged and named as Government Office Division and all the government transactions of different account and payment were done from the new counter so that the payment system become systematic. In order to make the payment system simple and fast additional

authority was provided to the head assistance level staffs and policies for modernization of the Government Revenue Division was started. The central office counter of the Banking Office used to make payments only to the checks drawn in the name of the employees and collection of the amount that used to be deposited at the general account. Effective from 8 September 2003 the counter was arranged to make payments up to Rs. 10,000/- for the projects implemented from the different Departments of the Central Office.

The Banking Office made arrangements to deposit up to Rs. 500,000.00 (the another day if leave at that day) of different Departments of NRB every Monday. The job, duty and responsibility of the three staffs were made clear with an objective to minimize the risk while operating the swift system for the purpose and three different passwords were provided for incoming and outgoing remittances.

(b) Nepal Rastra Bank, Pokhara

In the review year 727 pieces of TT worth Rs. 6.4 billion and 409 pieces of draft worth Rs. 207.0 million were initiated whereas payment of 341 pieces of TT worth Rs. 3.6 billion and 249 pieces of drafts worth Rs. 255.0 million were done.

Inspection of Sri Janajagan Mahila Saving and Credit Cooperative Limited Kaski, Sri Galkot Saving and Credit Cooperative Limited Baglung, Sri Machhapuchhre Saving and Credit Cooperative Limited Pokhara, Sri Paropakar Saving and Credit Cooperative Limited Syangja, Sri Chakratirtha Savings and Credits Cooperatives, Lamjung and Sri Everest Savings and Credit Cooperative Limited Pokhara was accomplished.

Seminars on Retail and Wholesale Price Statistics, one day interaction programme with the Chief Executive of the banks and financial institutions and one day interaction programme with officers supplying quarterly economic report and statistics were conducted.

(c) Nepal Rastra Bank, Janakpur

In the review year, onsite inspection of ADB/N, branch office Jaleswor, onsite feasibility study for the second installment of the Buddha Mahila Saving and Credit Cooperative Limited and inspection of Deep Money Changer and Swastik Money Changer were done. The introductory seminar for price statistics on Lahan and Janakpur and interaction programme of bank and monetary activities at Janakpur were also done.

Fund of Rs. 1.6 billion was transferred in 74 times to 5 note chests established in 5 districts. Similarly, inspection of these note chests and an IC chest established at NRB Malangawa was done frequently.

29 pieces of counterfeit notes worth Rs. 27,000 were seized. Payments were made for 1,827 pieces of various denomination notes worth Rs. 0.6 million. Similarly, 9,29,321 pieces of notes worth Rs. 0.7 million inappropriate for circulation were destroyed by burning.

Fund of IRs 148.0 million was transferred in 28 times and 56 pieces of counterfeit Indian notes were seized.

350 pieces of draft worth Rs. 189.0 million, 472 pieces of TT worth Rs. 319.0 million and 53 mail transfer worth Rs. 80.9 million were initiated and payments was made to 151 pieces of draft worth Rs. 211.0 million and 235 pieces of TT worth Rs. 751.0 million.

(d) Nepal Rastra Bank, Dhangadhi

Fund were transferred in 10 times worth Rs. 1.2 billion, foreign currency worth Rs. 13.0 million in 3 times and Indian rupees in Rs. 180.0 million in 5 times to different banks. Similarly, coins worth Rs. 12.0 million in 4 times and Indian Rupees 38.0 million were transferred. Notes worth Rs. 499.0 million were destroyed by burning in 32 times.

Under the clearing house transaction a total 4125 pieces of checks and drafts worth Rs. 632.0 million were presented by 8 member banks and 4787 pieces of cheques and drafts worth Rs. 846.0 million were presented to the member banks. Similarly, under remittance transaction payments was made of 51 pieces of draft and 76 pieces of TT worth Rs. 306.0 million.

One day interaction programme with the chief of banks and financial institutions was conducted on financial and monetary activities and a workshop with government offices, banks and financial institutions relating to the economic activities of the Kailali and Kanchanpur districts and one day price seminar was conducted in association with the traders of Deepayal, Mahendranagar and Dhangadhi market area.

The prefeasibility study of the Maharudra Saving and Credit Cooperative Limited, Baitadi, Nagarjun Saving and Credit Cooperative Limited, Baitadi and Tarakot Saving and Credit Cooperative Limited, Darchula was done on the credit flow under RSRF, Darchula. Similarly, in the process of on-site inspection of the creditors, who received credit from the banks and financial institutions from Third Livestock Development Project, on-site inspection was completed for FWRRDB, Malika Development Bank Limited and Udayadev Multipurpose Cooperatives Limited, Mahendranagar. Overall inspection was completed for the Malika Development Bank Limited and Navajiban Cooperatives Limited.

(e) Nepal Rastra Bank, Siddharthanagar

Funds were transferred 34 times including Nepalese rupees, Indian rupees and convertible foreign currencies. Inspection was done of 34 money changers. The soiled notes worth Rs. 3.6 billion were destroyed by burning in 71 times. Under remittance transaction 176 pieces of draft worth Rs. 20.0 million, 939 pieces of TT worth Rs. 7.3 billion and 20 pieces of mail transfer worth Rs. 130.8 million were initiated. Payment was made to 127 pieces of draft worth Rs. 71.0 million, 652 pieces of TT worth Rs. 2.9 billion. Under the clearing house transaction 4,460 pieces of checks worth Rs. 1.8 billion were sent to member banks and 2,829 pieces of cheques worth Rs. 913.0 million were received from member banks.

Seminar on price statistics and Indian rupees, interaction programme on financial and monetary activities with the chief of financial institutions were completed. On-site study of the informal trade in the border areas was also completed. Inspection of the ADB/N of Butwal and Nawarparasi were completed as well as prefeasibility study before

investment and proper utilization of the credit supplied to various banks and financial institutions to various projects were also completed.

(f) Nepal Rastra Bank, Biratnagar

Seminar on price statistics was organized at Biratnagar, Dhankuta and Damak. Seminar on banking statistics, interaction programme on economic statistics, seminar on pre-budget and interaction programme on micro-finance transaction were conducted.

On fund transfer side, total amount of Rs. 3.5 billion was transferred in 63 times and Indian rupee 4.2 billion was transacted in 10 times.

On clearing house transaction, debit transaction by 45,313 pieces of cheques and credit transaction from 41,608 pieces of cheques were done. A Seminar was conducted with the chief of the banks and financial institutions with an objective to make uniformity in clearinghouse transaction and solving related problems.

174 pieces of draft worth Rs. 299.0 million, 1,090 pieces of TT worth Rs. 13.7 billion and 13 pieces of mail transfer worth Rs. 172.0 million were drawn. Similarly, payment of 201 pieces of draft worth Rs. 693.0 million and 595 pieces of TT worth Rs. 7.8 billion was effected in the review year. License were provided to 5 money changers and on-site inspection was done 22 times for 15 money changers.

One day seminar was conducted with an objective to inform about the counterfeit notes of Indian rupee and convertible foreign currencies to commercial banks and moneychangers.

20,794 bundles of soiled notes of worth Rs. 2.7 billion were destroyed by burning.

(g) Nepal Rastra Bank, Birgunj

Seminar on price statistics was organized at Bharatpur, Hetauda and Birgunj markets and one day interaction programme on fiscal and monetary activities were conducted with the chief of the banks and financial institutions at Birgunj.

Notes worth Rs. 6.3 billion of various denominations were destroyed by burning In the review year, Rs. 3.5 billion was transferred in 43 times. Similarly, fund worth Rs. 2.2 billion was deposited from different offices to this offices at different times.

Board of Directors Meetings

2.145 In 2003/04, the meetings of Board of Directors were held 27 times. Last year, such meetings were held 26 times.

Table 2.1
Outstanding Amount of Refinance to Banks and Financial Institutions

Rs. in million

S. No.	Banks/Financial Institutions	2002/03	2003/04
1.	Commercial Banks	251.0	478.0
2.	Agricultural Development Bank	277.0	238.0
3.	Nepal Industrial Development Corporation	773.0	773.0
4.	Rural Development Banks	5.0	22.0
5.	Nepal Development Bank	58.0	109.0
	Total	1,364.0	1620.0

Table 2.2
Issue of Notes
(Denomination wise)

Rs. in million

Denomination	Mid-July					
	2002*		2003		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
1	174.4	0.3	176.8	0.3	177.8	0.3
2	213.5	0.4	213.5	0.3	211.0	0.3
5	462.8	0.7	460.6	0.7	518.3	0.8
10	726.9	1.2	847.4	1.4	921.7	1.4
20	687.0	1.1	764.9	1.2	765.4	1.1
25	316.0	0.5	308.6	0.5	214.6	0.3
50	1,221.8	2.0	1,299.6	2.1	1,343.9	2.0
100	4,180.8	6.9	4,234.0	6.8	4,301.3	6.3
250	90.0	0.2	91.8	0.1	89.9	0.1
500	17,010.1	27.9	16,162.5	26.1	16,759.0	24.6
1,000	35,860.9	58.8	37,420.1	60.4	42,846.9	62.9
Total	60,944.2	100.0	61,980.0	100.0	68,150.0	100.0

* Excluding the notes equal to Rs 5,755,978.00 issued by Sadar Mulukikhana.

Table 2.3
Security against Issue of Notes

Rs. in million

Mid- July	Gold	Silver	Foreign Currency & Security	Total (1+2+3)	Coins	HMG Bonds	Security of Note Issued*	Percentage of Foreign Exchange, Gold & Silver in Total Security (4÷7)×100
	1	2	3	4	5	6	7	8
2002	831.7	459.3	55,754.7	57,045.7	22.6	3,881.7	60,950.0	93.6
2003	831.7	459.3	56,517.0	57,808.0	0.0	4,172.0	61,980.0	93.3
2004	831.7	459.3	62,687.2	63,978.2	0.0	4,171.7	68,150.0	93.9

Table 2. 4
Number of Established Posts and Employees (Classwise)

	Temporary				Permanent				Total			
	Mid-July 2003		Mid-July 2004		Mid-July 2003		Mid-July 2004		Mid-July 2003		Mid-July 2004	
	Posts Established	Posts Filled up	Posts Established	Posts Filled up	Posts Established	Posts Filled up	Posts Established	Posts Filled up	Posts Established	Posts Filled up	Posts Estab-lished	Posts Filled up
Officer – Special	19	18	17	13	--	--	--	--	19	18	17	13
Officer – First	50	48	47	41	--	1	--	2	50	49	47	43
Officer – Second	158	114	135	110	1	2	1	2	159	116	136	112
Officer – Third	357	213	333	247	1	1	1	1	358	214	334	248
Assistant – First	717	554	727	590	--	--	--	1	717	554	727	591
Assistant – Second	514	378	251	220	2	1	2	2	516	379	253	222
Assistant – Third	171	99	90	88	1	1	1	1	172	100	91	89
Assistant – Fourth and Fifth	475	387	385	364	69	42	69	46	544	429	454	410
Total	2,461	1,811	1,985	1,673	74	48	74	55	2,535	1,859	2,059	1,728

Table 2.5
Training Courses Conducted by Nepal Rastra Bank

S.No.	Subject	Post	Number of Programme	Number of Participation
१	Art of Living	ED	1	34
२	Workshop on Consortium Financing	Senior Officer	1	32
३	Total Quality Management	Senior Officer	1	23
४	Risk Management in Banks	Senior Officer	1	27
५	Organizational Behaviour	Senior Officer	1	25
६	Computer Exposure	Senior Officer	1	12
७	Monetary and Fiscal Management	Officer	1	20
८	Management Development Programme	Officer	1	17
९	Web Page Design	Officer	1	17
१०	Credit Appraisal	Officer	1	19
११	Trade Financing	Officer	1	15
१२	Analysis and Interpretation of Financial Statistics	Officer	1	16
१३	Internal Audit and Control	Officer	1	18
१४	Customer Relation	Assistant	1	20
१५	Forex Operation	Assistant	1	17
१६	Computer Operation	Assistant	2	27
१७	Central Banking	Assistant	3	72
१८	BOP Statistics & Analysis	Assistant	2	39
१९	Cash Operation	Assistant	1	24
२०	Public Debt Management	Assistant	1	18
२१	NRB Accounting System	Assistant	1	17
२२	Inspection and Supervision	Assistant	1	20
	Total		27	529

Table 2.6
Foreign Trainings, Seminars, Meetings and Workshops

S.No.	Subject	No. of Participants	Organizer	Venue
1.	2003 Annual Meeting of the International Monetary Fund and the World Bank Group	1	IMF/WB	Dubai, UAE
2.	9th Meeting of SAARC Finance	1	SAARCFINANCE	Dubai, UAE
3.	24th Session of SAARC Council of Ministers on SAARCFINANCE	1	SAARC	Islamabad, Pakistan
4.	39th SEACEN Governor's Conference	1	SEACEN	Colombo, Sri Lanka
5.	10th Meeting of SAARCFINANCE	1	SAARCFINANCE	Washington, DC
6.	Spring Meeting of the IMF's International Monetary & Financial Committee and Development Committee	1	IMF	Washington, DC
7.	33rd Annual Meeting of the Board of Directors of ACU	1	ACU	Iran
8.	2004 Annual Meetings of the International Monetary Fund and the WB Group	1	IMF/WB	Washington, DC
9.	2nd Meeting of SEACEN Executive Committee (EXCO)	1	SEACEN	Manila
10.	Asia Pacific Region Micro Credit Summit Meeting	1	PKSF	Dhaka
11.	XXIII Mint Directors Conference	1	US Mint	Sanfrancisco
12.	Anti Money Laundering & the Financing of Terrorism	1	ADB	Japan
13.	14th GA/46th EXCOM	1	APRACA	Beijing
14.	Meeting on Micro Finance & Rural Finance in Asia	1	Bank of Indonesia	Jakarta
15.	Regional Workshop on Commercialization of Micro Finance & Seminar on Policies Challenges for the Financial Sector: Basel II the International Banking System at the Crossroad	1	ADB/WB	Indonesia Washington
16.	Interaction with the World Bank on the Loan Agreement for the Accomplishment of Financial Sector Reform Program	1	World Bank	Washington
17.	Workshop/Seminar on Central Banks Governance	1	SEACEN BIS	Malaysia
18.	2nd SEACEN-US Asean Business Council Study Visit to USA Business Continuity Planning	1	SEACEN	Washington, New York, Chicago
19.	Development of Micro-Finance Activities in SEACEN Countries	3	SEACEN	Indonesia
20.	Management Dev. Program for Agricultural Co-operatives & Rural Financing Institutions	3	CICTAB	Sri Lanka
21.	Macroeconomic Management & Financial Sector Issues	1	IMF	Singapore
22.	Focus Group Meeting	1	Bank of Indonesia	Indonesia
23.	SEACEN Workshop on Int'l Investment Position	4	SEACEN	Manila

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24.	WTO Membership Meeting	1	WTO/NRB	Switzerland
25.	Rs 5 Note Waste Destruction	2	De La Rue	Sri Lanka
26.	SEACEN-BIS Workshop on Strengthening the Management of Int'l Capital Flows	3	SEACEN	Bangkok
27.	4th SEACEN/Federal System/WB Senior Bank Supervision from Asia Pacific Economies/5th SEACEN/APEC Conference of Directors of Supervision Theme: Enhancing Financial System Stability	4	SEACEN	Mongolia
28.	Financial Programming & Policies	1	IMF	Singapore
29.	Observation Training on Micro Credit Development Trust & Support Organization for Micro-Enterprises Development	2		Uganda
30.	APEC Financial Regulators Training Initiative Regional Seminar on Train - the Trainers	4	ADB	Manila
31.	Technical Central Bank Co-operation Seminar on Reserves Management at the Deutsche Bundesbank	1	Bundesbank	Frankfurt
32.	SEACEN/Federal Reserve System Course on Electronic banking & Technology Risk Supervision	2	SEACEN	Bangkok
33.	SEACEN Research Project on Managing & Monitoring Direct & Portfolio Investment Flows: A comparative Study of the SEACEN Countries	1	SEACEN	Malaysia
34.	Anti-Money Laundering for Supervisors & Regulators	1	IMF	Singapore
35.	FSI Focused Seminar on Current Dev. On Managing & Measuring Operational Risks	1	BIS/FIS	Switzerland
36.	APG 2003 Annual Meeting & Forum on Technical Assistance & Training	1	APG	China
37.	14th GA/46th EXCOM	2	APRACA	China
38.	Program on Micro-Finance & Women's Development	2	CICTAB	Pune
39.	Financial Programming & Policies	1	IMF	Washington
40.	3rd SEACEN Course on Monetary Policies & Strategies	4	SEACEN	Sri Lanka
41.	The Role of the Bundesbank in Cash Transactions	1	Bundesbank	Frankfurt
42.	Micro-Credit System Study Tour	2	Micro Credit Bangladesh	Dhaka
43.	Board of Governors Annual Meeting 2003 delegates	2	WB/IMF	Abudhabi
44.	2nd SEACEN CPSS Course on Payments & Settlement Systems for Emerging Economies	2	SEACEN/FSI	Manila
45.	2nd Meeting of SEACEN Directors of Payments & Settlement System	1	SEACEN	Manila
46.	Credit Production Marketing: Focus on Small Farmer & Cooperative Plantation Orchards	2	SEACEN	Bangkok
47.	Discussion Forum on Micro Finance	1	BIS/FIS	Switzerland
48.	GSAM Asian Central Bank & Official Institutions Conference	1	GSAM	Hong Kong

49.	Study Visit on Cooperative System in Korea	3	APRACA	Seoul
50.	3rd SEACEN/Toronto Centre Leadership Seminar for Senior Management of Central Banks on Financial System Oversight	1	SEACEN	Bangkok
51.	Study Visit on Poverty Eradication & Women in Rural Areas	2	APRACA	Tehran
52.	Int'l Association of Deposit Insurers Annual General Meeting & Second Annual Conference & Observation Tour in Asian Reinsurance Cooperation - Thailand	2	IADI	Seoul Bangkok
53.	Focused Seminar on On-site & Off-site Supervision	1	FSI/BIS	Switzerland
54.	SEACEN Research Project on Regulatory Framework & Risk Management of E-Money: A Comparative Review of Central Bank Practices	1	SEACEN	Malaysia
55.	Conference on Reforming Management & Securities Settlement Systems	1	The World Bank Group	Washington
56.	Study Meeting on Regional Industrialization & Development	1	Japan	Tokyo
57.	Banking Supervision Under the Basel II Accord Seminar	1	Bundesbank	Frankfurt
58.	Structural Adjustment & Poverty Alleviation	1	IMF	Singapore
59.	Program on Developing Consultancy Skills for Improving the Management of Agricultural Cooperatives & Rural Financing Institutions	2	CICTAB	Gurgaon
60.	Domestic Debt Markets & Management	1	Crown Agents Int'l Mgm. Training Centre	London
62.	Credit Production Marketing: Focus on Small Scale Rice & Vegetable Growing	2	APRACA	Bangkok
63.	25th Meeting of Directors of Research & Training	2	SEACEN	Taiwan
64.	Asian Credit Supplementation Institution Confederation (ACSIC)	1	DICSC	Manila
65.	Policy Directions: Focus on Institutional Policies in Rural Finance	2	APRACA	Bangkok
66.	Training Program on Risk Management in Banking	1	SIDA	Sweden
67.	Study Visit on Credit Production Marketing: Focus on Commercialization of Highland Agriculture	2	APRACA	Bangkok
68.	Out-Sourcing of Non-core Activities & Human Resource Management After VRS	5	NRB/Central Bank of Sri Lanka Pakistan	Thailand Sri Lanka Lanka Pakistan
69.	SEANZA Advisor's Meeting	1	BSP	Manila
70.	Technical Meetings of Mints in Asean	2	TEMAN	Phuket
71.	Course on Price Statistics	1	IMF	Singapore
72.	Credit Production Marketing Focus on Non Farm Rural Enterprises	2	APRACA	Chonburi
73.	BIS/FSI Advance Seminar Int'l Accounting & Auditing for Banks	1	BIS/FIS	Switzerland
74.	Focused Seminar on Internal Ratings Based Systems	1	BIS/FIS	Switzerland

75	Financial Stability	2	Bank Indonesia	Jakarta
76	APG Typologies Workshop & AML/CFT Assessment Training Workshop	2	APG	Kuala Lumpur
77	6th SEACEN Workshop for Bank Supervisors & Regulation: The New Capital Accord & Capital Ratings	4	SEACEN	Kuala Lumpur
78	South Asia Regional Workshop on Investment Climate Joint WBI/PSD/SAR Conference	1	WB	Colombo
79	Internal Auditing at Central Bank	1	Deutsche Bundesbank	Frankfurt
80	Rural Banking	3	APRACA	Manila
81	Meeting & Regional Workshop for SEANZA Forum of Banking Supervisor	2	SEANZA	Hong Kong
82	Exchange Policies & Operations	1	IMF	Singapore
83	Loan Agreement Negotiations with WB	1	NRB	Washington
84	Course on Currency Management	4	SEACEN	Bali
85	2nd SEACEN Research Workshop on Managing & Monitoring Direct & Portfolio Investment Flows	1	SEACEN	Kuala Lumpur
86.	Financial Programming & Policies	1	IMF	Washington
87.	2nd Meeting of SEACEN Executive Committee (EXCO)	1	SEACEN	Manila
88.	Financial Programing & Policies	3	IMF	Pakistan
89.	Seminar on Market & Liquidity Risk	1	BIS/FIS	Switzerland
90.	Programing on Linkages of Self-help Groups with Banks & Rrural Financing Institutions	3	CICTAB	Lucknow
91.	Course on Financial Fragility & Banking Crisis	1	IMF	Singapore
92.	Focus on Int'l Trade Transaction	1	ICICI	Mumbai
93.	Seminar on Risk Management	1	Deutsche Bundesbank	Frankfurt
94.	SEACEN Governor's Conference	2	SEACEN	Colombo
95.	Asia Pacific Region Micro-Credit Summit Meeting	1	PKSJ	Dhaka
96.	SEACEN-BIS Workshop Seminar on Central Bank Governance	2	SEACEN	Kuala Lumpur
97.	Meeting on Micro Finance & Rural Finance in Asia	1	Bank Indonesia	Indonesia
98.	Seminar on Anti-Money Laundering in Banking Institution	1	BIS/FIS	Switzerland
99.	Workshop on Central Bank Accounting	1	IMF	Singapore
100.	FAO-Roundatable on Financing of Agricultural Marketing	1	APRACA	Manila
101.	Government Finance Statistics	1	IMF	Washington
102.	Balance of Payments Statistics	1	IMF	Washington
103.	35th Int'l Central Banking Course	1	State Bank of Pakistan	Pakistan

104.	SEACEN-FSI Workshop for Bank Supervisors & Regulators. The New Capital Accord	2	SEACEN	Malaysia
105.	Course on Monetary & Financial Statistics	1	IMF	Singapore
106.	Thirty Third Meeting	1	CICTAB	Pune
107.	XXIII Mint Directors Conference	1	United States Mint	San Francisco
108.	Int'l Seminar on Deposit Insurance & the 2nd ARC/IADI	1	DICJ	Kyoto, Japan
109.	Seminar on Supervision of Financial Conglomerates	1	BIS/FIS	Switzerland
110.	Workshop on Financial Stability & Financial Soundness Indicators	2	SEACEN	Malaysia
111.	Seminar on Int'l Accounting & Auditing for Banks	1	BIS/FIS	Switzerland
112.	Conference on Political Economy of Exchange Rates	1	Claremont Graduate University	Claremont USA
113.	Monetary Policies & Strategies	1	SEACEN	Jakarta
114.	Regional Seminar on Risk Focused Supervision & Risk	1	ADB	Hong Kong
115.	Rural Finance Nepal	1	Rural Finance	Indonesia
116.	FSI/SEANZA Seminar on the New Basel Capital Accord: Practical Application Issues	1	SEANZA	Manila
117.	SEACEN Workshop on Economic Forecasting Frameworks & Performances in SEACEN Member Economics	1	SEACEN	Seoul
118.	Seminar on Taxation of Capital Income Financial Transactions & New Financial Instruments	1	IMF	Singapore
119.	Currency Conference	2	The Forum of Currency Issues & De La Rue	Malta
120.	2nd Technical Meeting on the SEG Data Templates	1	SEACEN	Malaysia
121.	Conference on Credit Bureau Dev. in South Asia	1	WB/CB of Sri Lanka	Sri Lanka
122.	Int'l Symposium on Reform, Achievements & Challenges: China & Its Partners in Statistical Cooperation	1	NBS/IMF/FSOG	China
123.	4th SEACEN/Federal Reserve System Course on Banking Supervision	3	SEACEN	Bangkok
124.	Seminar on Safeguards Assessments of Central Banks	1	IMF	Singapore
125.	33th Annual Board of Director's Meeting	1	ACU	Siraj, Iran
126.	Training in Counterfeit Detection	5	HSBC Bank	Singapore
127.	Course on Financial Market Analysis	1	IMF	Singapore
128.	Regional Workshop on Commercialization of Microfinance, The WB/IMF/US Federal Research board Fourth Annual Int'l Seminar on Policy Challenges for the Financial Sector: Basel II - The Int'l Banking System at the Crossroads	1	ADB/WB	Washington

129.	Seminar on Human Resource Management	1	Bundesbank	Frankfurt
130.	47th APRACA Executive Committee Meeting	1	APRACA	Vietnam
131.	Regional Workshop on Trade in Services Negotiations for Asian & Pacific Economics	1	WTO/EXCAP	Dhaka
132.	Financial Sector Assessment Program Seminar on Financial Stability & Development	1	WB/IMF	Washington
133.	Course on Balance of Payments Statistics & Int'l Investment Position	1	IMF	Singapore
134.	Program on Micro-Finance & Women's Development	2	CICTAB	Pune
135.	Alternative Remittance System Symposium	1	World Bank	Tokyo
136.	Macroeconomic Management & Financial Sector Issues	1	IMF	Washington
137.	2nd Central Banking Study Program	2	Bank of Korea	Seoul
138.	Seminar on Strengthening the Development of Debt Securities Market	4	SEACEN	Colombo
139.	42nd SEACEN/FRS Course on Banking Supervision: Risk Management & Internal Controls	4	SEACEN	Malaysia
140.	APG 2004 Annual Meeting & Technical Assistance Forum	2	APG	Seoul
141.	Program on Restructuring & Strengthening Rural Financing Institutions	2	CICTAB	Pune
142.	Seminar on Financial Soundness Indicators	1	IMF	Singapore
143.	Anti-Money Laundering & the Financing Terrorism	1	ADB	Japan
144.	Regional Workshop on Capacity Building for External Debt Management in the Era of Rapid Globalization	1	UN	Bangkok
145.	The Practical Application of Basel II	1	FIS-EMEAP	Singapore
146.	FAO/APRACA/MFI Workshop on Regional Consultation on the Legal & Regulatory	2	APRACA	Manila
147.	Advance Seminar on Int'l Accounting for Banks	1	BIS	Hong Kong
148.	Policies for Monetary & Financial Stability	1	IMF	Washington
149.	Macroeconomic Management	3	SEACEN	Malaysia
150.	Management Development Program for Co-operatives & Rural Financing Institutions	2	CICTAB	Kandy, Sri Lanka
151.	Asian Credit Supplementation Institution Confederation	1	ACSIC	Hokaido

Table 2.7
Domestic Trainings, Seminars and Workshops*

S.No.	Subject	No. of Participants	Organizer/Country
1.	Various Aspects of Currency Notes	7	GSEK & Debriant Germany
2.	Western Terai Poverty Alleviation	2	IFAD
3.	Computer Training	76	Different Institutes
4.	Consortium Financing	2	Ace Consultancy Ind.
5.	Tax Assessment Establishment in Long form Audit & NRB Directives to Finance Company	2	MAN
6.	Executive Development Programme for Cooperaive & Rural Financing	1	CICTAB
7.	Capacity Building Training for Local Development & Management	2	Staff College, HMG
8.	Management Training Program	1	Staff College, HMG
9.	Effective Customer Relation	1	Staff College, HMG
10.	Effective Communication Skills	1	Staff College, HMG
11.	Managing Non-Performing Assets		Nepal Rastra Bank
12.	Promoting Financial Stability: The Role of Central Banks	23	Nepal Rastra Bank
13.	WTO and Liberalilzation of Financial Services Sector in SEACEN Countries	32	SEACEN/NRB
	hDdf	150	

* Excluding training programmes conducted by Bankers' Training Centre.

Table 2.8
Higher Study

S.No.	Subject	No. of Participants	Organizer/Country
१.	M.A. in Economics	1	Jamia Millia Islamia University, India
२.	M.Sc. In Financial Economics	1	Brunel University, UK
३.	M.Sc. In Economic Policy for Developing and Transitional Economies	1	University of Bradford, UK
४.	Ph.D. in Inflation and Monetary Policy in Nepal During 1972 to 2002	1	Maharaja Sayajirao University, India

PART III**ANNUAL FINANCIAL STATEMENTS OF NEPAL RASTRA BANK**

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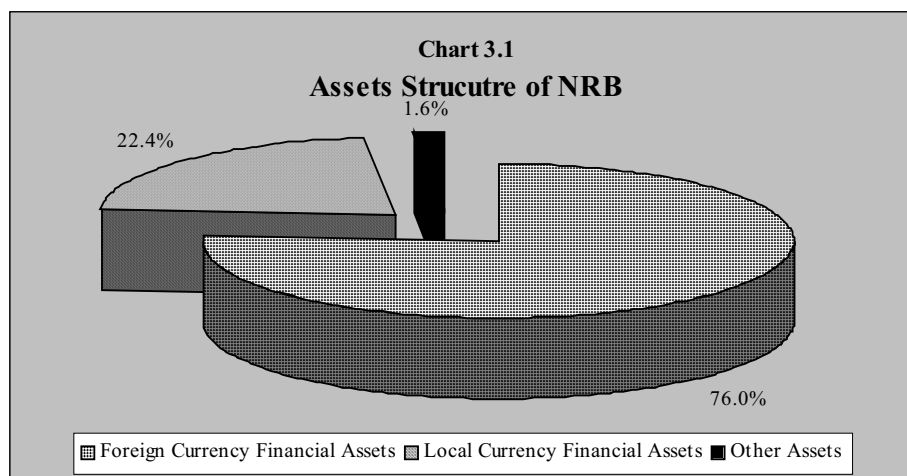
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3 Annual Financial Statements of Nepal Rastra Bank

Balance Sheet Analysis

3.1 Total Assets/total liabilities and equity of NRB as at mid-July 2004 amounted Rs. 142.4 billion with an increment of 14.0 percent compared to those of the last year. Of the total assets, the share of foreign currency financial assets was 76.0 percent whereas domestic currency financial assets and other assets accounted for 22.4 percent and 1.6 percent respectively. The respective shares of those assets were 69.7 percent, 28.2 percent and 2.1 percent last year. In total liabilities and equity, the share of local currency financial liabilities was 26.9 percent, whereas foreign currency financial liabilities accounted only for 1.5 percent. Likewise, equity and other liabilities accounted for 22.5 percent and 49.2 percent respectively for the total liabilities. The shares of aforementioned liabilities had remained at 23.4 percent, 1.3 percent, 24.2 percent and 51.1 percent respectively a year ago.



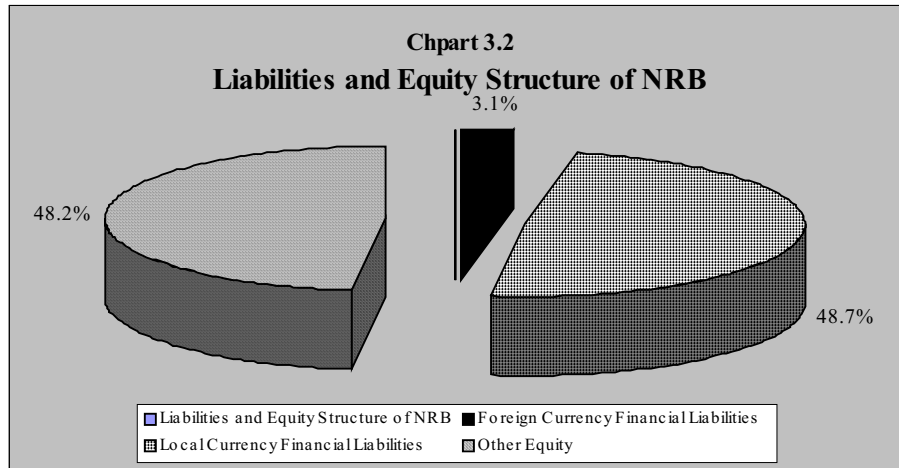
3.2 As at mid-July 2004, currency in hand and with banks comprised 68.3 percent of the total foreign currency financial assets. In total foreign currency financial assets, investment in treasury bills, other receivables and SDR holdings accounted for 31.4 percent, 0.3 percent and 0.1 percent respectively. In the review year, currency in hand and with banks increased by 145.8 percent whereas investment in treasury bills decreased by 40.2 percent compared to that of last year. Other receivables showed a sharp rise of 140.0 percent in the review year. SDR holdings increased from Rs. 2.0 million, to Rs.54.9 million. In aggregate, foreign currency financial assets increased by 24.3 percent reaching Rs. 108.2 billion in the review year.

3.3 In total local currency financial assets, the share of investment in government securities was 60.1 percent. Likewise, the shares of other receivables, other investments and refinance and loans were 12.9 percent, 9.7 percent and 7.8 percent respectively. Last year, in total local currency financial assets, the share of investment in government securities was 69.0 percent whereas the share of other receivables was 6.8 percent, that of other investments was 8.6 percent and that of refinance and loans was 8.1 percent. Gold and silver reserve, cash in hand and investment in financial and other institutions contributed 4.1 percent, 4.0 percent and 1.4 percent as against last year's shares of 3.7 percent, 2.8 percent and 1.0 percent. Compared to the last year's figure, other receivables, cash in hand, investment in financial and other institutions and other investments marked an increment of 69.8 percent, 28.8 percent, 28.6 percent and 2.6 percent respectively, whereas investment in government securities and refinance and loans declined by 21.3 percent and 12.9 percent respectively. In aggregate, local currency financial assets decreased by 9.7 percent compared to the same period last year and stood at Rs.31.8 billion.

3.4 While analyzing other assets, gold and silver stock, inventories and property, plant and equipment accounted for 50.6 percent, 25.3 percent, and 24.1 percent respectively of the total. Compared to the figure of mid-July 2003, property plant and equipment, gold and silver stock and inventories decreased by 5.5 percent, 13.5 percent and 13.6 percent respectively. Compared to last year, other assets decreased by 11.7 percent to Rs. 2.3 billion.

3.5 Currency in circulation held a share of 97.4 percent in other liabilities. Surplus payable to HMG and sundry liabilities accounted for 1.7 percent and 0.9 percent respectively in other liabilities. Currency in circulation marked a rise of 10 percent compared to last year, reaching a figure of Rs. 68.2 billion. Surplus payable to HMG increased by 9.1 percent while sundry liabilities declined by 18 percent compared to last year. In aggregate, other liabilities marked a rise of 9.6 percent compared to last year, reaching a figure of Rs. 70.0 billion.

3.6 Of the total local currency financial liabilities, deposit and other balances alone shared 87.8 percent, while bills payable; staff liabilities and other payables shared 6.6 percent, 5.2 percent and 0.4 percent respectively. Compared to last year, deposit and other balances and bills payable increased by higher rates of 34.4 percent and 42.7 percent respectively, while staff liabilities and other payables decreased by 8.4 percent and 35.1 percent respectively. Compared to last year, local currency financial liabilities marked a sharp rise of 31.1 percent to Rs. 38.3 billion.



3.7 Of the total equity, reserves shared the largest portion of 90.6 percent, whereas, share capital occupied the remaining 9.4 percent of equity. Compared to last year, reserve increased by 6.4 percent. In aggregate, equity increased by 5.8 percent compared to last year reaching a figure of Rs. 32.0 billion.

3.8 In total foreign currency financial liabilities the shares of IMF related liabilities, deposit from banks and other agencies and other liabilities were 81.0 percent, 15.2 percent and 3.7 percent respectively. IMF related liabilities increased by 59.6 percent compared to last year, whereas deposit from bank and other agencies and other liabilities decreased by 27.4 percent and 31.2 percent respectively. Compared to last year, total foreign currency financial liabilities in the review year increased by 29.6 percent reaching a figure of Rs. 2.1 billion.

Income Statement Analysis

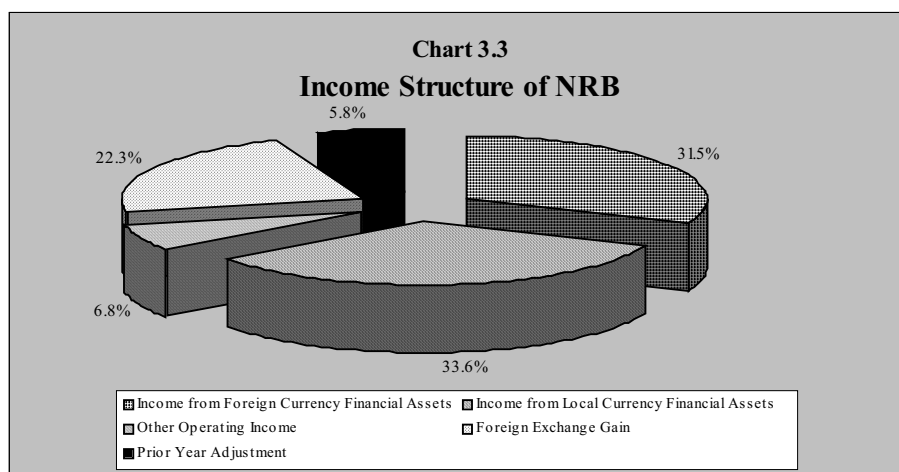
3.9 In the review year, income from local currency financial assets (Rs.2.1 billion) slightly exceeded the income from foreign currency financial assets (Rs.2.0 billion). Last year, income from local currency financial assets was less than that of foreign currency financial assets by 1.8 percent. Similar to the last year, interest income accounted for the largest contribution to total income of NRB.

3.10 Of the total contribution of income from foreign currency financial assets, the share of interest was 87.0 percent, whereas remaining 13.0 percent was of commission income. Last year, contributions of interest and commission income were 89.6 percent and 10.4 percent respectively. In the review year, interest income declined by 11.2 percent whereas commission income increased by 13.6 percent compared to last year.

3.11 In 2003/04 in the total income from local currency financial assets, the shares of interest income and commission income were 97.6 percent and 2.4 percent respectively. Last year, the contributions of interest income and commission to total income from local currency financial assets were 97.5 percent and 2.5 percent respectively. Compared to

last year, interest income and commission declined by 0.8 percent and 3.4 percent respectively.

3.12 In the review year, interest expenses shared 47.8 percent in expenses on foreign currency financial liabilities, whereas the remaining 52.2 percent was shared by agency and service charge. Last year, the contributions of interest expenses and agency and service charge were 53.1 percent and 46.9 percent respectively. Interest expenses marked a decrease of 8.0 percent whereas service charges increased by 13.5 percent compared to the same period last year.

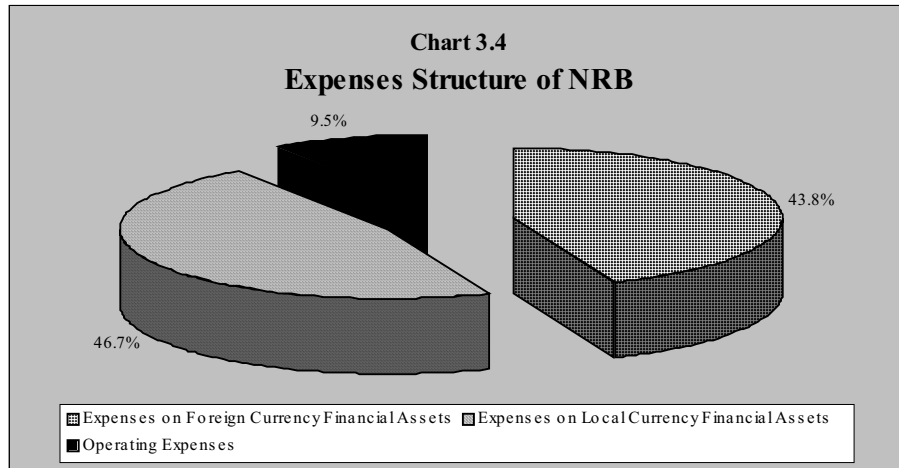


3.13 In the review year, of the expenses on local currency financial liabilities interest expenses contributed 73.2 percent and the remaining 26.8 percent was shared by agency and service charge. Interest expenses had contributed 77.4 percent and agency and service charges had contributed 22.6 percent last year. In the review year, interest expenses declined by 4.5 percent whereas agency and service charge grew by 19.9 percent compared to last year.

3.14 In the review year, income from foreign currency financial assets remained at Rs. 2.0 billion, with a decline of 8.6 percent compared to last year. Likewise, expenses on the foreign currency financial liabilities increased by 2.1 percent reaching a figure of Rs. 36.0 million. Consequently, net income from foreign currency decreased by 8.8 percent to Rs.1.9 billion.

3.15 In the review year, income from local currency financial assets reached Rs. 2.1 billion, with a decline of 0.8 percent compared to last year's figure and expenses on local currency financial liabilities increased by 1.0 percent amounting to Rs. 1.0 billion. Consequently, net income from local currency marked a decrease of 2.5 percent compared to last year and remained at Rs.1.1 billion.

3.16 Compared to the previous year's figure, other operating income marked a sharp rise of 70.3 percent reaching a figure of Rs. 422.1 million. Thus, total net operating income declined by 1.1 percent to Rs. 3.4 billion compared to last year's figure. Compared to last year, operating expenses increased by 8.5 percent and amounted to Rs.2.2 billion



3.17 Profit for the year before foreign exchange gain/(loss) and prior year adjustment amounted to Rs. 1.2 billion. After adjustment of foreign exchange gain (Rs. 1.4 billion) and prior year adjustment (Rs. 35.9 billion) net profit for 2003/04 reached Rs. 3.0 billion.

3.18 Of the net profit of Rs.3.0 billion for 2003/04, Rs.1.4 billion was transferred to Exchange Equalization Fund (EEF). Profit available for distribution after EEF (Rs. 1.6 billion) was appropriated as follows: General Reserve 11.3 percent (Rs.178 million), Monetary Liability Reserve 5.0 percent (Rs.78.6 million), Development Fund 1.7 percent (Rs.27.1 million), Development Finance Projects Mobilization Fund 0.6 percent (Rs.927 million), Rural Self Reliance Fund (RSRF) 5.0 Percent (Rs.78.6 million) and remaining 76.3 percent (Rs.1.2 billion) of the profit after EEF was transferred to HMG.

Cash Flows Analysis

3.19 In 2003/04, total cash flows from operating activities of NRB amounted to Rs. 9.2 billion. This figure includes profit of 2003/04 (Rs. 1.6 billion), adjustments (Rs. 522.0 million), increase in assets (Rs. 2.1 billion), increase in liabilities (Rs. 8.8 billion) and the prior period adjustment (Rs. 350.7 million).

3.20 Likewise, cash flow from investment activities during the review year was Rs. 258.4 million, whereas cash flows from financial activities was Rs.5.7 billion. Thus, net cash flow before exchange gain/loss reached Rs. 15.2 billion.

3.21 Net cash flow after exchange gain (Rs. 1.4 billion) reached Rs.16.6 billion. Compared to the figure at the beginning of the year (Rs. 104.7 billion), cash and cash equivalent at the end of 2003/04 increased by 15.8 percent and reached Rs. 121.3 billion.

Analysis of Changes in Equity

3.22 Based on the figure of changes in equity as at July 15, 2004, balance increased by 5.8 percent to Rs. 32.0 billion. Compared the figures of July 16, 2003, there were no changes in capital, employees welfare fund and gold & silver equalization reserve. On the other hand, by virtue of an increase in profit and inter-fund transfer; other reserve funds declined slightly to Rs.5.2 billion. While general reserve reached Rs.10.3 billion with an increment of 2.2 percent compared to last year.

3.23 Monetary liability reserve increased by 20.4 percent due to the increase in profit of the review period to Rs. 463.5 million. Exchange equalization fund also increased by 13.8 percent due to the exchange gain of Rs.1.4 billion outstanding balance remaining at Rs 11.4 billion. RSRF increased at a higher rate of 45.0 percent to Rs. 253.4 million.

Table 3.1
Balance Sheet as on 15 July 2004

Particulars	Notes	As on 15 July 2004 NRs.	As on 16 July 2003 NRs.
ASSETS			
Foreign Currency Financial Assets			
Currency in hand and with banks	3	73,907,876,371	30,070,357,409
Investments in Treasury Bills		34,000,210,159	56,886,200,241
SDR holdings		54,919,040	1,975,629
Other receivables		285,486,597	118,941,433
Total Foreign Currency Financial Assets		108,248,492,167	87,077,474,712
Local Currency Financial Assets			
Cash in hand		1,272,972,636	988,502,287
Investments in Government Securities	4	19,135,679,180	24,328,851,956
Investments in Financial and Other Institutions	5	449,967,500	349,875,500
Other Investments	6	3,101,630,000	3,021,779,700
Refinance & Loans	7	2,483,262,753	2,851,035,690
Other Receivables	8	4,095,390,143	2,411,301,440
Gold and Silver reserves		1,291,066,781	1,291,066,779
Total Local Currency Financial Assets		31,829,968,993	35,242,413,352
Other Assets			
Gold & Silver Stock	9	1,167,998,050	1,350,167,492
Inventories	10	584,992,987	676,749,871
Property, Plant & Equipment	11	557,541,028	590,293,705
Total Other Assets		2,310,532,065	2,617,211,068
Total Assets		142,388,993,225	124,937,099,132
LIABILITIES			
Foreign Currency Financial Liabilities			
Deposit from banks and other agencies	12	314,783,159	433,391,917
IMF Related Liabilities	13	1,676,026,052	1,050,170,032
Other Liabilities	14	77,371,728	112,527,959
Total Foreign Currency Financial Liabilities		2,068,180,939	1,596,089,908
Local Currency Financial Liabilities			
Deposit and other balances	15	33,639,847,120	25,035,883,813
Bills Payable		2,545,881,682	1,784,628,465
Staff Liabilities	16	1,989,712,077	2,171,878,719
Other Payables	17	148,738,474	229,264,301
Total Local Currency Financial Liabilities		38,324,179,353	29,221,655,298
Other Liabilities			
Currency in Circulation	18	68,150,000,000	61,980,000,000
Surplus payable to HMG/N		1,200,027,745	1,100,000,142
Sundry Liabilities	19	652,636,943	795,902,142
Total Other Liabilities		70,002,664,688	63,875,902,284
EQUITY			
Share Capital		3,000,000,000	3,000,000,000
Reserves	20	28,993,968,245	27,243,451,642
Total Equity		31,993,968,245	30,243,451,642
Total Liabilities and Equity		142,388,993,225	124,937,099,132

Contingent Liabilities 21

The above statement is to be read in conjunction with the notes 1 to 30.

Table 3.2
Income Statement
for the Year Ended 15 July 2004

Particulars	Notes	2003/04 NRs.	2002/03 NRs.
Operating Income:			
Income from Foreign Currency Financial Assets			
Interest Income	22	1,697,575,277	1,911,372,933
Commission Income	23	252,614,111	222,355,441
		1,950,189,388	2,133,728,374
Expenses on Foreign Currency Financial Liabilities			
Interest Expenses	24	17,202,137	18,706,475
Agency and Service Charge	25	18,790,588	16,554,726
		35,992,725	35,261,201
Net Income from Foreign Currency		1,914,196,663	2,098,467,172
Income from Local Currency Financial Assets			
Interest Income	22	2,029,182,179	2,045,031,280
Commission Income	23	49,977,057	51,723,019
		2,079,159,236	2,096,754,299
Expenses on Local Currency Financial Liabilities			
Interest Expenses	24	749,072,499	784,733,052
Agency and Service Charge	25	274,579,436	228,916,446
		1,023,651,935	1,013,649,498
Net Income from Local Currency		1,055,507,301	1,083,104,801
Other Operating Income	26	422,077,048	247,785,118
Total Net Operating Income		3,391,781,012	3,429,357,091
Operating Expenses	27	2,178,549,296	2,008,763,929
Profit for the year before Foreign Exchange Gain/(Loss) and Prior Year Adjustment		1,213,231,716	1,420,593,162
Foreign exchange gain/(loss)		1,378,643,749	(1,542,043,119)
Prior Year Adjustment		358,668,884	349,980
Net Profit/(Loss) for the year		2,950,544,349	(121,099,977)
Net Profit/(Loss) for Appropriation		2,950,544,349	(121,099,977)
Amount Transferred (to)/from Exchange Equalization Fund (EEF)		(1,378,643,749)	1,542,043,119
Profit available for distribution after EEF		1,571,900,600	1,420,943,142
General Reserve		178,400,000	149,500,000
Monetary Liability Reserve		78,600,000	74,800,000
Development Fund		27,100,000	11,543,000
Dev. Fin. Projects Mob. Fund		9,172,855	10,300,000
Grameen Swabalamban Kosh		78,600,000	74,800,000
Balance Transferred to HMG/N		1,200,027,745	1,100,000,142
Total		1,571,900,600	1,420,943,142

The above statement is to be read in conjunction with the notes 1 to 30.

Table 3.3
Cash Flow Statement
for the Year Ending 15 July 2004

Particulars	2003/04 (NRs.)	2002/03 (NRs.)
Cash flow from operating activities:		
Profit for the Year	1,571,900,600	1,420,943,142
Adjustments		
Depreciation	62,779,851	60,725,756
Prior year adjustment	(358,668,884)	(349,980)
Note printing expenses	262,381,913	235,265,195
Dividend Income	(4,590,263)	(6,431,142)
Profit from sale of share investment	(1,840,879)	-
Sundry balances written off	2,857,256	781,282
Interest paid on PRGF Loan & ACU	3,135,668	1,783,296
Foreign exchange gain/loss	-	105,725,000
Provision for :		
Loan and advances	565,020,323	80,341,069
Diminution in value of investment	(40,003,000)	128,150,000
Doubtful of recovery on sundry accrued	31,051,451	-
Cash flow from operation before changes in working capital	2,094,024,036	2,026,933,618
(Increase)/Decrease in assets	(2,068,893,612)	6,813,909,162
Refinance & loans	(197,247,386)	6,780,820,781
Other receivable	(1,883,190,637)	259,647,989
Gold & silver	182,169,441	100,762,025
Inventories	(170,625,030)	(327,321,633)
Increase/(Decrease) in liabilities	8,827,132,639	402,883,832
SDR Allocation	21,638,772	68,071,113
Deposit liabilities	8,485,354,549	341,763,856
Bills payable	761,253,217	(317,406,125)
Deferred staff liabilities	(182,166,642)	(72,885,333)
Other liabilities	(115,682,058)	(34,591,380)
Sundry liabilities	(143,265,199)	417,931,701
Operating cash flow before prior period adjustment	8,852,263,063	9,243,726,612
Prior period adjustment	358,668,884	349,980
Total (A)	9,210,931,947	9,244,076,592
Cash flow from operating activities		
Cash flow from investing activities:		
Net Decrease in Government Securities and Bank Deposits	343,485,184	379,793,667
Sale of Investment in Financial Institutions	22,951,879	-
Purchase of Investment in Financial Institutions	(81,200,000)	(66,700,000)
Fixed assets including WIP	(31,379,111)	(94,643,006)
Dividend income	4,590,263	6,431,142
Total (B)	258,448,215	224,881,803
Cash flow from financing activities:		
Bank note issued	6,170,000,000	1,030,000,000
Increase in PRGF Loan & ACU	669,781,667	(236,620,224)
Interest paid on PRGF Loan & ACU	(3,135,668)	(1,783,296)
Surplus transferred to HMG/N	(1,100,000,142)	(1,850,000,000)
Total (C)	5,736,645,857	(1,058,403,520)
Net cash flow before exchange gain/loss (A+B+C)	15,206,026,019	8,410,554,875
Exchange gain/loss	1,378,643,748	(1,647,768,119)
Net cash flow after exchange gain/loss	16,584,669,767	6,762,786,756
Cash and cash equivalent at the beginning of the year	104,748,762,030	97,985,975,274
Cash and cash equivalent at the end of the year (Note - 28)	121,333,431,797	104,748,762,030

The above statement is to be read in conjunction with the notes 1 to 30.

Table 3.4
Statement of Changes in Equity
for the Year Ended 15 July 2004

Particulars	Balance as at 15 July 2003	Amt.transferred from profit	Inter fund transfer	Balance as at 15 July 2004
Capital	3,000,000,000	-	-	3,000,000,000
General Reserve	10,054,100,000	178,400,000	45,000,000	10,277,500,000
Monetary Liability Reserve	384,900,000	78,600,000	-	463,500,000
Exchange Equalization Fund	9,973,522,833	1,378,643,748	-	11,352,166,581
Gold & Silver Equalization Reserve	1,198,550,974	-	-	1,198,550,974
Employees Welfare Fund	234,027,004	-	-	234,027,004
Grameen Swabalamban Kosh	174,800,000	78,600,000	-	253,400,000
Other Reserve Funds	5,223,550,831	36,272,855	(45,000,000)	5,214,823,686
Total	30,243,451,642	1,750,516,603	-	31,993,968,245

Statement of Changes in Equity
for the Year Ended 15 July 2003

Particulars	Balance as at 17 July 2002	Amt.transferred from profit	Inter fund transfer	Balance as at 16 July 2003
Capital	3,000,000,000	-	-	3,000,000,000
General Reserve	9,904,600,000	149,500,000	-	10,054,100,000
Monetary Liability Reserve	310,100,000	74,800,000	-	384,900,000
Exchange Equilisation Fund	11,515,565,952	(1,542,043,119)	-	9,973,522,833
Gold & Silver Equilisation Reserve	1,198,550,974	-	-	1,198,550,974
Employees Welfare Fund	234,027,004	-	-	234,027,004
Grameen Swabalamban Kosh	100,000,000	74,800,000	-	174,800,000
Other Reserve Fund	5,201,707,831	21,843,000	-	5,223,550,831
Total	31,464,551,761	(1,221,100,119)	-	30,243,451,642

The above statement is to be read in conjunction with the notes 1 to 30.

1. GENERAL INFORMATION

These are the financial statements of the NRB, the Central Bank of Nepal, incorporated under the NRB Act, 2002 (replacing the erstwhile NRB Act 1955) and domiciled in the Kingdom of Nepal.

The Central Office of the NRB is situated at Baluwatar, Kathmandu, Nepal.

The Bank is primarily responsible for the management of credit, foreign exchange, and currency in the country and also acts as the fiscal agent of the Government. The main activities of the Bank include:

- formulating and implementing monetary and foreign exchange policies;
- issuing of currency;
- facilitating free competition and stability in the financial system;
- licensing and supervision of credit institutions;
- organizing and managing inter bank settlement system and promotion of smooth functioning of payments system;

In these financial statements Nepal Rastra Bank has been referred to as “NRB” or the “Bank”.

The Board of Directors of the Bank has approved these financial statements on 25 April 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements apply to the financial year ended 15 July 2004.

They have been prepared in accordance with the requirements of the applicable Nepal Accounting Standards (NASs) as well as International Financial Reporting Standards (IFRSs) and International Accounting Standard (IASs), with the exception of the following standards, which have not been presently practical for the Bank to comply either partially or in full.

IAS 19: Employees Benefit

IAS 26: Accounting and reporting by Retirement Benefit Plans

IAS 27: Consolidated Financial Statements and Accounting for Investments in Subsidiaries.

IAS 32: Financial Instruments: Disclosure and Presentation

IAS 39: Financial Instruments: Recognition and Measurement

The financial statements are for the bank as a single entity and do not include consolidated financial statements for the bank and its subsidiaries as would be required under IFRS.

The Bank's financial statements for previous years were prepared in accordance with NRB Act, 2002 and rules made there under. With effect from financial year 2001-02, the Bank has adopted NASs and IFRSs/IASs as the reporting framework for preparing its financial statements. The new reporting framework based on IAS and IFRS, to be implemented over a period to the extent practicable, is in order to make

the statements internationally comparable and adopt disclosures and accounting policies in line with the best international practices.

2.2 Accounting convention

These financial statements have been prepared under historical cost except the gold and silver reserves which have been stated at revalued amount as referred to in note 2.8 given below.

2.3 Currency in Circulation

Currency issued by the Bank as legal tender under the NRB Act 2002, represents its liability towards the holder and the liability, stated at face value, is represented by the specific assets stated in note 18 of these financial statements.

The Bank also issues coins of different denomination for circulation. These coins are recorded at their face values.

2.4 Financial assets and liabilities

Financial assets and liabilities and related income and expenses are segregated between foreign currency and local currency items.

The separate reporting of financial assets and liabilities as mentioned above has been done to reflect more objective presentation of the Bank's financial position and performance in line with best international practices.

2.5 Foreign currency transactions

Income and expenditure denominated in foreign currency are translated into Nepalese Rupees on the basis of exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are converted into Nepalese rupees on exchange rate prevailing on the balance sheet date.

Exchange differences are taken to the income statement. An amount equivalent to the net exchange gain/loss during the year is transferred to/from Exchange Equalization Fund.

2.6 Investments

Investments in Government securities and other securities of companies and financial institutions are stated at cost less provision for any diminution in value of these investments. Provision for diminution in the value of investment is made only when there is a permanent diminution in the value of these investments.

The cost of debt securities is adjusted for any amortization of discounts or premiums on a straight-line basis over the period of maturity.

The Bank enters into transaction of outright sale, outright purchase, repurchase (repo) and reverse Repo of securities at rates for specified periods of time. These are recorded as follows:

- i) In case of outright sale or sale under repurchase obligations, the securities are deleted from investments and the charges arising from the differential in the sale and face/repurchase value are accrued on a pro rata basis and recorded as discount expense which is deducted from the interest/mark-up and/or return earned on these securities. Upon maturity, the securities are restated at their respective original cost.

- ii) In case of purchase under resale obligations, the securities are included under investment at the contracted purchase price and the differential of the contracted purchase and resale price is amortized over the period of the contract and accounted for as discount and interest.

2.7 Investment in subsidiaries and associates

The Bank's Investments in subsidiaries and associates, together with the ones that are held for subsequent disposals are accounted for under cost method.

2.8 Gold and silver reserves

Gold and silver reserves (including gold receivables) are stated at the revalued amounts of the gold and silver content thereof. Any appreciation or depreciation on revaluation is taken to "Gold and Silver Equalization Fund". However, no such revaluation subsequent to the exercise carried out in B.S. 2043 has been done. Gain/Loss on disposal of gold and silver reserves is transferred to the profit and loss account.

2.9 Gold and silver stock and Other Inventories

Gold and silver stock and other Inventories are carried at cost or net realizable value whichever is less. Cost is determined under the First in First out (FIFO) method.

2.10 Property, plant & equipment

Property, plant & equipment except freehold land and capital work-in-progress are stated at cost less accumulated depreciation. Freehold land as well as capital work-in-progress is stated at cost.

Depreciation is calculated using the straight-line method over their expected useful life without taking into account any residual value.

Depreciation on additions is charged for the whole year, if the asset is put to use within first nine months of the accounting year. No depreciation is charged on the assets purchased and/or put to use in the later three months of the year. Similarly, no depreciation is charged in the year in which assets are deleted. Normal repairs and maintenance are charged to the profit and loss account as and when incurred. Major renewals and improvements are capitalized. Gain and loss on the disposal of fixed assets are included in current year's income statement.

The Bank has adopted a policy to expense the cost of the fixed assets, if the value of such assets per unit is Rs. one thousand or less.

2.11 Assets received in grant

Grants or donation received on account of capital expenditure are recorded as "grant assets" and corresponding "grant assets reserve" under the head Capital Reserve. These are amortized over the useful life of the relevant assets.

2.12 Staff retirement and other benefits

The Bank operates:

- a) a contributory provident fund (now retirement fund) for all permanent employees in which equivalent amount is contributed by the staff, and
- b) other funded staff retirement and benefit schemes. They are:

- i) gratuity scheme for employees who worked for five years or more but less than twenty years;
- ii) staff welfare provident fund scheme;
- iii) staff life insurance scheme;
- iv) staff medical scheme;
- v) pension scheme for permanent employees having service period of 20 years or more.

In order to cover the obligations arising under these schemes provisions are made on actual basis, in case of (ii) and (iv) & on the basis of reasonable estimate in case of (i), (iii) and (v).

2.13 Revenue recognition

Incomes and expenses are recognized on accrual basis except the penalty income received from Banks and Financial Institutions under Section 101(1)(e) of NRB Act 2002, which is accounted for on receipt basis. An amount, equivalent to the penalty income is appropriated to General Reserve as required in terms of the NRB Act 2002.

2.14 Transaction and balances with the IMF

Balances with the IMF quota are revalued at the end of April every year. Gains or losses arising from such revaluation towards transactions relating to quota are borne by HMG. However, revaluation gains or losses arising from other transactions are borne by the NRB and reflected in these accounts as per policy followed in respect of foreign currency transactions stated above.

2.15 Cash and cash equivalents

Cash includes cash at vault and balances with agency bank. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in value.

2.16 Monetary liability reserve

Under Section 41.1.(ka) of the NRB Act, 2002, the Bank is required to maintain a monetary liability reserve to meet its financial liability. Five percent of the profit available for distribution has been transferred to this reserve.

2.17 General reserve

Under Section 41.1.(kha) of the NRB Act, 2002, the Bank is required to transfer to the general reserve not less than 10 percent of the net profit, every year. Not less than ten percent of the profit available for distribution has been transferred to this reserve.

2.18 Provision for diminution / losses in value of investment, loans and advances

Provision for diminution in value of investment in shares and debentures have been made on the basis of financials of investee institutions and appropriate estimation made by the management as at the close of the year.

Provision for possible losses in respect of loans and advances have been made on the basis of financials of loanee and appropriate estimation made by the management.

Receivables considered as bad and irrecoverable are written off and charged to the profit and loss account.

*Notes forming part of the Balance Sheet***Appendix 3****Currency in Hand and with Bank**

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Cash in Hand	3,816,348,354	4,077,624,147
Balance with Banks in Demand Deposits	10,294,824,946	13,796,021,948
Balance with Banks in Time Deposits	59,796,703,071	12,196,711,314
Total	73,907,876,371	30,070,357,409

Interest on time deposit and demand deposit (where ever applicable) were earned at various rates ranging from 0.95% to 9.50% per annum (P.Y. 0.83% to 3.92% per annum).

Appendix : 4**Investments in Government Securities**

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Government Treasury Bills	9,804,417,190	15,816,898,854
Saving Certificates	386,573,000	9,947,000
IMF Bonds	4,722,320,536	4,171,716,869
Other Bonds and securities	4,162,350,880	3,634,001,031
Securities purchased under resale agreement	60,017,574	696,288,202
Total	19,135,679,180	24,328,851,956

1. IMF Bonds represent the bonds issued by HMG in favour of Nepal Rastra Bank for the discharge of HMG/N obligation to the IMF, which has been recognised by the Bank. These bonds are non- interest bearing.

2. Investment in government securities includes the unsold part of the primary issue of HMG bonds and securities to be dealt in the secondary market.

Securities of secondary market	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Govt. Treasury Bills	9,804,417,190	15,816,898,854
Saving Certificates	386,573,000	9,947,000
Other Bonds and securities	1,779,703,000	277,414,000
Securities purchased under resale agreement	60,017,574	696,288,202
Total	12,030,710,764	16,800,548,056

3. According to NRB Act 2002, NRB is not eligible to hold investment in HMG securities more than 10% of Government's previous years revenue.

Steps are being taken to bring the above investments, which are in excess to within limit prescribed by NRB Act 2002.

Appendix : 5
Investments in Financial and Other Institutions

	% of holding	As on 15 July 2004 NRs.	As on 16 July 2003 NRs.
(a) Investment in shares of Subsidiaries			
Madhyamanchal GBB	74.00	44,400,000	44,400,000
Sudur Pashchimanchal GBB	68.46	40,050,000	40,050,000
Purwanchal GBB	66.75	40,050,000	40,050,000
Madhya Pashchimanchal GBB	63.17	37,900,000	37,900,000
Agricultural Project Services Center	62.50	5,000,000	5,000,000
Rastriya Beema Sansthan - Life Insurance	55.56	1,000,000	1,000,000
Pashchimanchal GBB		-	36,600,000
Sub-Total		168,400,000	205,000,000
(b) Investment in shares of Associates			
Deposit Insurance & Credit Guarantee Corporation	47.13	20,500,000	20,500,000
Citizen Investment Trust	40.00	16,000,000	9,600,000
Rastriya Beema Sansthan-Non-Life Insurance	29.30	800,000	800,000
Nepal Stock Exchange Ltd.	34.61	12,080,500	12,080,500
National Productivity and Economic Development	31.65	2,500,000	2,500,000
Rural Microfinance Development Centre	26.31	21,045,000	21,045,000
Pashchimanchal GBB	25.83	15,489,000	-
Sub-Total		88,414,500	66,525,500
(c) Other Investments			
Shares:			
CSI Development Bank	14.29	16,000,000	16,000,000
NIDC	11.40	47,445,000	47,445,000
Nepal Development Bank	10.00	16,000,000	16,000,000
Agricultural Development Bank	1.98	30,000,000	30,000,000
Rural Self Reliance Fund (Seed Capital)		174,800,000	100,000,000
Debentures:			
NIDC Debenture		50,000,000	50,000,000
Sub-Total		334,245,000	259,445,000
Total		591,059,500	530,970,500
Less: Provision for diminution in the value		141,092,000	181,095,000
		449,967,500	349,875,500

1. According to NRB Act 2002, NRB is not eligible to hold any investment in share in any enterprise more than 10 percent of their share capital.
2. The Bank is in the process to disinvest/ offload, step by step all those investments/ loans that are in excess of limit prescribed by section 7(2)(a) of NRB Act 2002.

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3. The investment in Grameen Bikas Banks (GBB) were initially made for the development of rural banking and now the bank is in the process of off loading the holding in these institutions.
4. 100% of the provision made to matured NIDC Debenture in the previous year has been written back during the F/Y 2060/61 as the full amount of this Debenture has since been recovered.
5. Investment in Rastriya Beema Sansthan (Life-Insurance): NRB has received 41667 Bonus Shares of Rs. 100 each in this investment which makes total shareholding of NRB 51667 shares.
6. The details of the quoted investment and the market values prevailing as on the date of the balance sheet are as follows:

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Citizen Investment Trust @ Rs. 165/- per share (P.Y. Rs. 170)	26,400,000	27,200,000
Rastriya Beema Sansthan-Non-Life Insurance @ Rs. 1,200/- per share (including 194078 Bonus Shares of Rs. 100/- each) (P.Y. Rs. 1100)	242,493,600	222,285,800
Nepal Development Bank @ Rs. 102/- per share (P.Y. Rs. 140)	16,320,000	22,400,000
NIDC	N.A.	N.A.

Except the above mentioned investments, all other investments are unquoted.

Note : 6

Other Investments

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Investment of funds		
Saving Certificates	63,105,000	63,105,000
Other Bonds and securities	645,482,000	772,897,000
Fixed deposits with commercial banks	2,393,043,000	2,185,777,700
Total	3,101,630,000	3,021,779,700

The above investments are earmarked against employees funds, development related and other funds of the bank.

Interest earned on investments related to the employees funds (other than gratuity, pension and life insurance fund) are credited to the respective funds.

Note : 7

Refinance and Loans

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Refinance to Commercial Banks	413,319,000	308,772,288
Refinance to Financial Institutions	1,141,516,977	1,055,567,010
Loans to Employees	1,714,194,733	1,707,444,026
	3,269,030,710	3,071,783,324
Less: Provision for doubtful Loans	785,767,957	220,747,634
Total	2,483,262,753	2,851,035,690

Interest on refinance loans were earned at various rates ranging from 2% to 9% per annum (P.Y. 3% to 9% per annum).

Note : 8
Other Receivable

		As on 15 July 2004	As on 16 July 2003
		NRs.	NRs.
Interest Accrued	968,717,057		
Less: Provision for doubtful amounts	<u>63,619,489</u>	905,097,568	292,778,017
Deposits		1,848,274	1,604,789
Advances Recoverable		950,049,717	827,854,113
Recoverable from NIDC Mutual Fund		10,300,000	13,300,000
Other recoverable		9,138,608	10,259,978
Bills Purchased		2,218,955,976	1,265,504,543
Total		4,095,390,143	2,411,301,440

Note : 9
Gold and Silver Stock

		As on 15 July 2004	As on 16 July 2003
		NRs.	NRs.
Gold held in Stock		1,147,976,417	1,270,526,650
Silver held in Stock		20,021,633	79,640,842
Total Gold and silver stock		1,167,998,050	1,350,167,492

Note : 10
Inventories

		As on 15 July 2004	As on 16 July 2003
		NRs.	NRs.
Security Note Stock		435,488,448	569,092,971
Numismatic and Medallion coins		37,351,083	17,073,102
Other Metal Stock		101,837,928	78,957,100
Stationary and other sundry items		10,315,528	11,626,698
Total Inventories		584,992,987	676,749,871

Note : 11
Statement of Property, Plant and Equipment

(NRs.)

Particulars	Rate	Cost			Depreciation			Net Block			
		As at 16 July 2003	Addition during the year	Adjustment / Transfer	As at 15 July 2004	Upto 16 July 2003	Current Year Depreciation	Adjustment / Transfer	Upto 15 July 2004	As at 15 July 2004	As at 15 July 2003
Land		13,291,197	-	-	13,291,197	-	-	-	-	13,291,197	13,291,197
Building	3	439,893,882	6,308,347	(1,664,314)	444,537,915	67,417,404	13,147,900	(750,592)	79,814,711	364,723,204	372,476,478
Furniture and Fixture	10	91,635,857	4,434,197	(724,382)	95,345,671	54,230,108	7,273,857	(611,285)	60,892,680	34,452,992	44,643,388
Office Equipment	20	52,186,302	29,422,273	(597,443)	81,011,132	40,230,895	11,607,608	(901,498)	50,937,005	30,074,127	19,613,243
Vehicles	20	142,806,724	9,207,874	(241,652)	151,772,946	95,441,663	13,250,194	(240,761)	108,451,096	43,321,850	47,365,050
Machinery Equipment	15	82,597,208	159,222	22,904,531)	59,851,899	48,021,134	4,789,804	(6,957,403)	45,853,535	13,998,364	31,436,858
Computer Equipments	20	82,539,872	5,995,814	(1,871,692)	86,663,994	46,211,388	12,337,739	(887,990)	57,661,137	29,002,857	31,125,158
Miscellaneous	15	5,506,100	555,630	(96,554)	5,965,175	4,296,345	372,750	(92,332)	4,576,762	1,388,413	1,270,816
Total		910,457,141	56,083,357	(28,100,569)	938,439,929	355,848,936	62,779,851	(10,441,862)	408,186,926	530,253,004	561,222,187
Capital Work-in-Progress		29,071,514	17,050,605	(18,834,095)	27,288,024	-	-	-	-	27,288,024	29,071,517
Grand Total		939,528,655	73,133,962	(46,934,664)	965,727,954	355,848,936	62,779,851	(10,441,862)	408,186,926	557,541,028	590,293,705
Previous Year		872,290,875	153,392,851	(85,605,461)	940,078,265	315,133,141	60,725,756	(26,074,337)	349,784,560	590,293,705	

Note : 12

Deposit from Banks and Other Agencies

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Deposit from Banks	234,605,708	275,766,097
Foreign Diplomatic Missions and other agencies	80,177,451	157,625,820
Total	314,783,159	433,391,917

Note : 13

IMF Related Liabilities

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
SDR Allocation	891,633,362	869,994,590
Loan under Poverty Reduction and Growth Facility (PRGF)	784,392,690	180,175,442
Total	1,676,026,052	1,050,170,032

Summary Statement of the IMF account as on July 15, 2004:

		NRs.
1) IMF quota for the country - SDR 71,300,000.00 @104.815		7,473,309,500
Less:		
a) Amount credited to : IMF account No. 1	4,715,646,608	
IMF account No. 2	1,229,317	
b) IMF bonds directly issued to IMF by HMG/N	2,318,061,941	7,034,937,866
Balance as reserve tranche (SDR 57,744,01)		438,371,634
2) SDR Holding (SDR 499,205)		54,919,040
3) SDR Allocation (SDR 8,104,800)		891,633,362
4) PRGF Loan (SDR 7,130,000.00)		784,392,690

IMF Bonds directly issued by HMG/N and the amount shown as reserve tranche has not been included in this financial statement.

SDR holding has been shown as foreign currency assets and SDR Allocation and PRGF Loan have been shown under foreign currency liabilities.

The SDR exchange rate for conversion of quota is as of April 30, 2004.

Note : 14
Other Liabilities

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
KFW Accounts	73,893,143	67,974,596
CSI Loan	-	44,553,363
Accrued Interest	3,478,585	-
Total	77,371,728	112,527,959

HMG/N under the economic assistance agreement with German government, has undertaken to maintain the above account in the name of KFW.

The obligation of the implementation of agreement under the said loan is of HMG/N and KFW.

CSI Loans were repaid to HMG/N during the year.

Note : 15
Deposit and Other Balances

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Balances of HMG/N	753,035,630	461,694,695
Deposits from Banks and Financial Institutions	25,020,261,574	15,414,516,217
Balances of Other Institutions	1,657,678,837	3,680,000,886
IMF Account No 1	4,715,646,608	4,168,071,281
IMF Account No 2	1,229,317	348,120
Earnest Money	4,017,538	2,961,633
Money Changer	3,980,000	3,798,800
Margin against LCs	1,438,649,724	1,267,441,238
Pensioner Retention Money	45,347,892	37,050,943
Total	33,639,847,120	25,035,883,813

Balances of Banks and Financial institutions also include the amount required to maintain cash reserve ratio (CRR) of commercial banks and ADB/N with the NRB.

Other deposits include deposit of government corporations, companies and local authorities etc.

Note : 16
Staff Liabilities

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Medical Fund	328,131,954	317,438,500
Retirement Fund	394,343,511	305,899,209
Welfare Provident Fund	254,680,013	525,733,956
Gratuity and Pension Fund	801,193,851	781,783,000
Life Insurance Fund	211,362,748	241,024,054
Total	1,989,712,077	2,171,878,719

Note : 17
Other Payables

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Insurance Premium collected from Staff	837,184,798	821,810,737
Less: Advance Insurance Premium paid on behalf of Staff	(688,697,854)	(613,273,559)
Net Payable	148,486,944	208,537,178
CSI Loan Securities Fund	251,530	20,727,123
Total	148,738,474	229,264,301

Note : 18

Currency in Circulation

	As on 15 July 2004 NRs.	As on 16 July 2003 NRs.
Currency in Circulation	68,150,000,000	61,980,000,000

Currency in circulation represents notes issued by NRB, as a sole currency issuing authority in Nepal.

The liability for notes in circulation is recorded at face value in the balance sheet.

These liabilities are supported by assets including gold and silver, foreign currency, foreign securities and government securities as follows:

	As on 15 July 2004 NRs.	As on 16 July 2003 NRs.
Gold	831,727,192	831,727,192
Silver	459,339,588	459,339,588
Foreign currency balance held abroad	37,079,501,220	20,909,501,220
Foreign Securities	25,607,732,000	35,607,732,000
Government Securities	4,171,700,000	4,171,700,000
	68,150,000,000	61,980,000,000

The amount of currency issued by the bank and in circulation at the balance sheet date are as follows:

Denomination Notes	As on 15 July 2004 Face Value (NRs.)	As on 16 July 2003 Face Value (NRs.)
1	177,807,262	176,818,143
2	211,039,808	213,541,462
5	518,294,150	460,610,000
10	921,670,320	847,440,550
20	765,395,060	764,894,120
25	214,627,025	308,550,275
50	1,343,882,800	1,299,636,050
100	4,301,265,200	4,234,049,650
250	89,945,625	91,825,250
500	16,759,085,750	16,162,496,500
1000	42,846,987,000	37,420,138,000
	68,150,000,000	61,980,000,000

Note : 19
Sundry Liabilities

		As on 15 July 2004 NRs.	As on 16 July 2003 NRs.
Projects run by Micro Finance Department - Liabilities	19a	680,399,565	687,186,410
Less: - Assets		<u>(680,399,565)</u>	<u>- (687,186,410)</u>
Sundry creditors		372,622,579	198,938,216
Unclaimed		16,503,451	3,681,030
Bills Collection		60,283,119	50,232,106
Less: Bills Lodged		<u>(60,283,119)</u>	<u>- (50,426,098)</u>
Pension Payable to NRB Ex-Staff		7,899,305	3,814,658
General Account	19b	155,611,608	589,662,230
Note Chest balance	19c	100,000,000	-
Total		652,636,943	795,902,142

Note : 19a

Financial Statements of various Projects run by Micro Finance Department as at 15 July 2004 are as follows*

Assets	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Current account	974	24,940,633	6,189,978	4,684,121	1,088,695	36,904,401
	(665,060)	(4,082,575)	(1,410,178)	(4,959,620)	(1,095,695)	(12,213,128)
Imprest Account	-	-	-	-	-	-
	-	(13,951,570)	-	-	-	(13,951,570)
Investment in fixed deposit	186,308,000	-	7,500,000	13,634,000	-	207,442,000
	-	-	-	-	-	-
Investment in HMG/N bonds	-	55,840,200	40,000,000	20,317,000	-	116,157,200
	(145,134,000)	(16,890,000)	(11,500,000)	(26,290,000)	-	(199,814,000)
Loans to Banks, FIs, and NGOs	1,000,000	91,025,800	113,998,570	91,482,432	-	297,506,802
	(43,974,012)	(120,480,000)	(175,944,707)	(102,300,288)	-	(442,699,007)
Fixed assets	-	-	-	-	2,089,657	2,089,657
	-	-	-	-	(3,081,635)	(3,081,635)
Interest receivables	3,782,008	1,446,797	2,779,339	703,412	-	8,711,556
	(5,479,043)	(2,051,092)	(2,976,179)	(825,072)	-	(11,331,386)
Principal (Installment) receivables	-	1,970,000	-	-	-	1,970,000
	-	(2,907,600)	-	(1,188,084)	-	(4,095,684)
Other receivables	-	-	7,497,949	2,120,000	-	9,617,949
	-	-	-	-	-	-
Current Year Total	191,090,982	175,223,430	177,965,836	132,940,965	3,178,352	680,399,565
Previous Year Total	(195,252,115)	(160,362,837)	(191,831,064)	(135,563,064)	(4,177,330)	(687,186,410)

Liabilities	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Loans from IFAD/ADB	176,908,299	168,847,864	164,215,060	131,409,000	-	641,380,223
	(189,108,871)	(155,261,595)	(175,944,707)	(131,409,000)	-	(651,724,173)
ADB grants	-	-	-	-	3,174,852	3,174,852
	-	-	-	(835,961)	(4,170,330)	(5,006,291)
Exchange fluctuation account	-	708,846				708,846
	-	(791,375)	-	-	-	(791,375)
Split interest reserve	-	-	11,060,324	-	-	11,060,324
	-	-	(12,668,074)	-	-	(12,668,074)
Sundry Payables	10,506,990	3,288,207	1,099,267	4,500	3,500	14,902,464
	(955,295)	(2,577,777)	(1,178,965)	(1,983,235)	(7,000)	(6,702,272)
Profit transferred to NRB	3,675,693	2,378,513	1,591,185	1,527,465	-	9,172,856
	(5,187,949)	(1,732,090)	(2,039,318)	(1,334,868)	-	(10,294,225)
Current Year Total	191,090,982	175,223,430	177,965,836	132,940,965	3,178,352	680,399,565
Previous Year Total	(195,252,115)	(160,362,837)	(191,831,064)	(135,563,064)	(4,177,330)	(687,186,410)

* These figures have been taken from unaudited financial statements of the projects. These projects are run by NRB under separate subsidiary loan agreements signed by the NRB with HMG/N.

Figures in brackets represent the corresponding figures of the previous year.

MCPW = Micro Credit Project for Women
 TLDP = Third Livestock Development Project
 PCRW = Production Credit for Rural Women
 PAPWT = Poverty Alleviation Project for Western Tarai
 RMP = Rural Microcredit Project

Note : 19b

NRB general account represents NRB inter-office transactions, and the year end balance are under reconciliation. No material adjustments, in this respect, are expected to arise

Note : 19c

This represent cash withdrawn from note chest, the securities of which has not been earmarked

Note : 20
Reserves

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Capital Reserve		
Gold and Silver Equalization Reserve	1,198,550,974	1,198,550,974
Statutory Reserve		
General Reserve	10,277,500,000	10,054,100,000
Monetary Liabilites Reserve	463,500,000	384,900,000
Exchange Equalization Fund	11,352,166,582	9,973,522,833
Other Reserves and Reserve Funds		
Development Fund	3,923,643,000	3,896,543,000
Banking Development Fund	527,087,319	527,087,319
Development Finance Project Mob. Fund	63,469,505	54,296,651
Mechanisation Fund	91,316,414	91,316,414
Scholarship Fund	61,594,504	61,594,504
Mint Development Fund	547,712,943	547,712,943
CSI Development Fund	-	45,000,000
Employees Welfare Fund	234,027,004	234,027,004
Rural Self Reliance Fund (GS Kosh)	253,400,000	174,800,000
Total Reserves and Funds	28,993,968,245	27,243,451,642

- 1 Reserves/ Funds other than capital reserve (gold and silver equalization reserve) represent appropriation out of the profits, which are statutory as well as specific in nature. All the specific funds are created with the approval of the Board.
- 2 **Exchange Equalization Fund**
Represents opening balance of exchange gains/losses as increased by appropriation of net exchange gains made during the year.
- 3 **General reserve and monetary liabilities reserve**
Statutory reserves created and maintained as per provisions of NRB Act, 2002.
- 4 **Development Fund**
Specific fund created in order to provide support for loans and refines to banks and FIs as well as to make investment in the shares and debentures of these Institutions.
- 5 **Banking Development Fund:**
This Fund was created to meet the expenses relating to feasibility survey to open new banks in the priority are, to provide interest free loans to such banks, to compensate the losses incurred by those banks for specified period and expenses relating to banking promotion.
work-shops and seminars.
- 6 **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.

7 Mechanization Fund

This fund was created to meet the amount required to develop and install modern software, hardware and allied mechanization system.

8 Scholarship Fund

This fund was created to meet the amount required for the development of skilled manpower by way of providing training and higher studies to the employees of the Bank.

9 Mint Development Fund

This fund was created to meet the heavy capital expenditure required for construction of factory building and installation of Machinery for minting activities.

10 CSI Development Fund

Since the relevance of this fund was no longer remained after the expiry of CSI projects from the year 1991, the amount lying in this fund has been transferred to General Reserve during the year 2003.04.

11 Employees welfare fund

This fund was created on 1958/59 for the welfare of the employees who have suffered financial and other losses due to unprecedented events and any other reasons.

12 Rural Self Reliance Fund (GS Kosh)

This fund was created as per the NRB Monetary Policy to meet the fund required for long term refinancing in tea, cardamom plantation and production as well as construction of cold storage etc.

13 Capital includes Rs. 2,990 million capitalised out of General Reserve.

Note : 21**Contingent Liabilities**

	As on 15 July 2004	As on 16 July 2003
	NRs.	NRs.
Letters of Credit	307,165,141	1,308,264,990
Guarantees Issued	394,448,245	46,667,090
Claims not acknowledged as debt	11,872,310	8,432,045
Total	713,485,696	1,363,364,125

- 1 Contingent liabilities in respect of Letter of Credit (L/C) are determined on the basis of LCs remaining unexpired at the Balance sheet date after adjusting there from the margin retained by the bank.
- 2 Claims not acknowledge as debt consist of legal and other claims pending against the Bank as at 15 July 2004. No provision on such claims have been made, as the Bank is of the opinion that it is unlikely that any significant liabilities with respect to these will arise.
- 3 Guarantees issued are backed by counter guarantees from corresponding bank's.

Note : 22
Interest Income

	2003/04	2002/03
	NRs.	NRs.
Foreign Currency Financial Assets		
Treasury bills & Time Deposits	1,692,605,330	1,905,785,010
SDR Holding	4,969,947	5,587,923
Interest income from Foreign Currency Financial Assets	1,697,575,277	1,911,372,933
Local Currency Financial Assets		
Government Securities	1,731,345,851	1,582,106,030
Investment in financial and other institutions	229,641,298	310,658,582
Overdraft to Government	18,390,180	90,810,545
Loans and Refinance	49,804,850	61,456,123
Interest income from Local Currency Financial Assets	2,029,182,179	2,045,031,280
Total interest income from financial assets	3,726,757,456	3,956,404,213

Note : 23
Commission Income

	2003/04	2002/03
	NRs.	NRs.
Foreign Currency Financial Assets		
On Currency exchange	252,614,111	222,355,441
Local Currency Financial Assets		
Government transaction & Other services	49,977,057	51,723,019
Total Commission income from financial assets	302,591,168	274,078,460

Note : 24
Interest Expenses

	2003/04	2002/03
	NRs.	NRs.
Foreign Currency Financial Liabilities		
SDR Allocation & PRGF Loan	16,951,239	18,446,743
Others	250,898	259,732
Sub Total	17,202,137	18,706,475
Local Currency Financial Liabilities		
Secondary Market Operations	748,396,654	783,013,571
Others	675,845	1,719,481
Sub Total	749,072,499	784,733,052
Total Interest Expense on Financial Liabilities	766,274,636	803,439,527

Note : 25

Agency and Service Charge

	2003/04	2002/03
	NRs.	NRs.
Foreign Currency Liabilities		
Service Charge	10,250,035	8,189,447
Commission	8,540,553	8,365,279
Sub Total	18,790,588	16,554,726
Local Currency Liabilities		
Agency Expenses	274,579,436	228,916,446
Sub Total	274,579,436	228,916,446
Total Agency and Service Charge	293,370,024	245,471,172

Agency Expenses includes agency commission paid to the following banks for operating government accounts.

	2003/04	2002/03
	NRs.	NRs.
Nepal Bank Ltd.	138,570,175	109,539,034
Rastriya Banijya Bank	131,824,649	90,749,508
Nepal Bangladesh Bank	2,928,072	3,349,748
Total	273,322,896	203,638,290

Note : 26

Other Operating Income

	2003/04	2002/03
	NRs.	NRs.
Income from Mint (Sale of coin)	120,060,899	86,343,795
Gain from sale of precious coins	177,939,587	93,250,253
Fine/Penalty Received	5,697,543	23,944,134
Profit from sale of investments	1,840,879	-
Dividend Income	4,590,263	7,400,000
Provision on Investment written back (Net)	40,003,000	-
Profit from Projects	9,172,855	10,294,225
Liabilities no longer required written back	30,236,176	3,973,688
Miscellaneous	32,535,846	22,579,023
Total	422,077,048	247,785,118

Profit from Projects account run by Micro Finance Department are as follows:

Income	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Interest income	9,723,812	9,121,865	4,979,233	5,978,486	-	29,803,396
	(11,593,841)	(6,943,675)	(5,392,517)	(5,922,468)	-	(29,852,501)
Current Year Total	9,723,812	9,121,865	4,979,233	5,978,486	-	29,803,396
Previous Year Total	(11,593,841)	(6,943,675)	(5,392,517)	(5,922,468)	-	(29,852,501)
Expenses	MCPW	TLDP	PCRW	PAPWT	RMP	TOTAL
Interest IFAD	-	-	3,382,048	3,942,270	-	7,324,318
	-	-	(3,347,199)	(3,942,270)	-	(7,289,469)
Interest ADB	5,520,759	6,317,506	-	-	-	11,838,265
	(5,795,172)	(4,448,033)	-	-	-	(10,243,205)
Audit Fee	3,500	3,500	3,500	3,500	3,500	17,500
	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(17,500)
Meeting, training and others	523,860	422,347	2,500	505,251	-	1,453,958
	(607,220)	(760,052)	(2,500)	(641,830)	(138,457)	(2,150,059)
Depreciation	-	-	-	-	991,978	991,978
	-	-	-	-	(991,978)	(991,978)
Profit transferred to NRB Central Office	3,675,693	2,378,512	1,591,185	1,527,465	-	9,172,855
	(5,187,949)	(1,732,090)	(2,039,318)	(1,334,868)	-	(10,294,225)
(Loss transferred to ADB grants)	-	-	-	-	(995,478)	(995,478)
	-	-	-	-	1,133,935	1,133,935
Current Year Total	9,723,812	9,121,865	4,979,233	5,978,486	-	29,803,396
Previous Year Total	(11,593,841)	(6,943,675)	(5,392,517)	(5,922,468)	-	(29,852,501)

Figures in brackets represent the corresponding figures of the previous year.

Note : 27
Operating Expenses

		2003/04	2002/03
		NRs.	NRs.
Staff Costs	27a	838,526,559	1,018,737,374
Depreciation		62,779,851	61,507,038
Directors Fees and Expenses		1,059,662	516,644
Note Printing charges	27b	262,381,913	235,265,195
Mint Expenses		81,546,697	69,577,885
Security charges		11,811,442	2,500,000
Remittance charges		84,080,016	93,968,475
Travelling expenses		61,186,130	55,539,929
Insurance charges		20,002,896	7,156,200
Repair & Maintenance		9,140,154	12,244,940
Provisions on loans & advances, Investments, etc.	27c	596,071,774	208,491,069
Exchange Loss		-	105,725,000
Miscellaneous	27d	149,962,202	137,534,181
Total		2,178,549,296	2,008,763,930

Note : 27a
Staff Costs

		2003/04	2002/03
		NRs.	NRs.
Salary		174,649,782	225,774,502
Allowances		141,528,593	91,918,462
VRS Incentive		68,414,135	145,544,665
Providend Fund Contribution		15,081,280	16,912,736
Staff Welfare (Including Medical fund contribution)		133,791,640	97,494,969
Staff Welfare Provident Fund		82,731,610	74,800,000
Pension & Gratuity Fund		142,711,931	218,046,193
Staff Life Insurance Fund		38,769,483	97,052,121
Others		40,848,105	51,193,726
Total		838,526,559	1,018,737,374

All leave compensations are included in the allowances.

Note : 27b

Unissued currency stocks are recorded as inventory at the cost of acquisition and expensed when issued

Note : 27c

Provision on loans & advances, Investments, etc.

	2003/04	2002/03
	NRs.	NRs.
Provision for doubtful Loans & Advances	565,020,323	80,341,069
Provision for Diminution in the value of Investments	-	128,150,000
Provision for doubtful of recovery on sundry Accrued	31,051,451	-
Total	596,071,774	208,491,069

Note : 27d

Miscellaneous Expenses

	2003/04	2002/03
	NRs.	NRs.
Banking Promotion	13,315,693	14,919,678
Audit Fees and Expenses	12,283,178	544,311
Sundry balances written off	2,857,226	-
Others	121,506,105	122,070,192
Total	149,962,202	137,534,181

Note : 28

Cash and Cash Equivalent

	2003/04	2002/03
	NRs.	NRs.
Foreign currency cash and bank balance	73,974,619,198	30,071,535,817
Investment in Treasury Bills	34,000,210,159	56,886,200,241
Secondary Market Government Securities	12,030,710,764	16,800,548,056
SDR holdings	54,919,040	1,975,629
Local currency in hand	1,272,972,636	988,502,287
Total	121,333,431,797	104,748,762,030

Note : 29
Risk Management

<i>Interest rate risk</i>							<i>(NRs.)</i>	
	Description	Interest bearing Maturity			Non interest bearing Maturity			Grand Total
		upto 1yr.	after 1 yr.	Total	upto 1 yr.	after 1yr.	Total	
Foreign Currency Financial Assets								
Currency in hand and with banks	66,119,575,784	-	66,119,575,784	7,788,300,587	-	7,788,300,587	73,907,876,371	
Investment in Treasury Bills	34,000,210,158	-	34,000,210,158	-	-	-	34,000,210,158	
SDR Holding	54,919,040	-	54,919,040	-	-	-	54,919,040	
Other Receivable	-	-	-	285,486,597	-	285,486,597	285,486,597	
Sub total (a)	100,174,704,982	-	100,174,704,981	8,073,787,184	-	8,073,787,184	108,248,492,166	
Local Currency Financial Assets								
Cash in hand	-	-	-	1,272,972,636	-	1,272,972,636	1,272,972,636	
Investment in Government Securities	10,538,189,764	3,125,676,000	13,663,865,764	1,643,344,610	3,828,468,806	5,471,813,416	19,135,679,180	
Investment in Financial & Other Institutions	-	-	-	50,000,000	541,059,500	591,059,500	591,059,500	
Other Investments	2,083,594,000	1,018,036,000	3,101,630,000	-	-	-	3,101,630,000	
Refinance & Loans	433,318,800	1,121,217,177	1,554,535,976	-	1,714,494,734	1,714,494,734	3,269,030,711	
Other Receivables	-	-	-	3,162,746,892	996,262,739	4,159,009,632	4,159,009,632	
Gold and Silver reserves	-	254,781,505	254,781,505	-	1,036,285,276	1,036,285,276	1,291,066,781	
Sub total (b)	13,055,102,564	5,519,710,682	18,574,813,245	6,129,064,138	8,116,571,055	14,245,635,194	32,820,448,439	
Other Assets (c)	-	-	-	1,736,855,369	573,676,697	2,310,532,065	2,310,532,065	
Grand Total (a + b + c)	113,229,807,546	5,519,710,682	118,749,518,227	15,939,706,691	8,690,247,751	24,629,954,444	143,379,472,670	

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Foreign Currency Financial Liabilities							
Deposit from banks and other agencies	-	-	-	314,783,159	-	314,783,159	314,783,159
IMF Related Liabilities	891,633,362	784,392,690	1,676,026,052	-	-	-	1,676,026,052
Other Liabilities	-	-	-	77,371,728	-	77,371,728	77,371,728
Sub total (a)	891,633,362	784,392,690	1,676,026,052	392,154,887	-	392,154,887	2,068,180,939
Local Currency Financial Liabilities							
Deposit and other balances	-	-	-	33,639,847,120	-	33,639,847,120	33,639,847,120
Bills Payable	-	-	-	2,545,881,682	-	2,545,881,682	2,545,881,682
Staff Liabilities	115,200,000	1,874,512,077	1,989,712,077	-	-	-	1,989,712,077
Other Payables	-	-	-	251,530	148,486,944	148,738,474	148,738,474
Sub total (b)	115,200,000	1,874,512,077	1,989,712,077	36,185,980,332	148,486,944	36,334,467,276	38,324,179,353
Other Liabilities	-	-	-	70,002,664,689	-	70,002,664,689	70,002,664,689
Equity	-	-	-	-	31,993,968,246	31,993,968,246	31,993,968,246
Sub total (c)	-	-	-	70,002,664,689	31,993,968,246	101,996,632,935	101,996,632,935
Grand Total (a + b + c)	1,006,833,362	2,658,904,767	3,665,738,129	106,580,799,908	32,142,455,190	138,723,255,098	142,388,993,227
Maturity Gap	112,222,974,184	2,860,805,915	115,083,780,097	(90,641,093,216)	(23,452,207,439)	(114,093,300,654)	990,479,443

Maturity Gap	upto 1 yr.	21,581,880,967
	after 1yr.	(20,591,401,524)
		990,479,443

Includes finances provided under profit and loss sharing arrangements.

Figures taken without considering provisions there against

The statement has been prepared first time for the year 2060-61 (2003-04) and hence comparative figures of the previous year is not available.

Note : 30
Other Notes

(i) Financial Year

The financial statements relate to the financial year Bikram Sambat 2060/61 corresponding to Gregorian calendar Mid July 2004. The previous year was 2059/60 (Mid July 2003).

The corresponding information presented in the financial statements for the previous year has been rearranged and reclassified, wherever necessary, in order to facilitate comparison.

(ii) Currency of Presentation

All amounts in Nepalese Rupees (NRs.) are rounded to nearest rupees, unless otherwise stated.

(iii) Changes in operations

During the financial year banking activities of Ilam Office and Kakarvitta Exchange Counter of the bank were closed and their transactions were transferred to Biratnagar Office.

(iv) Changes in Accounting policies

NRB has made some changes in its accounting policies, which have been stated in the relevant policy disclosure.

Upto the financial year 2002/03, the Bank was preparing a separate balance sheet for the Currency Management Department and Banking Department. However, from this financial year, the bank has started to present its state of affairs through a single balance sheet. Information on assets and liabilities of the Currency Management Department is presented in note 18 of the financial statements.

As compared to the earlier policy of charging exchange fluctuation losses to the profit and loss account and the exchange fluctuation gain to the Exchange Equalization Fund (EEF), the Bank has now adopted the policy to transfer all exchange gains and losses arising on foreign currency transactions as well as translation of foreign currency assets and liabilities to the Profit & Loss Account. Further, an amount equivalent to the net exchange gain during the year has been transferred to the EEF.

The change in accounting policy for exchange fluctuation has been done to ensure compliance with International Accounting Standards. Due to such change in accounting policy, the profit for the year is higher by NR 162.01 crores.

(v) Special premium deposits

During the year NRB had placed 6 deposits in foreign currency valuing NC 690.92 crores (including rollovers) in Premium Deposit Scheme with a foreign commercial bank. As per the terms of such deposits, the investor makes the deposit in a particular currency (base currency) and also indicates the choice of an alternate currency. At the time of maturity, the bank gets relatively higher interest earnings whereas the refund of deposit is received in the weaker of the two currencies as on the date of such maturity.

Out of such amounts, deposits valuing NC 296.56 crores (as on purchase date) were outstanding as at the year-end.

(vi) Segment reporting

The Bank presents financial assets and financial liabilities, and their associated income and expense streams, by distinguishing between foreign currency and local currency activities. The Bank considers that this reporting approach provide appropriate segmental reporting of the Bank's activities which are more fully described in note 1.

The Bank operates, as a central bank throughout in the kingdom of Nepal and therefore segmenting its operation on geographical basis, as such, is not applicable.

(vii) Prior period adjustments

Prior period adjustments primarily represent the impact of accounting adjustments made during the year to correct certain errors in accrual of interest relating to earlier years.

(viii) Bills payable and Bills Receivable

The Bank carries out the function of repayment of government securities and interest thereon on behalf of the HMG. Bills Payable primarily represents the year end undisbursed or unadjusted amount of payments received from HMG 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.

(ix) Quantity and market value of gold and silver

The quantity and market value of gold, gold receivable and silver are as follows (market value based on closing rate prevailing on last working day of the year in Kathmandu):

Particulars	Weight	Market Price (NRs.) Per 10 Grams.	Total Market Value (NRs.)
Gold Reserve	4,752.726.807 Kgs. (4,752.726.807 Kgs.)	9,840.00 (8,480.00)	4,676,683,178 (4,030,312,332)
Silver Reserve	139,193.814.682 Kgs. (139,193.814.682 Kgs.)	165.00 (129.50)	2,296,697,942 (1,802,559,900)
Gold held in Stock	2,462.555.832 Kgs. (2,412.384.990 Kgs.)	9,840.00 (8,480.00)	2,423,154,939 (2,045,702,472)
Silver held in Stock	3,006.607.618 Kgs. (8,438.047.000 Kgs.)	165.00 (129.50)	49,609,026 (109,272,709)
Current Year Total			9,446,145,085
Previous Year Total			(7,987,847,413)

- Figures in bracket represent the corresponding figures of the previous year.

(x) Year end exchange rates

The year-end exchange rates for major currencies considered for realignment of foreign currency assets and liabilities were as follows:

(Amount in NRs.)			
S.No.	Currency	15 July 2004	15 July 2003
1	US Dollar	74.14	74.75
2	Sterling Pound	137.75	120.29
3	Euro	91.64	84.30
4	Swiss Frank	60.08	54.35
5	Australian Dollar	53.8	49.04
6	SDR	110.013	107.343

(xi) Consolidation of Subsidiaries

The Bank's investments in seven entities as mentioned in Note 5 are in excess of 50% of the capital of those entities.

However, the financial statements of these subsidiaries have not been consolidated, as the accounts of these subsidiaries have not yet been prepared in accordance with International Financial Reporting Standards.

Moreover, the audited financial statements of those subsidiaries were not available as at the date of the Bank's financial statements.

These investments have been made under the specific directives or policies of the Government and other relevant statutes. The management of the Bank as such does not exercise significant influence or control over these entities except for any regulatory purposes. In view of the Bank's management, consolidation of these subsidiaries will not reflect the true nature and substance of the central banking operations and objectives.

(xii) Related Parties

In the normal course of its operations, the Bank enters into transactions with related parties. Related Parties include the HMG/N; as ultimate owner of the Bank, various Government Departments and state controlled enterprises/entities. All transactions are carried out with reference to market rates.

Transactions entered into include:

- (a) Acting as the fiscal agent and financial advisor of the government, government departments and state controlled enterprises;
- (b) Acting as the agent of government or its agencies and institutions, provides guarantees, participates in loans to government and related institutions;
- (c) The Bank doesn't ordinarily collect any commission, fees or other charges for services which it renders to the government or related entities except where agreement has stated otherwise.
- (d) Acting as agent of government, the Bank issues securities of government, purchases unsubscribed portion of any issue and amounts set aside for the Bank;
- (e) As the agent of government, the Bank manages public debt and foreign reserves.

(xiii) Number of employees

<u>Mid-July 2004</u>	<u>Mid-July 2003</u>
1663	1811

(xiv) Taxation

Section 8 of NRB Act exempts the Bank from payment of all types of taxes, fees and statutory levies. Accordingly, no income tax is payable by the Bank as per Income Tax Act, 2002.

(xv) Events occurring after Balance Sheet Date

There were no material events occurring subsequent to the balance sheet date that required adjustments or disclosure in the financial statements.

(xvi) Directors' responsibility statement

The Directors of the Bank are responsible for preparation of the annual financial statements and for the estimates and judgements used in them.

Appendices

Appendix A
Board of Directors
(Mid-July 2004)

Board of Directors	
Dr. Tilak Rawal, Governor	Chairman
Mr. Bhanu P. Acharya, Secretary Ministry of Finance, HMG	Member
Dr. Parashar Koirala, Dean, Faculty of Management, Tribhuvan University.	Member
Mr. Pradeep K. Shrestha	Member
Dr. Bishwa K. Maskay Professor, Tribhuvan University	Member
Mr. Ram B. Pant, Deputy Governor	Member
Mr. Bijaya N. Bhattarai, Deputy Governor	Member

Appendix B
Principal Officers

(Mid-July 2004)

Special Class Officers		
1	Mr. Upendra K. Poudyal	Executive Director, Currency Mgmt. Department
2	Mr. Lekh N. Bhusal	Executive Director, Human Resource Mgmt. Dept.
3	Mr. Madhav P. Bhatta	Executive Director, Financial Mgmt. Department
4	Mr. Krishna B. Manandhar	Executive Director, Foreign Exchange Mgmt. Dept.
5	Mr. Tulasi P. Uprety	Executive Director, Financial Institution Supervision Dept.
6	Mr. Krishna K. Pradhan	Executive Director, Micro-finance Department
7	Mr. Keshav P. Acharya	Executive Director, Internal Audit & Inspection Department
8	Mr. Tula R. Basyal	Executive Director, Research Department
9	Mr. Damodar P. Sharma	Executive Director, Mint Department
10	Mr. Ganesh K. Shrestha	Executive Director, Corporate Planning Department
11	Mr. Rajan S. Bhandari	Executive Director, Bank & Fin. Institutions Regulation Dept.
12	Mr. Surendra M. Pradhan	Executive Director, Financial Institution Supervision Dept.
13	Mr. Bir B. Rayamajhi	Executive Director, Bank Supervision Department
14	Mrs. Rita Pant	Act. Executive Director, Public Debt Mgmt. Department
15	Mr. Deependra B. Kshetry	Act. Executive Director, General Services Department
16	Mr. Ram B. Aryal	Act. Executive Director, Banking Office, Kathmandu
First Class Officers		
1	Mr. Sushil R. Mathema	Director, Human Resource Mgmt. Department
2	Mr. Sarad N. Tiwari	Director, Bank Supervision Department
3	Mr. Ram P. Adhikary	Chief Manager, Nepal Rastra Bank, Birgunj
4	Mr. Gopal P. Kafle	Director, Banks & Financial Institutions Regulation Department
5	Mr. Bhola R. Shrestha	Chief Manager, Nepal Rasta Bank, Siddharthanagar
6	Dr. Govinda B. Thapa	Director, Research Department
7	Mr. Ravindra P. Pandey	Director, Research Department
8	Mr. Ashwini K. Thakur	Director, Human Resource Mgmt. Department
9	Mr. Vishnu Nepal	Director, Financial Management Department
10	Mr. Lila P. Sitaula	Director, Corporate Planning Department
11	Mr. Gokul R. Thapa	Director, Public Debt Mgmt. Department
12	Dr. Dandapani Paudel	Director, Research Department
13	Mr. Trilochan Pangeni	Director, Banks & Financial Institutions Regulation Department

14	Mr. Ramjee Regmi	Director, Banks & Financial Institutions Regulation Department
15	Mr. Mohan M. Budhathoki	Chief Manager, Foreign Exchange Management Department
16	Mr. Bhaskar M. Gnawali	Director, Legal Division
17	Mr. Manmohan K. Shrestha	Director, Bank Supervision Department
18	Mr. Babu K. Panta	Director, Financial Management Department
19	Mr. Rishi R. Gautam	Director, Foreign Exchange Mgmt. Department
20	Mr. Ram K. Niraula	Chief Manager, Internal Audit & Supervision Department
21	Mr. Surendra K. Kshetry	Director, Banking Office, Kathmandu
22	Mr. Lok B. Khadka	Chief Manager, Nepal Rastra Bank, Nepalgunj
23	Mr. Hari P. Kafle	Chief Manager, Nepal Rastra Bank, Janakpur
24	Mr. Siddhi K. Joshi	Director, Banking Office, Kathmandu
25	Mr. Maha P. Adhikary	Director, Nepal Rastra Bank, Biratnagar
26	Mrs. Sadhana Upadhyay	Director, Public Relation Division, Office of the Governor
27	Mr. Mahesh Bhattacharai	Director, Macro-finance Department
28	Mr. Shambhu Thapa	Chief Manager, Mint Department
29	Mrs. Rameswori Pant	Director, Research Department
30	Mr. Shiva R. Shrestha	Director, Public Debt Mgmt. Department
31	Mr. Naresh Dhakal	Director, Currency Mgmt. Department
32	Mr. Narayan P. Poudel	Director, Nepal Rastra Bank, Pokhara
33	Mr. Nara B. Thapa	Director, Research Department
34	Mr. Binod Atreya	Director, Banks and Financial Institutions Regulation Dept.
35	Mr. Purna B. Khatri	Act. Director, General Services Department
36	Mr. Ranjan K. Sharma	Act. Director, Financial Institution Supervision Dept.
37	Mr. Radheshyam Shrestha	Act. Director, Financial Management Department
Officers on Deputation and Leave		
1	Executive Director Dr. Yuba R. Khatiwada	Member, National Planning Commission
2	Chief Manager Mr. Tanka N. Khanal	Ministry of Finance, HMG
3	Director Mr. Rewat B. Karki	International Monetary Fund, Washington D.C.
4	Director Min B. Shrestha	Study Leave
	Director Pradeep R. Pandey	Study Leave