Nepal Rastra Bank

BANK SUPERVISION DEPARTMENT

BANKING SUPERVISION

ANNUAL REPORT
2002-2003

Foreword

The need to maintain the balanced economic growth has remained one of the major challenges facing the country in the past few years. Nepal Rastra Bank has continued to work closely with both the Government and the financial sector in countering some of the negative effects of a very difficult economic environment.

The difficult economic environment has reduced earnings capacity of many sectors in the economy, thereby affecting the overall performance of commercial banks. The volume of non-performing loans is rising steadily. This has resulted in constraints in the earning capacity of banks. It has also reduced the turnover of funds in commercial banking sector thereby failing to generate more business.

Nepal Rastra Bank, in response to the deterioration in banks' asset quality, has urged all banking institutions to strengthen their risk management practices, and ensure that they have proper mechanisms in place to continuously measure, monitor and control the risks in their portfolios. The introduction of new service delivery channels, through technological development, poses further challenges from supervision and regulation aspect. These challenges are being dealt with through effective banking supervision, especially with respect to assessing new banking risks. The supervisors must now not only have a clear understanding of the risks and how they should be managed, but they must also know, through the early warning systems, how to read and react, appropriately, when serious problems eventually surface.

Nepal Rastra Bank will, of course, continue to play its role and work to ensure that the financial sector remains stable, in the face of the challenges that lie ahead. Consolidated supervision will be implemented in earnest. The bank will continue to review its approaches to further strengthen the effectiveness of supervision of the commercial banks. Nepal Rastra Bank will focus on the utilization of information technology to achieve the objective of supervision function in a effective manner.

Dr. Tilak Bahadur Rawal
Governor
Nepal Rastra Bank

Preface

The purpose of this Annual Report is to provide an overview of the supervisory operations and activities of Commercial Banks in the financial year 2002-03. The report also gives an analysis of the financial condition and performance of the banking sector in Nepal during the same period.

Bank Supervision Department (BSD) of Nepal Rastra Bank is entrusted with the responsibility of ensuring ongoing supervision and keeping track of developments in the banking sector. The supervisory functions are carried out in accordance with the best international standards and practices. The department is also looking to continuously improve on its supervision techniques to the changing environment.

The supervision function is aimed at ensuring the stability and healthy development of banking and financial system and towards enhancing the public credibility towards it. Besides monitoring the financial health of the system, BSD is also responsible to ensure the compliance of the Banks with the prevailing acts and directives.

On the basis of examinations, both on-site and off-site, carried out during the year under review, it was established that banks have generally conducted their business in a satisfactory manner. There were instances that warranted supervisory intervention, but the overall performance was good. In this regard, the department has adopted a new policy, whereby all commercial banks will be subject to a full scope on-site examination each year.

Any constructive suggestions and recommendations from the users of this annual report shall be highly appreciated.

Bir Bikram Rayamajhi
Executive Director
Bank Supervision Department

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1 Bank Supervision in Nepal

1.1 Introduction

Before globalization and financial liberalization, in the mid 1980s, only two commercial banks that is Nepal Bank Limited and Rastriya Banijya Bank were in operation. The liberalization pave the way for the establishment of private banks including the foreign joint ventures. As a result, seventeen commercial banks are in operation. Out of seventeen commercial banks, nine banks were established in joint venture, however, at present there are six joint venture banks, after withdrawal of foreign investment in three banks. Rastriya Banijya Bank is fully owned by the HMG of Nepal, while in case of Nepal Bank Limited, HMG of Nepal is major shareholder. Remaining ten banks are fully owned by Nepalese investors. The number of commercial banks remained unchanged at seventeen during the year under review. List of the commercial banks is given in Appendix-1

Banking system of Nepal has undergone through significant change since liberalization. Free market operation in the area of interest rate, foreign exchange rate and diversified banking products, which are latest development in the banking sector. Though banking system in Nepal is not so multifaceted when compared to that of developed countries, it has definitely grown to become more complex in recent years. Further, Electronic and Internet Banking services offered by the commercial banks indicate adaptation of advanced technologies and it has placed additional supervisory concern and challenges. NRB has recognized and accepted these challenges. Steps are taken to strengthen supervisory capacity by increasing efficient and professional manpower and introducing new technologies.

1.2 Industry Development

1.2.1 International development

After the successful implementation of 1988 capital accord in more than 100 countries, the Basel Committee on Banking Supervision reached an agreement on a number of important issues at a meeting on July 2002 for promoting best and uniform banking practices as well as setting standards and guidelines for supervisory function. It has developed a new comprehensive framework for capital requirement based on the various risk exposures of the banking business, which is also popularly known as Basel II. The new capital accord has been introduced basically for the protection of depositor's interest by preserving the integrity of capital in Banks. It is expected that the forthcoming new capital accord will be milestone in the global banking history

The idea of new accord is fashioned with the strong believes of the committee, that minimum capital requirements should be closely aligned with prevailing risk management practices which is intended to foster a strong emphasis on risk management and to encourage ongoing improvements in banks' internal risk assessment capabilities.

In order to perform concentrated and comprehensive assessment of the Basel II, banks and supervisory authorities are expected to develop the system and processes necessary for compliance with the standards. The new framework comprises of multiple options from which banks and supervisors will select the option while calculating minimum capital requirement.

1.2.2 Local development

Bank Supervision Department believes that the manner in which supervision policies are implemented is critical to the stability of the banking system. Bank Supervision Department has adopted banking supervision principles promulgated by Basel Committee on Banking Supervision as guiding principles while formulating supervision plan and policies. The Nepal Rastra Bank has been preparing itself for a smooth implementation of new capital accord by 2006. Commercial banks, in coming years, may be required to comply with new capital accord in order to have access to the international banking.

Commercial banks in Nepal are now introducing ATM machines and internet banking. At present there are no laws and regulations in force to govern internet banking and electronic transactions. However, recognizing the need of the cyber law His Majesty's Government of Nepal is working together with other concerned agencies to formulate Cyber Act. There is also need to formulate separate set of guidelines/regulations for Internet banking and electronic transactions, which shall be acutely felt in the time to come.

Increasing credit defaults has resulted in acquisition of mortgaged fixed assets by the commercial banks. After taking over of the mortgaged property in its own name, banks were adjusting the loan and interest receivable to the extent of the value of the property with out realizing in cash. Several cases were observed wherein overvaluation of the property was made to reverse the loan loss provision and interest suspense to inflate the profits. Such practices of recognizing unrealized profit was considered to be unhealthy and need for new directive to curb with such practices was strongly felt. Accordingly necessary steps have already been taken to issue directives in this regard.

To strengthen the capital base all commercial banks are required to increase paid up capital to 1 billion by year 2008.

1.3 Supervisory Framework

Bank Supervision Department is responsible for executing the supervisory policies to ensure effective supervision of commercial banks of the country. The elements of the supervisory process encompassed in the objective of the department include on site examination, offsite supervision and supervisory action implementation. Departments' functioning is largely regulated by the Inspection and Supervision Bye Law, 2002.

Trained examiners and analysts in the Bank Supervision Department supervise and monitor the activities of commercial banks. In addition to monitoring the financial condition of the banks, examiners also review compliance with applicable laws and regulations and seek corrective action as and when necessary. For effective supervision and supervisory action implementation department is divided in three divisions namely Onsite supervision division, Off site supervision division and enforcement division.

On site supervision department is responsible for performing on site examinations of commercial banks in order to ensure that sound banking practices are followed, depositors interest is well protected and compliance with the required rules and regulations are made by the commercial banks. Department has comprehensive inspection manual to provide guidance in effective performance of on site examination.

Offsite supervision division conducts periodical financial surveillance and monitoring based on the reports and returns received from the commercial banks and provides pre-examination analysis and other analytical support to onsite supervisors and supervision department management. For the guidance in performance of offsite supervision there is off site supervision manual in force in line with international standards.

Enforcement division of the department is responsible for the enforcement of the directions and follows up of the corrective action.

Organizational structure of the Bank Supervision Department is given in appendix-2

1.4 Development in the legal and regulatory framework

Objectives of the Nepal Rastra Bank include regulating, inspecting, supervising and monitoring banking and financial system. Accordingly banking legislation has been amended over time and is currently being revised and strengthened in order to make the power and authority of the Nepal Rastra Bank as regulator and supervisor of commercial banks more effective. Section 84 of the Nepal Rastra Bank Act 2001 authorizes the NRB to inspect and supervise the commercial banks. Board has framed and implemented inspection and supervision byelaw 2002, confirming to international standard for inspection and supervision of the commercial banks licensed by the Nepal Rastra Bank.

There are other developments in the regulatory environment that is worth mentioning in this report. Among them is the Bank and Financial Institution Ordinance 2003 that is being drafted under the auspices of the Ministry of Law. This legislation, which covers all categories of banks and financial institutions, has come into force with effect from 4th February 2004.

To manage non-banking assets in Nepal, Act in respect of establishment of Assets Management Company (AMC) is drafted and submitted to His Majesty's Government of Nepal. Additionally commitment from His Majesty's Government of Nepal, Nepal Rastra Bank, and 11 commercial banks was obtained for capital investment in the company. Currently Nepal Rastra Bank is drafting Bye-law of the AMC.

Bye Law of Credit Information Bureau is implemented as per Nepal Rastra Bank Act 2001, and necessary efforts are made to establish Credit Information Bureau as independent institution under the company Act. A new extensive directive on the credit information and blacklisting of borrowers has also been issued by Nepal Rastra Bank.

HMG/N has formed Debt Recovery Tribunal on 19th June 2003 to enforce the Bank and Financial Institution’s Debt Recovery Act 2001 effectively.

The NRB, Board of Directors has framed and implemented “Bank Inspection and Supervision bye Law 2002”

Directive in respect of compulsory liquidity maintenance is amended in addition to necessary amendment in other directives. Licensing policy of commercial banks has also been revised.

Nepal Rastra Bank discontinued appointing representative director in the commercial banks to maintain independency in decision-making process from regulating authority.

Requirement of the interest rate spread is done away with.

1.5 Financial Sector Reform

Financial sector reform program primarily comprises of Re-engineering of Nepal Rastra Bank, restructuring and ownership reform of two public sector commercial banks and capacity building in financial sector.

American Consulting firm IOS partners was appointed as consultants for re-engineering of Nepal Rastra Bank and it has started working from 1st March 2003.

Under financial sector reform program new management team were appointed in the two public sector commercial banks. ICC consulting management team was appointed in Nepal Bank Limited and has started working from 21st July 2002. Similarly Mr. Bruce F. Henderson was appointed as Chief Executive Officer in Rastriya Banijya Bank on 21st December 2002 and he joined office from 16th January 2003.

In this context Nepal Rastra Bank has formed Monitoring & Surveillance Team (M & ST) to monitor and supervise work and progress of newly appointed management team of two large public sector commercial banks. Monitoring and Surveillance Committee was also formed to direct abovementioned team and implement directions of high level co-ordination committee named Nepal Rastra Bank Re-engineering Steering Committee.

Various progress reports were received from the public sector banks and NRB is reviewing the progress made thereof and necessary instruction were given in the course of such review.

As declared in the monetary policy, refinance loan of Rs. 303 Million was utilized by 40 sick units (industries and hotels) through 9 commercial banks.

1.6 Assessment of compliance with the Basel Core Principles for Effective Banking Supervision

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

Objectives, autonomy, powers and resources (CP-1)

Most of the essential criteria for each of the six sub-principles of CP1 were considered to have been met. Nepal Rastra Bank Act 2002 has legally recognized Nepal Rastra Bank as the only supervisory agency for all commercial banks in the country. Powers and duties of Nepal Rastra Bank as a supervising agency have been clearly laid down.

Licensing and structure (CPs 2-5)

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

Prudential regulations and requirements (CPs 6-15)

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

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

Methods of ongoing supervision (CPs 16-20)

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

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

Information requirements (CP-21)

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

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

Formal powers of the supervisors (CP-22)

CP 22 was assessed largely compliant. Banking supervisors are entrusted with the clearly laid down powers under the Nepal Rastra Bank Act 2002 and Commercial Banks act 1974 to take corrective actions when there are regulatory violations or depositors are threatened in any other ways.

Cross Border Banking (CPs 23-25)

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

2 Supervisory Activities in 2002/03

For the first time, annual supervision report of year 2001/02 was prepared during the year under review. Enactment of new Nepal Rastra Bank act 2001, Implementation of new Inspection and Supervision Byelaw 2002, consolidation of banking and financial institution Acts in to Bank and Financial Institution Ordinance 2003, Restructuring of the department and capacity building program of supervision department under NRB Re-engineering had laid many opportunities and challenges in front of the department. Responsibilities are required to be more defined clearly and priority target needs to be segregated from the general one. This requires proper planning and implementation thereof. In this context, department prepares annual plan for on site and offsite supervision according to which supervision work is carried out in coming year.

2.1 Annual Plan

Increased number of commercial banks, increase in competition, complexities of banking products and varied nature of transactions has put more challenge to improve existing supervision technique. It was felt that contemporary changes in the supervisory methods for identification of risk in the banking system is required. Accordingly, with the help of technical advisor of World Bank, alteration in the inspection and supervision technique was made in line with "Inspection and Supervision Byelaw 2002" and "On-site Supervision manual"**.** Byelaw provides that all commercial banks are subject to a full scope on-site examination at least once in two year and it also provides for deadline of the on-site and offsite reports. As a result, following supervision plan was made for the financial year-2003-04.

S. N.	Supervision Work Plan Detail
1.	Corporate level inspection of following commercial banks.
1.1	Nepal Bank Limited
1.2	Rastriya Banijya Bank
1.3	NABIL Bank Limited
1.4	Nepal SBI Bank Limited
1.5	Nepal Bangaladesh Bank Limited
1.6	Nepal Credit and Commerce Bank Limited
1.7	Lumbini Bank Limited
1.8	Machhapuchhere Bank Limited.
2	Target inspection of Hanuman Nagar and Nepalgunj branch of Rastriya Banijya Bank and Rajbiraj and Dhamboji branch of Nepal Bank Limited.
3	Offsite Supervision
3.1	Preparing quarterly consolidated offsite supervision report reflecting financial analysis and compliance to directives and regulations.
3.2	Preparation of annual offsite supervision reports of every banks.
3.3	Preparing “Offsite Supervision Manual”
4.	Report enforcement
4.1	Compilation, study analysis approval and monitoring of policies, work plan and other papers of commercial banks
4.2	Preparing quarterly report reflecting implementation status of each bank
4.3	Monitoring implementation status of offsite supervision report.

This work plan reflects normal routine supervisory function of the department. Special supervision, and ad-hoc supervision is normally carried out as and when needed . Department also executes other necessary activities related to the bank supervision. For example Department is working on the implementation of "New Capital Accord" (Basel II) in all commercial banks of Nepal by year 2006.

2.2 On-site supervision

During the year under review, the Onsite Division carried out a number of full- scope inspection of seven commercial banks, which was designed to provide supervisory assurance on the financial condition and soundness of the banks supervised. The inspections were carried out focusing mainly on the appraisal and verification of capital, asset quality, management, earnings and liquidity, sensitivity to risk and compliance with regulatory requirements. In addition to the routine examinations, commercial banks with perceived risks and weaknesses would be subjected to more frequent on-site examinations.

During the year 2002/03 following commercial banks and branches of banks were inspected.

1. Corporate level inspection of Standard Chartered Bank Nepal Limited, Laxmi Bank Limited, Siddhartha Bank Limited, Nepal Investment Bank Limited, Nepal Industrial and Commercial Bank Limited and Everest Bank Limited were completed and Inspection of Bank of Kathmandu Limited was in progress.

2. Under branch Inspection, 12 branches of Nepal Bank Limited and 14 branches of Rastriya Banijya Bank were inspected during the year under review. Follow up inspection of 7 branches of Nepal Bank Limited and Rastriya Banijya Bank each were also completed.

3. Special inspection of 3 branches of Nepal Bangaladesh Bank, 2 Branches of Bank of Kathmandu Limited and 1 Branch of Nepal SBI Bank Limited, Nepal Bank Limited and Rastriya Banijya Bank each was also completed.

In addition, as per the Bye-law board of directors of concerned bank were invited in the department for discussion of the matters raised in the inspection report. Chief officer of the Nepal Credit and Commerce Bank Limited and Kumari Bank Limited were invited to discuss major observations in the inspection report and improvement thereof.

2.3 Off-site Supervision

Offsite supervision is primarily based on the analysis and review of returns and reports submitted from the commercial banks. Delay in submission from the concerned banks makes delay in supervision work in addition to other reasons. As per Bank and Financial Institutions Ordinance 2003, commercial banks are required to pay specified fine if returns are not submitted in due time. This will have positive impact towards attitude of defaulting banks. Offsite supervisory activities during the year was focused on the following areas:

Periodical Analysis

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

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

Appraisal and Approval of Financial Statements

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

Major directions include directing two commercial banks to comply with directive on capital adequacy by injecting additional capital. Restriction was imposed on one bank to open new branches. Two banks were directed to recover loan to shareholders holding share above 1%. Direction was given to four banks to provide additional loan loss provisions. Eight banks were directed to bring the loans within limits of single obligor within specified date.

Liquidity

During the year 2002-03 Rastriya Banijya Bank, Standard Chartered Bank Nepal Limited, Nepal Credit and Commerce Bank Limited, Nepal Industrial and Commercial Bank Limited and Kumari Bank Limited were fined due to non-maintenance of compulsory cash balance as per directives of Nepal Rastra Bank.

Priority and Deprived Sector Lending

Himalayan Bank Limited, Laxmi Bank Limited, Lumbini Bank Limited and Nepal Credit and Commerce Bank Limited were fined due to non-Compliance to directives on priority sector and deprived sector lending during first quarter of 2003-04.

Software was developed with help of IT department to receive online data from commercial banks on priority and deprived sector lending. This made possible easy and smooth processing of received data by the supervisors.

2.4 Major Enforcement Actions

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

1. <u>Rastriya Banijya Bank.</u>

New management team was formed which was headed by Bruce F. Henderson. A separate committee was formed under Bank and Financial Institution Regulation Department to monitor the activities and progress of the new management team. Corporate level inspection is planned for the year 2003-04.

Branch inspections report showed that recoveries through auction of property mortgaged remained undecided as in the earlier period of inspection. Reply of eleven-branch inspection completed during the year 2001-02 has been received and follow up of the reports was in progress.

Out of fourteen branches inspected during the year 2002-03, thirteen reports were submitted to the respective branches and reply from 6 branches has already been received and necessary actions were in progress.

2. Standard Chartered bank Nepal Limited.

Inspection and submission of report to the board of the bank for implementation of the directions was completed within the year 2002-03.

Attention of the board was drawn in the areas of certain returns and details, some policy level matters, complete use of banks name and implementation of promoter's agreement.

3. Laxmi Bank Limited

Inspection of the bank was done during the year under review and report was submitted to the board of the bank on 16th July 2003 with necessary directions. Directions were given on the issues of decision made by the board on the matters in which chairman of the board was interested. Direction was given regarding execution central and policy level functions from Kathmandu and appointing chief executive officer to work in Kathmandu without obtaining approval from Nepal Rastra Bank to operate in Kathmandu. Directions regarding irregular loans and loans above the authority of chief executive officer was also given.

4. Kumari Bank Limited.

Inspection report along with the directions was forwarded to the bank on 27th November 2002. Major directions include to provide adequately on swapped loan and to obtain credit information before granting any credit. Appointment of relative of chairman of the board as director was found against Nepal Rastra Bank directives.

Regarding preliminary expenses of the bank, Policy and Directions Enforcement Committee recommended to refer the case to CIIA for further investigation and accordingly it was approved to place this subject before the board and it is pending after submission to the board.

5. Nepal Industrial and Commercial Bank Limited, Everest Bank Limited, Siddartha Bank Limited, Nepal Investment Bank Limited

Inspection of the bank was completed before the end of the year 2002-03 and reports were in last stage of completion for these banks.

6. Himalayan Bank Limited

Reply to the inspection report dated December 3, 2002 was received on 25 March 2002 from the bank. Further directions were given to the bank through letter dated 6th June 2003 to appoint chairman of the board as per the applicable laws and amend provisions in AOA which are contradictory to the laws, provide loan loss provision on the quarterly basis, comply with legal provision of annual general meetings approval for emoluments and facilities to directors, submit specifies policies and manuals to the Nepal Rastra Bank.

7. Nepal SBI Bank Limited

Follow up of the previous year inspection report was in progress with major observation about irregularity in the credit, valuation of mortgaged property, recovery policy of overdue loan, capitalization of interest and adequate provision for non-performing loan.

8. Nepal Credit and Commercial Bank Limited.

Follow up directions were given for corporate and special inspection of year 2001-02. Major follow up directions include issue of share to the public only after complying with Nepal Rastra Bank directive on capital adequacy requirement, accept deposit and advance credit within specified ceiling, manage non-performing loan and bring it to 15% within 2003-04, operate and improve banks condition as per the commitment made by the board of directors.

9. Machhapuchhere Bank Limited.

Follow up of the earlier period inspection report was in progress.

10. Nepal Bangaladesh Bank Limited

As a part of follow up activities bank was directed to comply with directives on single obligor limit and accordingly its commitment has been received to comply with the directives. However, in practice compliance was not found till the end of the year under review. Follow up is also continued in respect of direction to make adequate loan loss provision on specified loan.

11. Bank of Kathmandu Limited

Onsite inspection report of the year under review is in progress. Reply on report on special inspection regarding management aspect was received on 11th March 2003.

12. Nabil Bank Limited

No reply was received on the direction to make arrangement to held Annual General Meeting within dead line specified by the applicable laws. Due to non-compliance to some directions given through earlier period's inspection report, follow up directions were given again on 16th July 2003.

13. Nepal Bank Limited

After management takeover of Nepal Bank Limited there was no corporate level inspection of the bank except branch inspections. Twelve branches of the bank were inspected during the year 2002-03 and reports of eleven branches were submitted for enforcement. Report of one branch was under preparation. Reply from three branches has already been received.

14. Lumbini Bank Limited

Management of Lumbini Bank Limited was taken over as per section 86 (1) of Nepal Rastra Bank Act 2001 with effect from 20th March 2002. Period of management takeover was extended for another one year with effect from 21st March 2003 as per the section 86(5) of Nepal Rastra Bank Act. After management takeover of the bank there was no corporate level inspection.

Money Laundering

Notice was issued on 5th February 2003 by Home Ministry is Majesty's Government of Nepal declaring scheme of Gold Quest as illegal transaction and instructed all related banks financial institutions and other organization not to involve in any kind of foreign currency transaction with the aforesaid organization. This organization was found to be involved in the money laundering activities.

2.5 Preparation for Basel-II implementation

The Basel Committee on Banking Supervision has issued new capital accord (Basel II), which shall be applicable to internally active banks all over the world with effect from end of 2006. In this regard second interaction program was held with the banks executives to make them aware of the new development. The commercial banks so far has shown positive attitude towards the implementation of Basel II.

"New Capital Accord Implementation Preparatory Core Committee" is in the final stage of drafting "Nepal Rastra Bank's Concept Paper on New Capital Accord". According to the program of New Capital Accord implementation, concept paper shall be forwarded to all the commercial banks for comments and recommendations. A form is also developed so that commercial banks classify their exposures as per the new approach, which shall be reviewed by the "Basel-II Implementation Working Group"

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

2.6 Capacity building

According to program of establishing separate supervision branch in concentrated area of financial institution, it is planned to establish one supervision office in Chitwan District in the coming financial year.

For the first time a workshop was organized in Nepal, which was a part of annual program of "Financial Stability Institute" (FSI-SEANZA). Workshop was organized with participation of Bank Supervision Department on the topic of "Risk Management, Consolidated Supervision, and Problem Bank Resolution".

Similarly one-day interaction program with internal auditors of the commercial banks was also conducted. IOS partners organized interaction program with external auditors with active participation of the Department.

Nepal Rastra Bank has implemented Onsite Supervision Manual to inspect, supervise and monitor commercial banks in line with the international standards. The manual covers areas of capital adequacy, loan portfolio management, treasury operation, management information system, and internal control system and information technology. Two days interaction program was conducted on the On-site Inspection Manual among the supervision staffs. On the job training to 30 staffs of Nepal Rastra Bank has been provided by the consultants during last 14 months for inspection and supervision of Banks and Financial Institutions.

Focus of onsite examination of commercial banks in Nepal is shifting gradually from branch level examination of transactions to corporate level examinations. This is based on international practices of risk-based supervision. More emphasis is given to the review of management practices, policies and procedures, risk inherent in banks & management strategy to combat such risks, internal control system etc.

Bank Supervision Department has prepared "Offsite Supervision Manual" which was approved for adoption by Nepal Rastra Bank and was implemented with effect from 15th January 2004. Training on the Offsite Supervision Manual was conducted by IOS partners, which was attended by 12 participants from the Department.

3 Performance Trends in the Commercial Banks

3.1 Overview

During the year 2002/03, 17 commercial banks were operating with total registered branches of 399. Out of 399 branches, 273 branches belong to two public sector banks. Two public sector commercial banks' share in total (gross) asset, gross loan and advances and deposit was 45.58 %, 40% and 41% respectively. Negative net worth of these two public sector commercial banks distorted the capital adequacy ratio of the whole commercial banks showing Capital Fund to Risk Weighted Ratio at an average of –11.74 % for the year under review. However, the capital adequacy of commercial banks excluding the public sector was 11.95 %. Due to such characteristic of two public sector banks, performance of these banks was discussed separately wherever considered necessary.

Analysis and consolidation of the financial data was based on the audited and published annual reports of all commercial banks. The performance of the banking industry was less than satisfactory. The salient features of the review for the year ended Ashad 2060 are given below:

- Total asset of the all commercial banks was Rs. 236,194 billion as at mid July 2003 which was grown by 7.95 % from the last year.
- Two public sector banks accounted for 45.58 % of the total (gross) assets of the all commercial banks.
- Total capital fund to RWA of the public sector banks decreased to –37.83 % as at Ashad end 2060 from –24.55 % during the previous year.
- Investment in Government Securities and NRB Bond exhibited growth of 36.03 %.
- Total loan was grown by 8.51% and non-performing loans (NPL) grown by 2.34 % whereas Net NPL declined by 21.95 %.
- Ratio of gross NPL to Gross Advances of the commercial banks declined marginally to 28.68 % from highest record of 30.41 % in year 2001-02. However, NPL of private commercial banks was 7.63 %. Two public sector banks occupied 84 % NPL in the total NPL of the commercial banks.
- Interest income represented major source of income for all the commercial banks, accounting for almost one-third (78.64 %) of total income.
- Aggregate Credit to Deposit ratio of the commercial banks was 61.73 %.
- Net loss of the two public sector banks declined by 49.80 % whereas private sector commercial banks registered increase in net profit by 149.50 %. In aggregate net loss decreased by 64.82 %.

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

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

3.2 Balance Sheet Structure

Total Assets growth rate of the commercial bank was 7.95 % (previous year 1.91%). As in the earlier years commercial banks continued to held most of their funds in loans and advances (47 %) followed by investments (23%) and Other assets (18%). Cash balance, bank balance and money at call represented 2%, 6% and 2% respectively. Banks invested only 1% in fixed assets. Total assets composition was very much similar during previous year except 2% above in bank balance and 2 % below in investments compared to year under review. Similarly, composition of major components of the liabilities remained largely the same. Pertinent and alarming negative growth of -293%, -67% and -17% was noticed in reserve and surplus during the year 2000-01, 2001-02 and 2002-03 respectively. This negative growth in the commercial banks was contributed by the two public sector banks. Commercial banks sourced 77 % of their funds from the deposit and 19 % from other liabilities. The balance sheet structure of public sector, private sector and all commercial banks is shown in the table 1 below.

Rs. Million

	Public Sector			Private Sector			Commercial Banks			Share of public sector
	2000-01	**2001-02**	**2002-03**	**2000-01**	**2001-02**	**2002-03**	**2000-01**	**2001-02**	**2002-03**	
Liabilities										
Share Capital	1,553	1,553	1,553	3,772	4,997	6,225	5,324	6,550	7,777	19.96%
Reserve and Surplus	-18,285	-28,558	-33,775	2,549	2,275	3,053	-15,736	-26,283	-30,722	110%
Borrowing	358	369	214	2,173	2,816	2,980	2,531	3,185	3,194	6.70%
Deposit	76,392	73,258	74,416	89,126	92,241	106,876	165,518	165,499	181,292	41.05%
Bills Payable	112	140	158	237	304	430	349	444	588	26.83%
Other Liabilities	34,693	37,767	40,002	3,454	4,190	5,021	38,147	41,956	45,023	88.85%
Loan Loss Provision	16,077	23,962	25,091	2,496	3,487	3,950	18,572	27,449	29,041	86.40%
Total	**110900**	**108491**	**107,659**	**103,806**	**110,310**	**128,536**	**214,706**	**218,801**	**236,194**	45.58%
Assets										
Cash Balance	2,704	2,515	2,436	1,633	2,473	2,386	4,337	4,988	4,822	50.52%
Bank Balance	8,652	8,638	5,895	8,477	7,835	9,276	17,129	16,474	15,171	38.86%
Money at Call	1,649	1,544	822	9,514	3,070	3,164	11,163	4,613	3,985	20.62%
Investment	12,433	11,311	17,074	27,057	34,156	38,000	39,490	45,467	55,074	31.00%
Loan and Advances	47,794	46,290	44,741	52,340	56,835	67,163	100,134	103,125	111,904	39.98%
Fixed Assets	544	542	617	1,199	1,374	1,574	1,743	1,916	2,190	28.16%
Other Assets	37,123	37,650	36,074	3,587	4,566	6,973	40,710	42,217	43,047	83.80%
Total	**110,900**	**108,491**	**107,659**	**103,806**	**110,310**	**128,536**	**214,706**	**218,801**	**236,194**	45.58%

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

Public Sector Banks

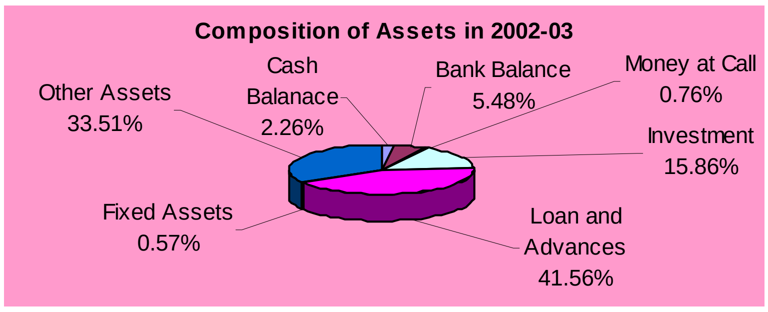


Chart-1

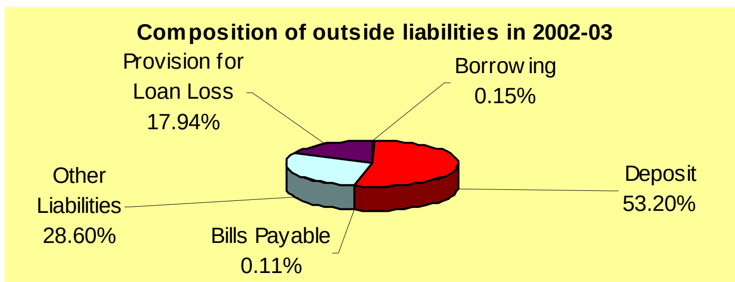


Chart-2

Private Sector Banks

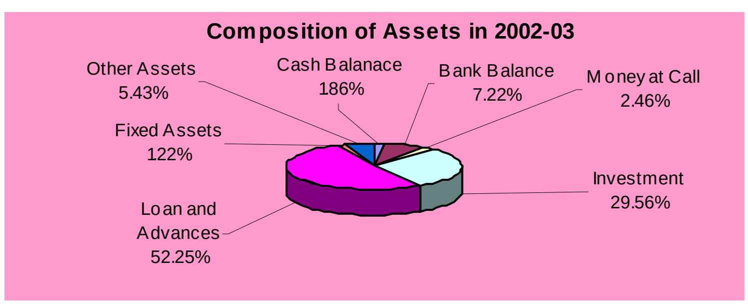


Chart-3

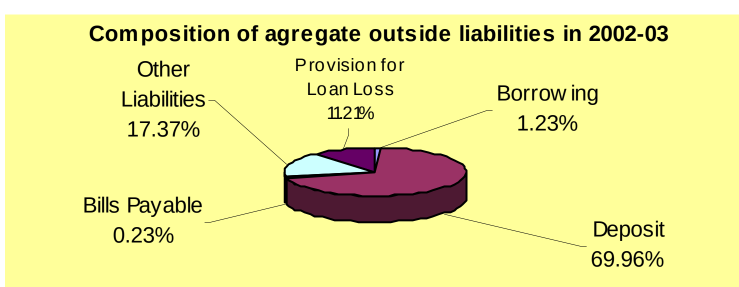


Chart-4

Commercial Banks

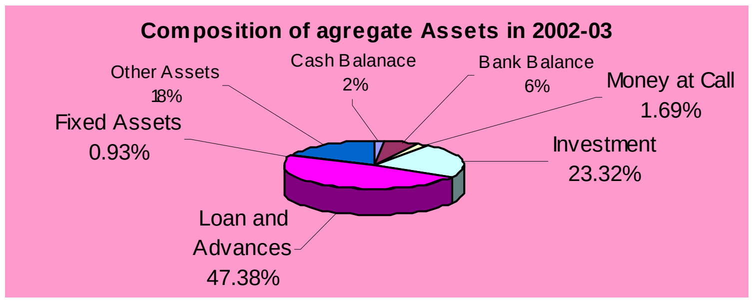


Chart-5

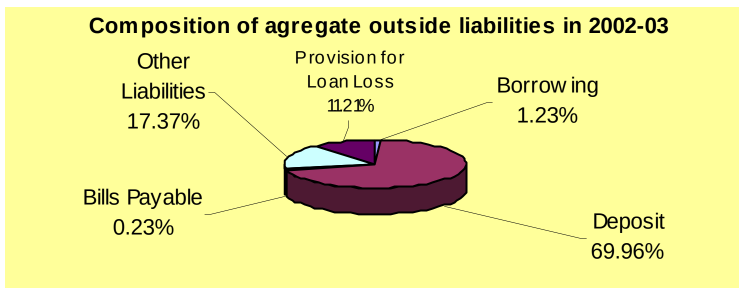


Chart-6

3.3 Capital Adequacy

The aggregate as well as public sector and private sector banks capital adequacy deteriorated as accumulated loss of the public sector banks highly increased and more private sector commercial banks had total capital fund below the statutory minimum of 10 % of risk weighted assets. However, private sector banks average capital adequacy ratio of 11.95 % is marginally above the statutory requirement. Negative total capital fund of Rs. 31448 million relating to two public sector banks converted the total capital base of the commercial bank in to negative (-11.74%). Table given below clearly shows the fact.

Capital Fund to Risk Weighted Assets ratio

Year	2000-01	2001-02	2002-03
Public Sector	-2.51%	-24.55%	-37.83%
Private Sector	15.09%	13.82%	11.95%
Commercial banks	4.00%	-7.25%	-11.74%

Total capital fund was decreased by 80% compared to previous year's negative capital fund base of Rs. -11,380 million. Rate of decrease in capital fund during year 2001-02 was 280%. Significant part of this decline was because of huge loss incurred by two public sector banks during the relevant period. Decline in the capital adequacy ratio of the private sector banks was due to higher growth in exposures in high-risk category, which resulted in growth of risk weighted assets by 29.32%, without commensurate growth in the total capital fund.

In addition to capital adequacy requirement NRB has directed all commercial banks to increase paid up capital up to minimum of 1 billion by the year 2008 as a part of strengthening the capital base.

Following Chart discloses the non-compliance status of the 6 commercial banks in respect of capital adequacy requirement.

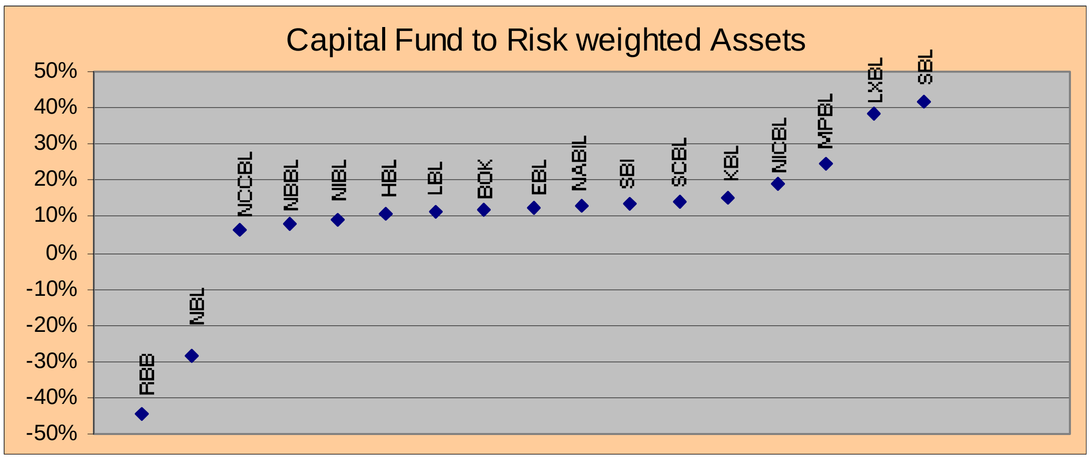


Chart-7

3.4 Assets Quality

Assets composition

Assets composition of the commercial banks remained largely same in last three financial years. Marginal movement was observed in switch over of bank balance and money at call in to investment during last two years. However, bank balance, money at call and investment together remained at 31% of total assets during last three year. As it can be seen from the table given below major part of total assets were held in form of loans and advances, other assets and investment, which falls under high-risk category of assets.

Assets Composition	2000-01	2001-02	2002-03
Cash Balance	2%	2%	2%
Bank Balance	8%	8%	6%
Money at Call	5%	2%	2%
Investment	18%	21%	23%
Loan and Advances	47%	47%	47%
Fixed Assets	1%	1%	1%
Other Assets	19%	19%	18%
Total	100%	100%	100%

Cash and bank balance

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

Investment

Investment in HMG/N and NRB Bond is 71.5%, in shares debentures 0.84% and others represent 28.5% of total Investment of commercial banks. Major part of other investment is represented by investment in foreign banks. Investment and placement in foreign banks by the private sector banks represented 93% of investment other than HMG/N and NRB bond. Question of quality of foreign placement is dependent on the quality of the foreign bank in which investment was made. Nothing as such matter of raising concern about quality of foreign investment has come to our notice during the year under review except for our concern about huge placement by Himalayan bank in Habib Bank of Pakistan.

Loans and advances

Total loans and advances of all commercial banks stood at Rs. 111,904 million with the increase of 8.51% from the previous year. It is conservative methodology to measure quality of assets by measuring level of non-performing loans and advances only. Real quality of credit is measured by comparing total credit net of provision to non-performing credit net of provision made there of. Reason behind this logic is that provision is already made charging from profit, which would have become capital had the charge not made, and risk of credit exposure to the extent of provision made is hedged.

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

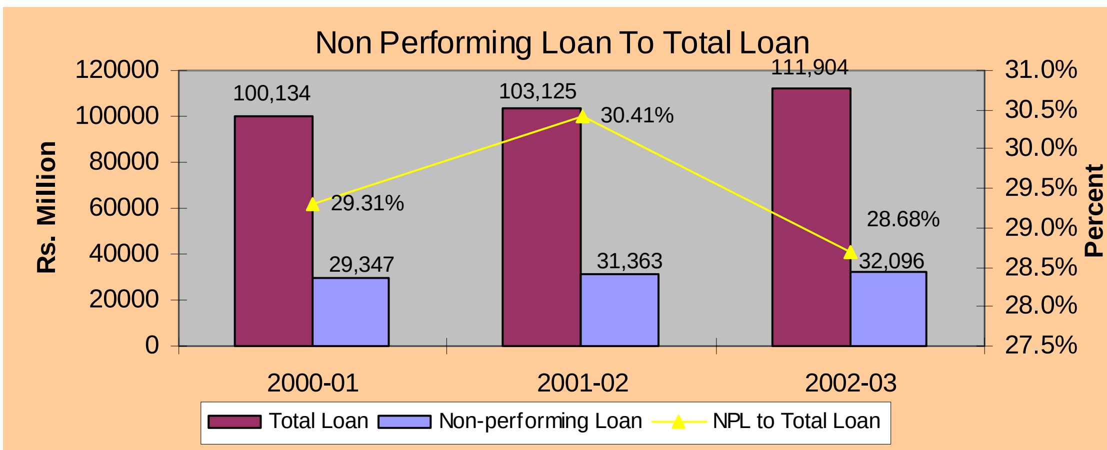


Chart-8

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

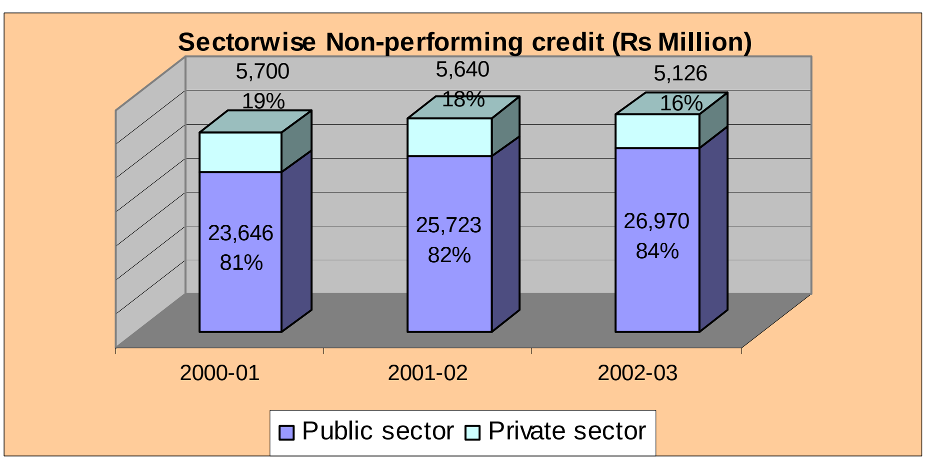


Chart-9

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

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

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

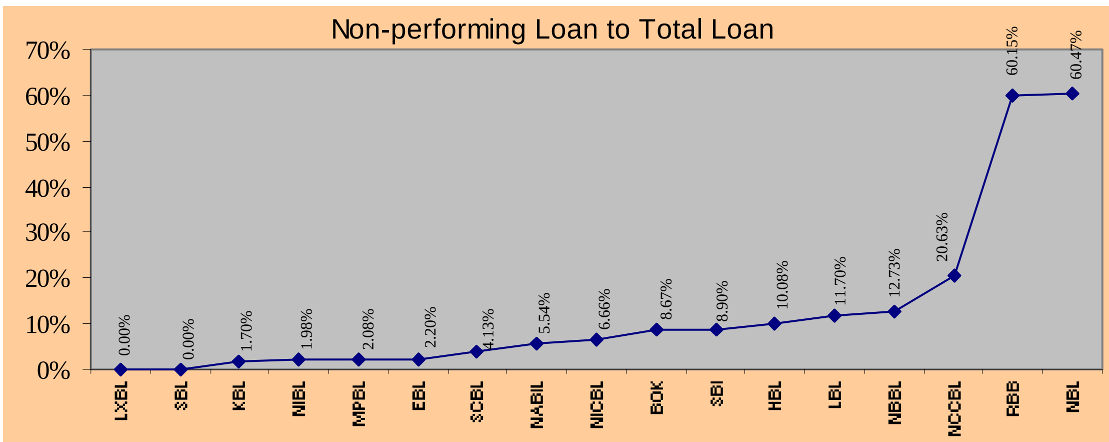


Chart-10

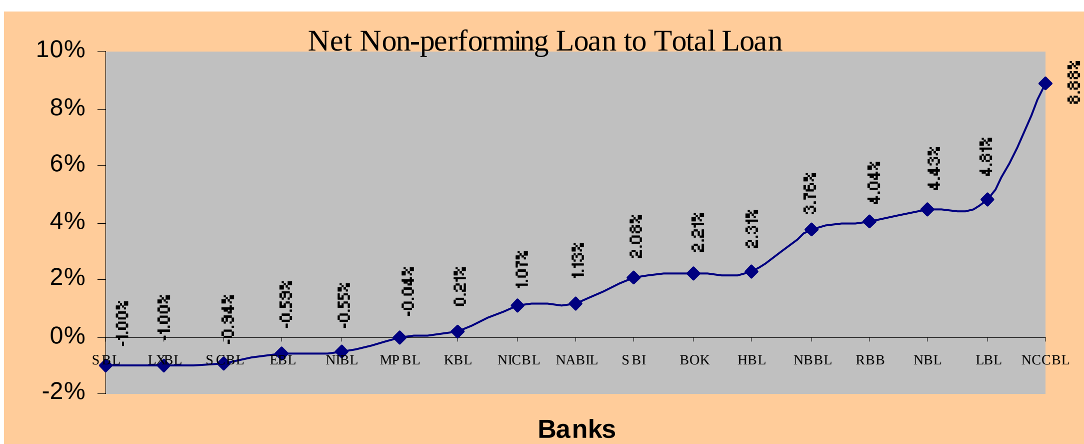


Chart-11

Total loan loss provision was 25.95 % of total loan growing by 5.8% from the previous year. See figures given below.

Year	2000-01	2001-02	2002-03
Loan loss provision to total loan	18.55%	26.62%	25.95%
Growth in loan loss provision	95.36%	47.79%	5.80%
Loan loss provision Rs. Million	18,572	27,449	29,041

Other Assets

Accrued interest receivable on loan and advances covered 64 % of other assets and 97% of this accrued interest receivable is represented by interest suspense balance in liabilities side. International Accounting Standard requires Assets to be disclosed net of provision. Branch adjustment account outstanding in liabilities side represent 9 % of other assets which is also considered contra balance included in other assets. Other items such as drafts without notice, expenses not written off and other assets, that are either not realizable or in the nature of contra items, constitute above 9%. Thus, almost 80% of other assets are in such nature either these needs to be setoff with corresponding contra items or provision amount or of not realizable nature. This raises major supervisory concern over bogus other assets (18% of total assets) depicted in published financial statements of the commercial banks.

3.5 Earning/Profitability

Aggregate performance of commercial banks continued to result in net loss during last three years with growth of net loss by 194%, 20% and –65% for the year 2000-01, 2001-02 and 2002-03 respectively. Total net loss for these thee year was Rs. 7,845 million, Rs. 9,429 million and Rs. 3,317 million respectively. Such negative performance of commercial banks was mainly due to increased provision for loan losses resulting from the deteriorating quality of the credit portfolio of two public sector banks. This is more clearly depicted by the table given below.

Profitability	Public Sector			Private Sector		
	2000-01	2001-02	2002-03	2000-01	2001-02	2002-03
Interest Income	5,217	3,272	4,244	7,110	6,816	7,615
Interest Expenses	4,406	4,060	3,689	3,871	3,610	3,570
Net Interest Income	810	(789)	555	3,239	3,206	4,046
Non Interest Income	615	717	537	1,525	1,467	1,586
Non Interest Expenses	2,757	2,388	5,262	1,533	1,730	2,238
Net Non Interest Income	(2,142)	(1,670)	(4,724)	(9)	(263)	(652)
Non operating Income	179	276	686	168	472	412
Non Operating Expenses	8,108	7,957	1,607	1,982	2,705	2,033
Net Non Operating Income	(7,929)	(7,681)	(921)	(1,814)	(2,233)	(1,620)
Net Profit	(9,261)	(10,140)	(5,090)	1,416	711	1,773

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

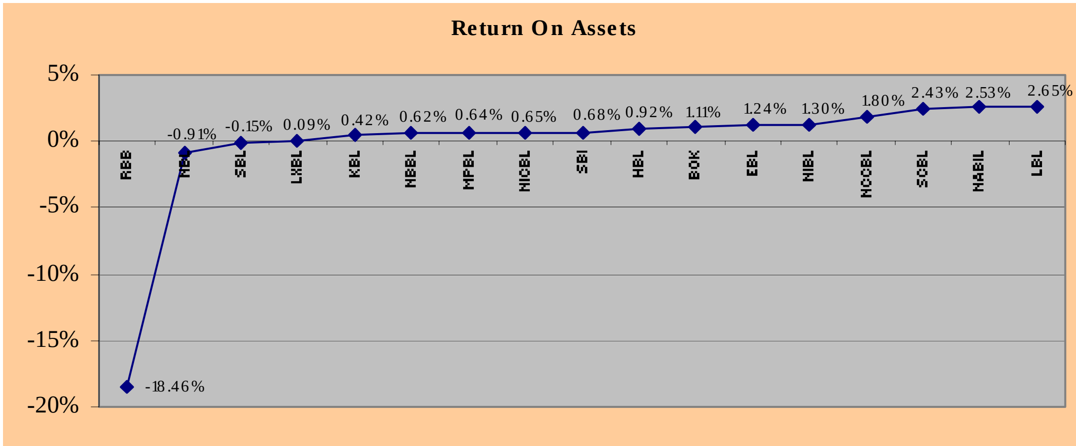


Chart-12

3.6 Liquidity

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

Average credit to deposit ratio (C/D ratio) of the commercial banks stand at 61.73% after slight decrease of the ratio from the previous year. This level of C/D ratio is considered sound as per the international standard. However, some private commercial banks were having CD ratio higher than the average. Figures given below in the table shows that liquid assets such as cash balance, bank balance and other cash equivalent were decreasing over the years. Similar trend was observed in private sector and public sector average ratios. Decrease in the interest rate of deposit and credit indicate increased liquidity in the market though the ratios are marginally decreasing. See table for detail.

Liquidity Ratios of Commercial Banks	2000-01	2001-02	2002-03
Total Loan to Total Deposit	60%	62%	62%
Cash and Equivalents to Total Assets	28%	30%	33%
Cash and Equivalents to Total Deposit	24%	26%	29%
NRB Balance to Total Deposit	6%	7%	7%

However, solvencies of two public sector banks are under question due to huge negative net worth. Total assets net of provision for loan, interest suspense and branch adjustment account balance was short by 7,216 million, and 13,192 million to deposit liability for Nepal Bank Limited and Rastriya Banijya Bank respectively.

Rs. Million

Bank	NBL	RBB
Net worth	-9,831	-22,392
Total deposit	35,014	39,402
Adjusted Total Assets	27,798	26,210
Excess depositors claim	7,216	13,192

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

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

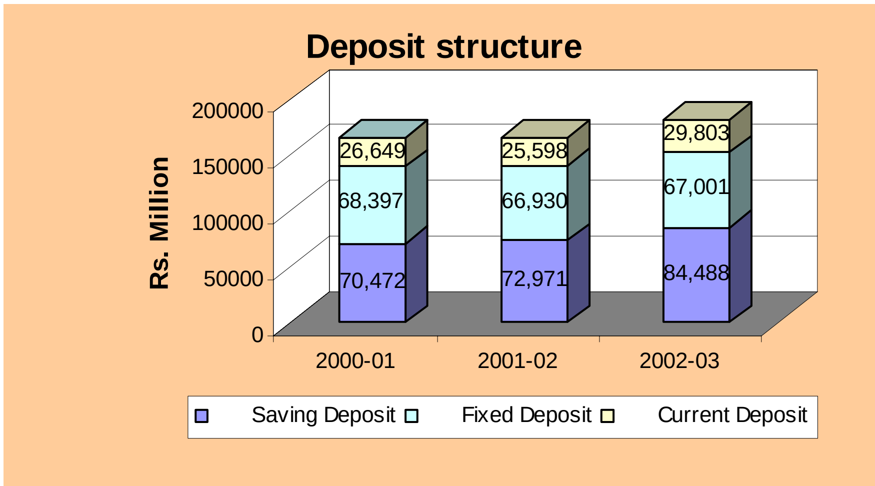


Chart-13

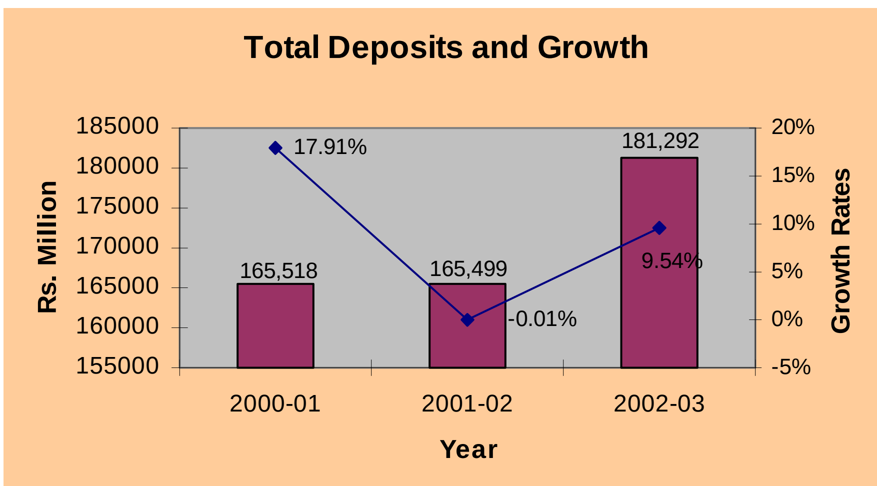


Chart-14

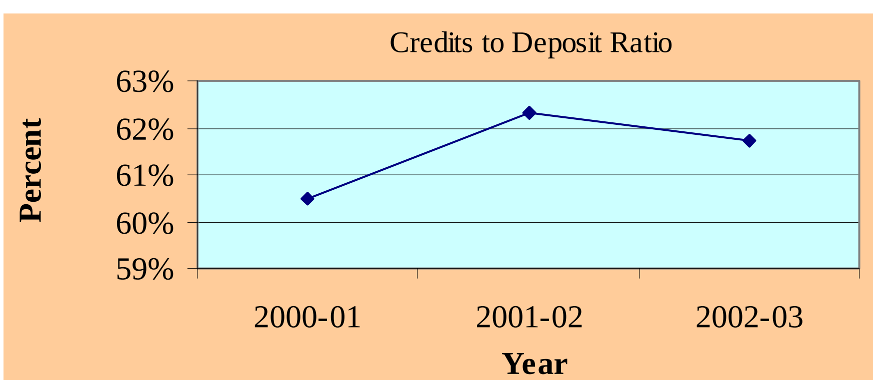


Chart-15

4 Current Issues in Bank Supervision

4.1 Poor Corporate Governance and Insider Abuse

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

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

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

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

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

4.3 L/C scams and forgeries in commercial banks

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

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

4.4 Need for Income audit of commercial banks

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

4.5 Compliance with International Financial Reporting Framework (IFRS)

Financial Sector Reform Program (FSRP) required Nepal Rastra Bank to comply with the IFRS and issue prudential regulations in line with international standard. As a part of FSRP two public sector commercial banks were also required to comply with the IFRS. There is need to ensure compliance of IFRS uniformly in all the commercial banks. It is to be ensured that IFRS is complied with while making recognition of items of financial statements, and disclosure requirements except for the areas already covered by local accounting standards requirements, which are similar to that of IAS. Thus there is need to issue regulation in this regard to ensure compliance with the IFRS requirements. Statutory formats of the financial statements prescribed for the commercial banks also needs to be revised incorporating disclosure requirements specified in IAS 30 and other applicable IAS.

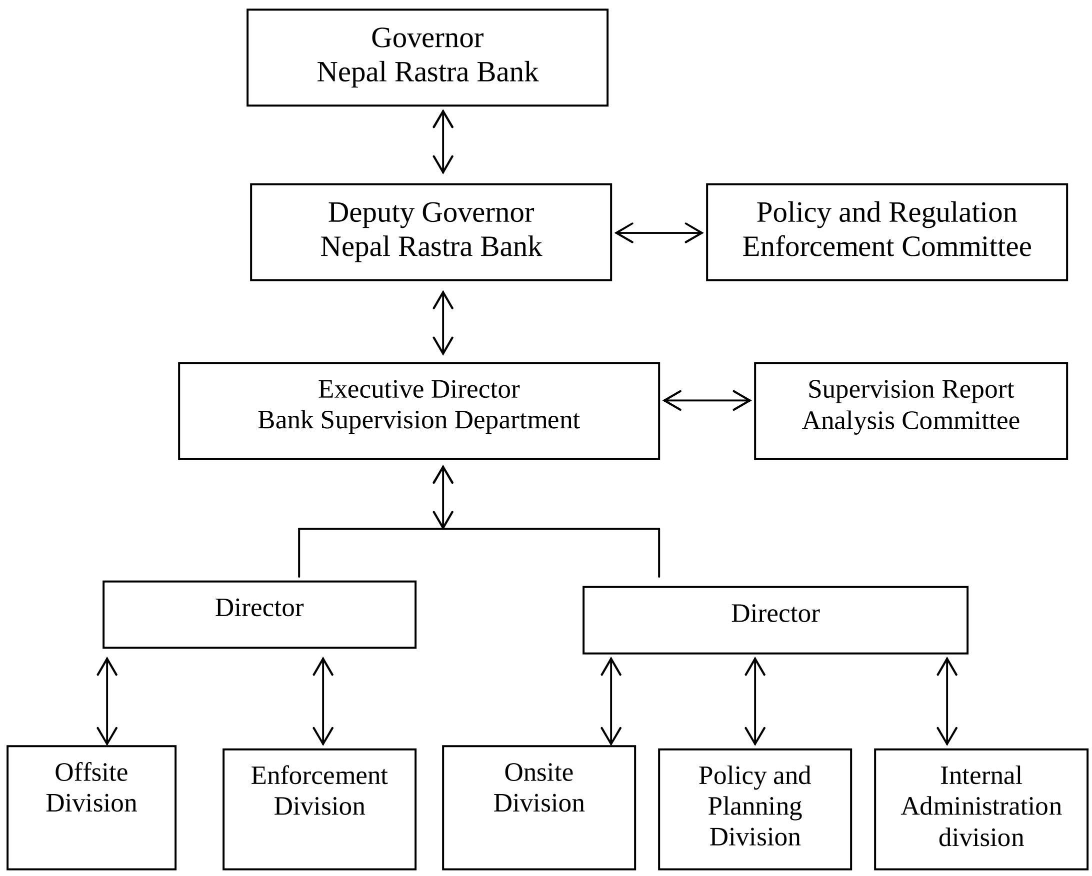
4.6 Other issues and Challenges

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

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

Organizational Structure of Bank Supervision Department

The Nepal Rastra Bank is the supervisory authority of the operating commercial banks in Nepal. The organizational chart given below outlines the range of functions performed by the Nepal Rastra Bank, the departmental structure and senior management positions. While the Governor, as empowered by the Nepal Rastra Bank Act 2001, is ultimately responsible for the banking supervision function, direct functional responsibility rests with the Executive Director of Bank Supervision Division.



Appendix-2

Registered Commercial Banks as of Mid-July 2003

S. N.	Name of Bank	Established Date
1	Nepal Bank Limited	1937
2	Rastriya Banijya Bank	1966
3	Nabil Bank Limited	1984
4	Nepal Investment Bank Limited	1986
5	Standard Chartered Bank Nepal Limited	1987
6	Himalayan Bank Limited	1993
7	Nepal SBI Bank Limited	1993
8	Nepal Bangaladesh Bank Limited	1994
9	Everest Bank Limited	1994
10	Bank of Kathmandu Limited	1995
11	Nepal Credit and Commerce Bank Limited	1996
12	Lumbini Bank Limited	1998
13	Nepal Industrial and Commercial Bank Limited	1998
14	Machhapuchhere Bank Limited	2000
15	Kumari Bank Limited	2001
16	Laxmi Bank Limited	2002
17	Siddartha Bank Limited	2002

Financial statements of commercial banks for 2002-03 (Rs. '000)

	NBL	RBB	NIBL	SCBL	HBL	SBI	NBBL	EBL	BOK	NCCBL	NICBL	LBL	MPBL	NABIL	LXBL	KBL	SBL
Capital and Liabilities																	
Capital	380,383	1,172,300	295,293	339,549	480,429	425,157	359,925	455,000	463,581	490,000	499,955	350,000	544,174	491,654	330,000	350,000	350,000
Reserves and Surplus	(10,211,515)	(23,563,206)	343,250	1,029,359	582,704	144,695	324,008	157,825	115,552	(411,176)	52,146	(72,151)	(42,469)	822,532	(3,183)	11,033	(1,284)
Deposit	35,014,000	39,402,273	7,922,767	18,755,634	21,007,379	6,522,817	10,580,648	6,694,964	6,170,712	4,294,098	3,144,320	2,959,745	1,778,788	13,447,661	691,810	2,513,144	391,678
Borrowing	52,010	161,950	6,829	79,164	645,840	65,826	68,319	-	498,236	19,747	274,750	90,000	90,000	961,461	70,000	-	110,000
Bills Payable	141,311	16,421	31,634	54,842	46,727	-	63,929	22,101	35,144	21,613	24,354	10,684	3,957	108,944	2,150	4,129	-
Other Liabilities	14,440,302	25,561,913	414,477	741,955	592,144	407,832	535,783	722,319	161,592	418,323	41,994	101,890	25,407	730,373	5,769	107,869	13,341
Total Liabilites	**39,816,491**	**42,751,651**	**9,014,250**	**21,000,503**	**23,355,223**	**7,566,327**	**11,932,612**	**8,052,209**	**7,444,817**	**4,832,605**	**4,037,519**	**3,440,168**	**2,399,857**	**16,562,625**	**1,096,546**	**2,986,175**	**863,735**
Assets																	
Cash Balance	1,416,545	1,019,318	200,971	198,755	397,189	269,659	309,790	136,659	157,400	236,403	95,742	83,853	45,642	187,777	16,054	40,800	9,439
Bank Balance	3,178,624	2,716,731	725,566	1,313,550	1,582,019	1,063,875	589,723	1,002,910	535,311	433,863	222,316	249,712	156,083	956,991	137,555	250,905	55,648
Money At call	81,540	740,000	40,000	1,657,910	150,100	-	100,000	-	30,350	113,019	29,900	50,000	220,000	670,204	-	-	102,073
Investment	12,447,699	4,626,218	1,705,241	10,357,679	10,175,435	1,207,275	2,168,923	1,653,978	1,816,149	411,832	1,153,262	382,750	398,356	6,031,176	110,914	423,155	3,775
Loan and Advances	7,971,097	11,679,489	5,772,141	5,695,824	10,001,850	4,468,719	7,247,978	4,908,461	4,542,700	2,997,258	2,419,522	2,441,639	1,464,166	7,755,950	768,184	2,105,737	622,735
Fixed Assets	137,795	479,022	191,116	191,711	229,871	71,034	80,734	109,591	93,642	114,098	50,214	37,240	59,225	251,915	30,944	40,425	21,819
Other Assets	14,583,191	21,490,873	379,215	1,585,074	818,759	485,765	1,435,464	240,610	269,265	526,132	66,563	194,974	56,385	708,612	32,895	125,153	48,246
Total Assets	**39,816,491**	**42,751,651**	**9,014,250**	**21,000,503**	**23,355,223**	**7,566,327**	**11,932,612**	**8,052,209**	**7,444,817**	**4,832,605**	**4,037,519**	**3,440,168**	**2,399,857**	**16,562,625**	**1,096,546**	**2,986,175**	**863,735**
Expenses																	
Interest Expenses	1,585,600	2,103,431	189,214	255,154	554,128	291,820	597,881	307,639	276,705	255,911	142,606	186,484	76,156	317,348	20,096	92,945	5,619
Staff Expenses	1,541,829	3,248,985	61,288	128,328	120,146	33,731	69,897	37,368	51,682	23,088	33,827	29,470	17,435	210,583	14,394	23,254	8,040
Office Expenses	225,923	244,831	108,039	311,013	177,132	77,365	101,404	93,585	89,547	52,548	50,706	41,181	34,079	166,200	17,322	45,504	10,163
Exchange loss	-	-	-	-	-	-	-	-	-	-	26	-	-	-	-	-	-
Non operating expenses	-	91	-	15,530	-	2,093	-	-	-	-	82	-	-	-	-	-	-
Bad debts written off	-	-	-	-	-	-	-	-	-	-	-	-	-	51,574	-	-	-
Loan loss Provision	16,290	1,590,647	30,335	2,340	202,873	84,173	261,875	45,746	82,612	37,431	53,481	(20,239)	6,466	-	6,518	16,805	6,290
Provision for Staff Bonus	-	-	18,906	76,084	40,003	7,673	21,277	15,099	13,571	9,474	4,704	9,904	1,701	66,364	115	2,373	-
Provision for Income Tax	-	-	53,332	208,222	147,896	20,305	120,000	41,714	40,014	3,470	16,394	-	-	199,145	-	8,879	-
Total	**3,369,642**	**7,187,985**	**461,114**	**996,671**	**1,242,178**	**517,160**	**1,172,334**	**541,151**	**554,131**	**381,922**	**301,826**	**246,800**	**135,837**	**1,011,214**	**58,445**	**189,760**	**30,112**
Income																	
Interest Income	2,200,314	2,044,055	459,510	1,001,360	1,201,234	469,740	1,013,712	520,173	496,809	437,180	291,143	308,680	139,040	1,017,872	49,787	185,090	23,889
Commission and Discour	280,137	211,484	40,812	215,201	102,561	29,962	109,046	61,504	60,746	17,034	21,966	13,034	5,654	144,406	4,262	9,413	2,163
Exchange Income	42,661	2,857	50,834	232,522	109,599	18,510	56,300	32,208	67,444	477	12,183	6,560	5,946	144,075	4,534	7,144	88
Non operating Income	131,818	6,760	488	-	10,760	-	-	1,249	23	-	-	-	-	86,946	405	4	-
Other Income	462,981	84,234	26,288	54,520	30,154	47,696	64,771	20,198	11,237	9,031	2,476	7,665	505	34,151	491	582	2,687
Total	**3,117,911**	**2,349,390**	**577,932**	**1,503,603**	**1,454,308**	**565,908**	**1,243,829**	**635,332**	**636,259**	**463,722**	**327,768**	**335,939**	**151,145**	**1,427,450**	**59,479**	**202,233**	**28,827**
Net Profit/(Loss)	**(251,731)**	**(4,838,595)**	**116,818**	**506,932**	**212,130**	**48,748**	**71,495**	**94,181**	**82,128**	**81,800**	**25,942**	**89,139**	**15,308**	**416,236**	**1,034**	**12,473**	**(1,285)**

Financial statements of commercial banks for 2001-02 (Rs. '000)

	NBL	RBB	NIBL	SCBL	HBL	SBI	NBBL	EBL	BOK	NCCBL	NICBL	LBL	MPBL	NABIL	LXBL	KBL
Capital and Liabilities																
Capital	380,383	1,172,300	169,984	339,549	390,000	424,893	357,252	399,319	463,581	350,000	499,890	350,000	136,200	491,654	275,000	350,000
Reserves and Surplus	(9,934,258)	(18,623,655)	353,485	895,930	468,115	135,454	269,251	131,591	56,604	(492,976)	26,206	(161,291)	(56,656)	654,773	(4,217)	(1,441)
Deposit	34,264,847	38,993,290	4,174,763	15,835,748	18,619,375	5,572,470	9,534,219	5,466,609	5,723,290	3,708,972	3,165,311	2,646,106	994,817	15,506,428	112,597	1,179,894
Borrowing	213,264	156,167	98,500	684,724	534,012	558,792	287,500	81,767	-	-	-	121,472	-	417,298	-	31,991
Bills Payable	120,145	19,784	6,823	51,400	55,576	88	42,729	2,129	12,565	8,568	37,357	7,675	2,466	67,753	162	8,838
Other Liabilities	14,515,463	23,251,338	170,335	635,754	605,356	329,444	611,282	535,483	100,606	520,621	39,889	97,688	27,550	491,346	727	23,478
Total Liabilites	**39,559,844**	**44,969,224**	**4,973,890**	**18,443,105**	**20,672,434**	**7,021,141**	**11,102,233**	**6,616,898**	**6,356,646**	**4,095,185**	**3,768,653**	**3,061,650**	**1,104,377**	**17,629,252**	**384,269**	**1,592,760**
Assets																
Cash Balance	1,665,104	850,186	61,523	257,845	462,777	166,621	364,618	177,211	193,069	167,540	139,856	98,616	31,538	318,159	2,968	30,276
Bank Balance	4,962,013	3,676,460	277,401	567,420	801,896	1,453,341	1,394,687	425,274	490,577	378,555	419,673	433,771	194,591	733,661	165,690	98,878
Money At call	1,543,599	-	-	2,061,964	352,350	-	100,000	86,130	127,387	263,723	46,810	-	-	31,368	-	-
Investment	7,151,381	4,159,474	1,822,162	9,275,885	9,157,106	599,056	1,008,642	1,693,037	667,459	283,227	753,812	269,871	117,484	8,199,515	54,027	255,000
Loans and Advances	8,638,438	13,689,748	2,564,424	5,364,006	8,913,724	4,299,250	7,632,418	3,948,478	4,613,697	2,320,272	2,278,994	2,085,332	655,061	7,437,895	122,880	1,111,559
Fixed Assets	139,641	402,563	35,883	101,066	318,844	65,588	91,509	93,383	94,219	109,537	54,758	36,526	57,080	237,639	26,258	51,896
Other Assets	15,459,668	22,190,793	212,497	814,919	665,737	437,285	510,359	193,385	170,238	572,331	74,750	137,534	48,623	671,015	12,446	45,151
Total Assets	**39,559,844**	**44,969,224**	**4,973,890**	**18,443,105**	**20,672,434**	**7,021,141**	**11,102,233**	**6,616,898**	**6,356,646**	**4,095,185**	**3,768,653**	**3,061,650**	**1,104,377**	**17,629,252**	**384,269**	**1,592,760**
Expenses																
Interest Expenses	1,713,203	2,347,083	130,436	299,860	578,133	288,580	552,743	257,051	285,006	275,859	197,094	170,499	64,480	462,079	354	48,168
Staff Expenses	1,227,851	758,690	41,720	126,510	101,538	26,648	61,362	32,187	50,155	17,708	26,990	24,169	11,808	147,439	2,877	15,326
Office Expenses	158,492	242,720	84,648	190,942	155,786	60,750	77,198	79,030	78,981	40,881	46,226	37,861	23,181	134,317	2,447	31,423
Exchange loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non operating expenses	-	19	-	18,362	-	1,652	4,149	-	-	-	1	2	-	50	-	-
Bad debts written off	-	-	-	509	-	-	23	-	-	27,047	-	-	-	441,525	-	-
Loan loss Provision	2,114,436	5,842,505	75,188	75,049	166,506	67,551	269,346	34,729	127,490	387,524	57,516	150,781	20,067	-	1,241	12,388
Provision for Staff Bonus	-	-	8,679	72,145	38,783	6,319	11,198	14,154	2,985	-	943	-	-	44,116	-	226
Provision for Income Tax	-	-	21,010	184,231	114,023	16,029	35,000	38,433	17,594	-	1,665	-	-	137,950	-	696
Total	**5,213,982**	**9,191,017**	**361,681**	**967,608**	**1,154,769**	**467,529**	**1,011,019**	**455,584**	**562,211**	**749,019**	**330,435**	**383,312**	**119,536**	**1,367,476**	**6,919**	**108,227**
Income																
Interest Income	1,526,989	1,744,740	326,224	1,013,636	1,148,998	399,631	850,525	443,821	473,297	307,707	297,764	266,378	70,089	1,120,184	1,867	96,355
Commission and Discount	241,007	214,520	16,198	163,463	101,704	36,579	108,840	36,773	47,872	14,819	18,564	8,260	3,113	114,337	231	3,441
Exchange Income	183,620	78,200	42,856	228,100	104,601	42,535	69,706	45,414	48,646	19,909	18,831	4,997	3,718	154,219	522	9,152
Non operating Income	124,759	7,114	3,104	-	2,451	-	-	1,141	930	39	2,096	-	1	-	-	-
Other Income	66,311	78,190	30,404	41,616	32,038	29,627	47,732	13,783	740	9,368	-	5,704	267	250,374	83	616
Total	**2,142,686**	**2,122,764**	**418,786**	**1,446,815**	**1,389,792**	**508,372**	**1,076,803**	**540,932**	**571,485**	**351,842**	**337,255**	**285,339**	**77,188**	**1,639,114**	**2,703**	**109,564**
Net Profit/(Loss)	**(3,071,296)**	**(7,068,253)**	**57,105**	**479,207**	**235,023**	**40,843**	**65,784**	**85,348**	**9,274**	**(397,177)**	**6,820**	**(97,973)**	**(42,348)**	**271,638**	**(4,216)**	**1,337**

Financial statements of commercial banks for 2000-01 (Rs. '000)

	NBL	RBB	NIBL	SCBL	HBL	SBI	NBBL	EBL	BOK	NCCBL	NICBL	LBL	MPBL	NABIL	KBL
Capital and Liabilities															
Capital	380,383	1,172,300	169,985	339,549	300,000	143,935	238,163	220,859	233,650	350,000	499,730	350,000	84,000	491,654	350,000
Reserves and Surplus	(6,734,898)	(11,550,356)	299,108	772,474	420,591	94,610	356,959	98,535	93,523	(95,799)	19,385	(63,318)	(15,278)	571,192	(2,778)
Deposit	35,618,590	40,773,660	4,256,210	15,430,051	17,636,848	6,612,290	8,600,813	4,574,509	5,713,492	3,772,788	3,575,838	2,097,492	700,080	15,839,008	316,099
Borrowing	211,171	146,926	120,000	1,666,713	79,527	126,906	-	80,000	100,000	-	-	-	-	-	-
Bills Payable	87,431	24,453	5,182	35,208	25,919	88	41,554	11,625	9,943	5,390	31,506	7	198	69,697	1,009
Other Liabilities	12,029,066	22,664,019	166,684	838,946	407,919	95,829	420,723	154,251	51,326	351,503	88,961	65,023	12,536	799,100	1,106
Total Liabilites	**41,591,743**	**53,231,002**	**5,017,169**	**19,082,941**	**18,870,804**	**7,073,658**	**9,658,212**	**5,139,779**	**6,201,934**	**4,383,882**	**4,215,420**	**2,449,204**	**781,536**	**17,770,651**	**665,436**
Assets															
Cash Balance	1,782,946	921,094	71,497	187,660	149,959	148,518	242,812	108,103	171,167	113,078	127,107	63,773	21,618	208,483	18,775
Bank Balance	4,483,850	4,167,783	375,196	773,392	1,285,216	1,774,230	756,159	716,130	953,061	345,519	412,344	237,902	89,904	604,423	153,442
Money At call	1,649,468	-	-	2,612,005	4,057,655	390,000	397,633	240,080	291,998	469,790	352,029	-	40,000	522,550	140,000
Investment	6,776,326	5,656,931	1,970,278	9,559,176	4,083,160	522,932	691,085	901,722	419,816	313,662	567,078	248,868	55,018	7,704,309	19,757
Loan and Advances	11,918,937	19,798,277	2,318,830	5,407,093	8,537,666	3,945,565	7,074,912	2,936,589	4,127,047	2,686,590	2,585,419	1,735,951	493,362	7,732,637	263,077
Fixed Assets	146,938	397,096	33,974	121,807	201,679	68,280	91,699	55,146	102,014	93,699	45,470	36,330	53,507	248,666	46,748
Other Assets	14,833,278	22,289,821	247,394	421,808	555,469	224,133	403,912	182,009	136,831	361,544	125,973	126,380	28,127	749,583	23,637
Total Assets	**41,591,743**	**53,231,002**	**5,017,169**	**19,082,941**	**18,870,804**	**7,073,658**	**9,658,212**	**5,139,779**	**6,201,934**	**4,383,882**	**4,215,420**	**2,449,204**	**781,536**	**17,770,651**	**665,436**
Expenses															
Interest Expenses	1,834,965	2,571,375	163,426	474,401	734,518	271,798	515,848	236,708	310,484	261,011	180,459	118,804	24,126	578,364	1,316
Staff Expenses	871,448	1,385,300	33,988	102,121	85,575	24,959	50,746	24,629	30,171	12,301	21,253	20,188	7,630	147,356	2,925
Office Expenses	158,624	324,802	80,177	224,847	141,116	59,544	67,446	57,278	66,701	52,912	49,917	28,971	13,672	122,795	4,024
Exchange loss	-	17,076	-	-	-	-	-	-	-	-	-	-	-	-	-
Non operating expenses	-	15	25	-	-	-	-	-	1,156	-	3	217	16	-	-
Bad debts written off	-	-	-	872	-	-	-	-	-	-	-	-	-	-	-
Loan loss Provision	2,192,591	5,915,719	45,282	100,451	134,320	94,633	130,483	33,502	62,694	39,372	13,525	41,407	5,166	165,767	2,657
Provision for Staff Bonus	-	-	10,428	85,478	48,336	5,590	31,548	11,340	10,373	4,370	7,903	-	-	52,597	-
Provision for Income Tax	-	-	37,440	243,428	154,323	37,823	85,180	32,351	28,007	18,599	22,851	-	-	181,995	-
Total	**5,057,628**	**10,214,287**	**370,766**	**1,231,598**	**1,298,188**	**494,347**	**881,251**	**395,808**	**509,586**	**388,565**	**295,911**	**209,587**	**50,610**	**1,248,874**	**10,922**
Income															
Interest Income	2,383,195	2,833,517	349,755	1,227,219	1,326,378	444,559	810,051	385,016	465,030	345,888	294,219	157,430	31,174	1,266,704	6,385
Commission and Discount	234,183	157,590	16,204	187,279	96,065	30,624	123,911	30,557	46,222	25,878	26,300	5,358	2,751	97,144	514
Exchange Income	133,982	89,107	49,835	214,861	119,261	28,269	102,097	37,096	63,058	32,267	23,669	4,090	1,011	159,514	894
Non operating Income	120,591	14,268	-	344	2,303	-	5,856	1,395	-	-	-	-	-	1,909	193
Other Income	7,768	36,555	11,380	32,726	31,220	3,385	38,089	11,449	626	5,263	-	6,574	248	14,979	-
Total	**2,879,719**	**3,131,037**	**427,174**	**1,662,429**	**1,575,227**	**506,837**	**1,080,004**	**465,513**	**574,936**	**409,296**	**344,188**	**173,452**	**35,184**	**1,540,250**	**7,986**
Net Profit/(Loss)	**(2,177,909)**	**(7,083,250)**	**56,408**	**430,831**	**277,039**	**12,490**	**198,753**	**69,705**	**65,350**	**20,731**	**48,277**	**(36,135)**	**(15,426)**	**291,376**	**(2,936)**