

**Report
of
Fiscal Year 2005/06**



Nepal Rastra Bank



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Nepal Rastra Bank



Governor

Nepal Rastra Bank

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Date: November 15, 2006

Honorable Finance Minister
Government of Nepal
Ministry of Finance
Singha Durbar, Kathmandu

Dear Sir,

I hereby submit, with this letter, the report of fiscal year 2005/06 in accordance with Clause 91 and 93 (1) of the Nepal Rastra Bank Act, 2002.

Yours faithfully,

(Bijaya Nath Bhattarai)

c.c.
Secretary
Government of Nepal
Ministry of Finance
Singha Durbar, Kathmandu

Acronyms Used

| | | | |
|--------|--|--------|--|
| ACU | Asian Clearing Union | MBL | Machhapuchchhre Bank Limited |
| ADB/M | Asian Development Bank | MDGs | Millennium Development Goals |
| ADB/N | Agricultural Development Bank (Nepal) | MT | Metric Ton |
| APRACA | Asia Pacific Rural and Agricultural Credit Cooperative Association | MW | Mega Watt |
| BAFIO | Bank and Financial Institutions Ordinance | n.i.e. | not included elsewhere |
| BIS | Bank for International Settlement | NaBL | Nabil Bank Limited |
| BOKL | Bank of Kathmandu Limited | NBBL | Nepal Bangladesh Bank Limited |
| BOP | Balance of Payments | NBL | Nepal Bank Limited |
| CAD | Cash Against Document | NCCBL | Nepal Credit and Commerce Bank Limited |
| CBS | Central Bureau of Statistics | NDA | Net Domestic Assets |
| CIB | Credit Information Bureau | NEA | Nepal Electricity Authority |
| CIT | Citizen Investment Trust | NEPSE | Nepal Stock Exchange |
| CMD | Currency Management Department | NFA | Net Foreign Assets |
| COCG | Computer Operation Core Group | NGOs | Non Governmental Organizations |
| CPI | Consumer Price Index | NICBL | Nepal Industrial and Commercial Bank Limited |
| CRR | Cash Reserve Ratio | NIDC | Nepal Industrial Development Corporation |
| CRRDBL | Central Region Rural Development Bank Limited | NRB | Nepal Rastra Bank |
| CSCs | Citizen Savings Certificates | NSBIBL | Nepal SBI Bank Limited |
| DBs | Development Bonds | NSCs | National Savings Certificates |
| DFID | Department for International Development | OMOs | Open Market Operations |
| DICGC | Deposits Insurance and Credit Guarantee Corporation | OP | Old Print |
| EBL | Everest Bank Limited | PCRW | Production Credit for Rural Women |
| EPF | Employees' Provident Fund | PRGF | Poverty Reduction and Growth Facility |
| ERRDBL | Eastern Region Rural Development Bank Limited | RBB | Rastriya Banijya Bank |
| GDP | Gross Domestic Product | RDBs | Rural Development Banks |
| GHC | Grievance Hearing Cell | RMDC | Rural Microfinance Development Centre |
| GNDI | Gross National Disposable Income | RSRF | Rural Self-Reliance Fund |
| GON | Government of Nepal | SBL | Siddhartha Bank Limited |
| HBL | Himalayan Bank Limited | SBs | Special Bonds |
| HR | Human Resource | SCBNL | Standard Chartered Bank Nepal Limited |
| IAS | International Accounting Standard | SDR | Special Drawing Rights |
| IFAD | International Fund for Agricultural Development | SEBON | Securities Board of Nepal |
| IMF | International Monetary Fund | SFCB | Small Farmers' Cooperative Bank |
| IT | Information Technology | SLF | Standing Liquidity Facility |
| KBL | Kumari Bank Limited | STI | Second Tier Institute |
| KYC | Know Your Customer | SWRI | Salary and Wages Rate Index |
| L/C | Letter of Credit | TBs | Treasury Bills |
| LMFF | Liquidity Monitoring and Forecasting Framework | TOR | Terms of Reference |
| M1 | Narrow Money Supply | TT | Telegraphic Transfer |
| M2 | Broad Money Supply | UK | The United Kingdom |
| | | US | The United States |
| | | VAT | Value Added Tax |
| | | VRS | Voluntary Retirement Scheme |
| | | WPI | Wholesale Price Index |
| | | WRRDB | Western Region Rural Development Bank |

1 Overall Macroeconomic Situation

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Overall Macroeconomic Situation

World Output, Trade and Inflation

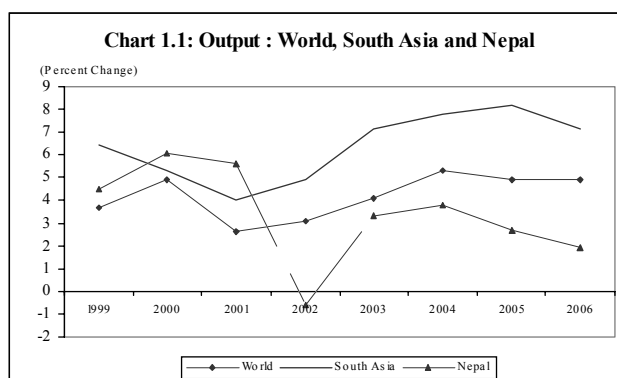
1.1 The International Monetary Fund (IMF) in its World Economic Outlook (WEO) of April 2006 showed the world output growth at 4.9 percent in 2005 and projected it to grow by 5.1 percent in 2006 (Table 1.1). The robust economic growth of the United States (US), euro area, Japan and China together with higher level of growth in some other low-income countries underpinned an acceleration in world output growth in 2006. However, rising inflation, high and volatile petroleum prices, slump in the US housing markets, and ongoing global imbalances are considered as the major challenges of the world economy in the future.

1.2 The growth rate of Asian developing economies remained at an elevated level of 9.0 percent while the South Asian economies grew by 8.2 percent in 2005. The projected growth rates for 2006 in these regions are 8.7 percent and 7.9 percent respectively. Among the neighbors, India achieved a growth of 8.5 percent in 2005 while China sustained a growth of 10.2 percent. These economies are projected to grow by 8.3 percent and 10.0 percent respectively in 2006.

1.3 The World trade volume increased by 7.4 percent in 2005 and is projected to expand by 8.9 percent in 2006. Imports increased by 6.0 percent in advanced countries while it grew by 11.9 percent in the emerging markets and developing economies. Likewise, exports went up by 5.5 percent in advanced economies and 11.8 percent in the emerging markets and developing economies. Projected growth rate of imports for 2006 are 7.5 percent in advanced countries and 13.0 percent in the emerging markets and developing economies while that of exports are 8.0 percent and 10.7 percent in the respective economies (Table 1.2).

1.4 Increased prices of petroleum products in most of the advanced countries have created inflationary pressure on their own domestic economies. In addition to limited spare capacity in the world market, growth of the world economy, geopolitical conflicts in the Middle East, and increasing risks in some large petroleum producers like Nigeria resulted in the price-hike of petroleum products. Likewise, robust demand, capacity shortages and increased labor disputes in the emerging economies caused an upsurge in the metal prices. Prices of food and other agricultural

products also rose in the beginning of 2006. In response to the increased inflationary pressure, central banks of the major advanced countries raised short-term interest rate while the long-term interest rate remained stagnant.



Macroeconomic Situation of Nepal in 2005/06

Gross Domestic Product

1.5 The real Gross Domestic Product (GDP) at factor cost grew by 2.3 percent in 2005/06. According to the preliminary estimate released by Central Bureau of Statistics (CBS), the agricultural production showed a lower growth of 1.7 percent due to the deceleration in the production of principal food grains viz. paddy and wheat. The growth of non agricultural sector remained at 2.8 percent in 2005/06 slightly higher than 2.1 percent growth in 2004/05. A reasonable improvement in construction and trade restaurant and hotel sub sectors accounted for the modest growth of non agricultural sector. Despite the pick up in industrial sector, the growth rate of GDP in 2005/06 remained at previous year's level owing to the lowest growth rate recorded in agriculture during the last eight years. The GDP growth measured at producers' price decelerated to 1.9 percent, the lowest in the last four years.

1.6 The productive capacity of an economy depends on the total factor productivity and the stock of physical capital and labour force. There are some widely used methods of measuring potential output. Using the linear trend statistical method for the growth trend of 1979/80 to 2004/05, country's potential output growth is estimated at

4.3 percent. In this regard, the actual growth rate has remained below the country's potential output for the last five years. The growth rate for 2005/06 remained at 2.3 percent i.e. 2.0 percent below the potential output. This implies the underutilization of country's available physical capital and labour force.

1.7 Tenth plan (2002/03 - 2006/07) aims at achieving an average growth of 4.3 percent in normal case and 6.2 percent in optimistic case during the plan period. As the average growth rate for the first four years of the plan stood at 2.8 percent, an ambitious expansion of the economy is needed to achieve even the normal growth target. A decade long domestic political conflict adversely affected the non agricultural sector and the country's economic growth as well (Table 1 A). The low economic growth was a result of under performance of non agriculture sector largely affected by domestic political conflict.

Table 1(A)

**GDP Growth Rate (at Factor Cost)
(at the prices of 1994/95)**

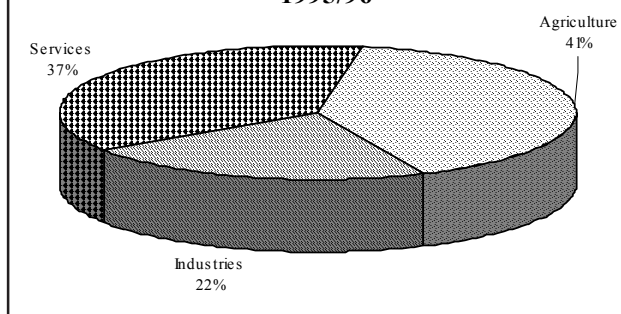
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | Average of Four Years | Normal Target of the Tenth Plan |
|-----------------|---------|---------|---------|---------|-----------------------|---------------------------------|
| Agriculture | 2.5 | 3.9 | 3.0 | 1.7 | 2.8 | 2.8 |
| Non Agriculture | 3.4 | 3.4 | 2.1 | 2.8 | 2.9 | 5.2 |
| Industries | 3.3 | 1.1 | 1.5 | 3.5 | 2.4 | - |
| Services | 3.4 | 4.8 | 2.4 | 2.4 | 3.3 | - |
| Total | 3.0 | 3.5 | 2.3 | 2.3 | 2.8 | 4.3 |

Source: Central Bureau of Statistics and National Planning Commission

Sectoral Composition of Gross Domestic Product

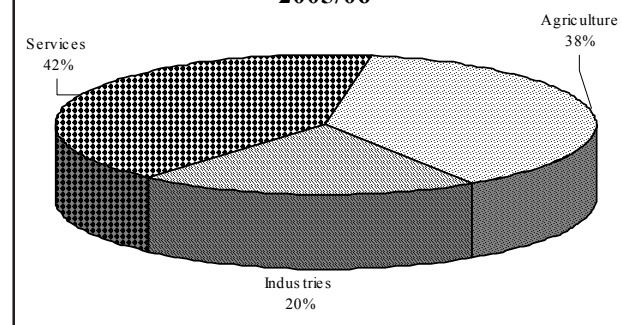
1.8 Grouping the GDP components into three broad headings- Agriculture, Industry and Services, the growth rate of agricultural production in 2005/06 remained nearly half to that in 2004/05. The agricultural production grew by 1.7 percent in 2005/06 compared to a growth of 3.0 percent last year. The industrial sector surged by 3.5 percent compared to a growth of 1.5 percent last year. The services sector production increased by 2.4 percent- the same as in

**Chart 1.2: Sectoral Contribution to GDP
1995/96**



the previous year. The contribution of agriculture, industry and services to the GDP remained at 38.2 percent, 20.3 percent and 41.5 percent respectively in 2005/06. These ratios were 40.5 percent, 22.3 percent and 37.2 percent in 1995/96 (Chart 1.2 and Chart 1.3). Thus, the contribution of services sector has been increasing gradually.

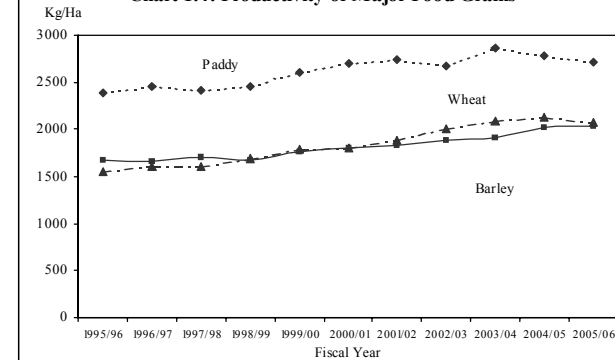
**Chart 1.3: Sectoral Contribution to GDP
2005/06**



Agriculture

1.9 Despite the substantial increase in cash crops and fisheries production, the growth rate of agricultural production in 2005/06 remained less than the previous year owing to a 1.4 percent negative growth in food grains, which accounted for one third of the total agricultural product. Less than normal rainfall in summer coupled with dry winter accounted for the deceleration in the principal food grains, paddy and wheat contributing about 20.0 percent and 4.6 percent respectively in the agricultural production. Among the principal food grains, the production of maize and millet increased by 1.1 percent and 0.4 percent respectively whereas the production of paddy, wheat, and barley decreased by 1.9 percent, 3.3 percent and 4.5 percent respectively.

Chart 1.4: Productivity of Major Food Grains



1.10 The growth rate of the production of main cash crops accelerated considerably by 8.8 percent in 2005/06 compared to 5.3 percent in the previous year. Among the cash crops, the production of potato, jute and sugarcane went up by 13.6 percent, 5.7 percent and 3.6 percent respectively, whereas the production of tobacco and oilseeds declined by 9.9 percent and 1.7 percent respectively. In the case of other crops, the production of vegetables grew by 4.9 percent while the production of pulses and fruits subgroups witnessed a negative growth of 2.4 percent and 1.4 percent respectively.

Overall Macroeconomic Situation

1.11 The growth rate of livestock production slowed down to 2.5 percent in 2005/06 compared to a growth of 3.1 percent last year. The production of milk, meat and eggs increased by 3.0 percent, 2.0 percent and 1.3 percent respectively. The production of fisheries subgroup surged significantly by 7.7 percent compared to a growth of 6.3 percent last year. Similarly, the growth rate of the production of forestry decelerated to 2.3 percent compared to a growth of 3.4 percent last year.

1.12 Monsoon rain has an important role to play in agricultural production of the country. Out of 42 stations used for monsoon rain analysis, only 7 stations received above normal precipitation while remaining 35 stations recorded below the normal. Poor rainfall in 19 districts (mainly in eastern region) during the paddy plantation period- July/August largely accounted for the deceleration in paddy production. Severely affected districts for the paddy plantation were Siraha, Saptari, Sunsari, Morang, Jhapa, Ilam Therathum and Okhaldhunga.

1.13 The winter season of the review year remained the driest in last 25 years in Nepal. The preliminary data from 15 synoptic stations showed that 6 stations including Kathmandu had no rainfall at all from December to February, 5 stations recorded only 5 percent of the normal and the rest received 30 percent of the normal rainfall. The decline in the production of paddy and wheat due to low rainfall attributed to the deceleration in the agricultural production.

1.14 The irrigation facility to cultivated land increased by 17,960 hectares to reach 1,168 thousand hectares by the end of 2005/06. This comes out 44.2 percent of total agricultural land and 66.1 percent of the total irrigable land. Similarly, among other agriculture inputs, the supply of chemical fertilizer stood at 127.7 thousand MT in 2005/06 compared to 122.7 thousands MT last year. Agricultural Development Bank (ADB/N) expanded agriculture credit by 7.5 percent (Rs 12.7 billion) in 2005/06 compared to that of the previous year. The wage rate of agricultural labour measured by wage index rose by 10.0 percent in 2005/06. The increasing trend of Nepalese workers' seeking foreign job and the social impact of internal political conflict created a pressure on wage rate and availability of agricultural labour. Consequently, the production cost of agriculture increased.

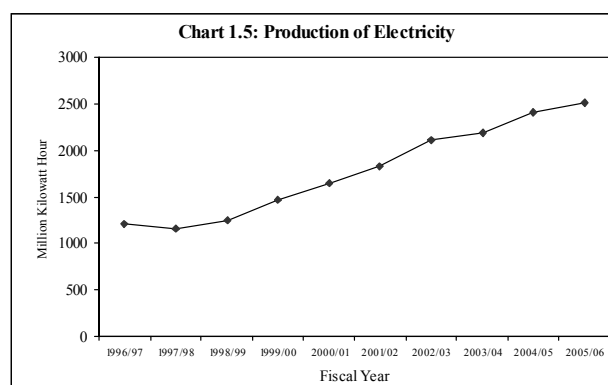
Industrial Sector

1.15 The industrial sector grew by 3.5 percent in the review year compared to a growth of 1.5 percent last year. This improvement was due to the encouraging growth witnessed in electricity, gas and water and construction sub sectors, notwithstanding the deceleration in the growth rate of manufacturing production.

1.16 According to the estimates released by CBS, the annual industrial production index (base year 2003/04 = 100) registered a growth of 1.9 percent in 2005/06 lower than the growth of 2.6 percent in 2004/05. A significant decline of 18.0 percent in the production of ready made garments was

attributable to the slow growth of industrial production in 2005/06. The export of ready made garments to India and third countries increased in the review year. The production of iron rod and billets, medicine and soap, textiles, brick and cement, and electric wire and cable subgroups witnessed a growth of 8.6 percent, 7.3 percent, 5.8 percent, 5.1 percent, 4.7 percent respectively compared to a growth of 1.3 percent, 5.0 percent, 5.9 percent, 2.6 percent and 3.6 percent respectively in 2004/05. The growth rate of vegetable ghee and oil having 15.8 percent weight in manufacturing production index decelerated by 2.9 percent compared to a growth of 7.0 percent in the previous year. The production of other textile, wood sawn, *pashmina* recorded a negative growth in the review year. The contraction in export to India and unstable political environment largely accounted for the slower growth in industrial production.

1.17 Electricity, gas and water sector recorded a growth of 5.6 percent in 2005/06 on top of growth of 4.8 percent last year. The growth in this sector was on account of the improvement in the transmission and distribution of electricity.



1.18 Construction sector recorded a growth of 4.2 percent in 2005/06. This was reflected in the rise of import and production of construction materials. This sector had witnessed a negative growth in 2004/05. Construction works picked up in the urban and sub urban areas largely due to the increase in the remittance income by 1.5 times in 2005/06. The growth rate of mining and quarrying sector marginally went down to 2.2 percent compared to a growth of 2.5 percent last year.

Table 1(B)
Relative Contribution to GDP Growth at 1994/95 Prices

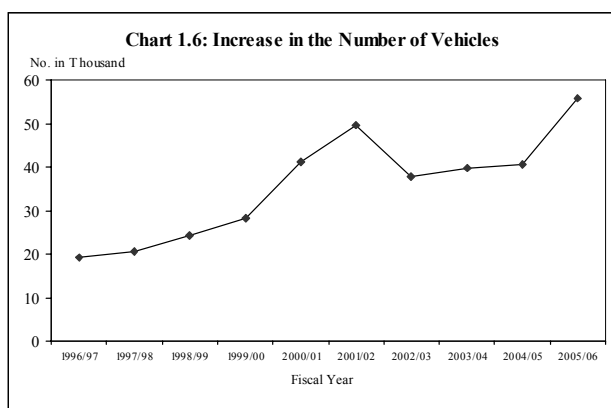
| | Share in GDP | | Growth Rate | | In percent | |
|-------------|--------------|---------|-------------|---------|--------------------------------------|---------|
| | | | | | Relative Contribution to Growth Rate | |
| | 2004/05 | 2005/06 | 2004/05 | 2005/06 | 2004/05 | 2005/06 |
| Agriculture | 39.1 | 38.8 | 3.0 | 1.7 | 47.9 | 27.5 |
| Industry | 22.2 | 22.4 | 1.5 | 3.5 | 13.8 | 33.1 |
| Services | 38.8 | 38.8 | 2.4 | 2.4 | 38.4 | 39.4 |
| Total* | 100.0 | 100.0 | 2.4 | 2.4 | 100.0 | 100.0 |

* Factor cost prior to bank service charges.

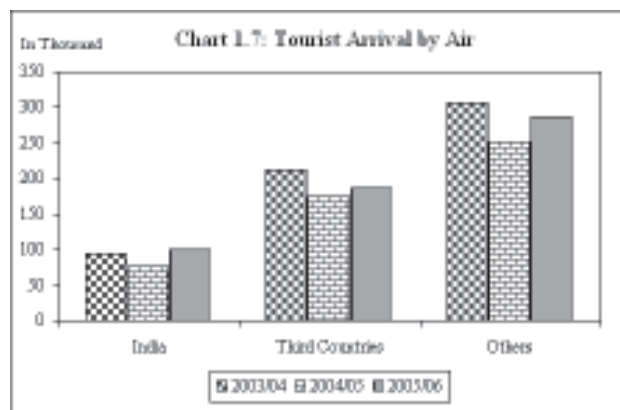
Source: CBS and NRB

Services Sector

1.19 The growth rate of services sector remained at the previous year's rate of 2.4 percent in 2005/06. A significant growth in trade, hotels and restaurants sector offset the sluggish growth in transportation, communication and storage; finance and real estate; and community and social services sectors. As a result, the growth rate of services sector remained stable. A substantial rise in foreign trade volume coupled with improvement in tourist arrivals accounted for 3.9 percent growth of this sector in contrast to 2.1 percent negative growth last year. Similarly, transport, communication and storage, finance and real estate, and social and community services sectors grew by 2.2 percent, 2.2 percent and 1.3 percent respectively. The growth rate of these sectors was 5.1 percent, 4.6 percent and 2.8 percent respectively last year. The strict censorship, closure and destruction of media instruments, slackness in the financial market and local government activities owing to the political instability largely contributed to the low growth in these sectors.



1.20 The number of foreign tourists visiting Nepal by air in 2005/06 stood at 287 thousand 719, an increase of 14.5 percent over the previous year. A total of 251 thousands 329 tourists had visited Nepal by air in the previous year. The number of Indian tourists visiting by air increased by 31.7 percent to 101 thousand 231 in 2005/06 compared to 76 thousand 850 in the previous year. Similarly, the number of tourists arrival from third countries by air increased by 6.9 percent and reached 106 thousand 488 in the review year as against the decline of 17.6 percent last year. A four-month long ceasefire declared by Maoists during tourist season (mid-September to mid-December) and the restoration of peaceful situation as a result of People's Movement-II accounted such a growth in tourist arrival in the review year. The share of Indian and third country tourists in total tourist arrivals was 35.2 percent and 64.8 percent respectively in the review year. Last year, such shares were 30.6 percent and 69.4 percent respectively.



Aggregate Demand

Domestic Demand

1.21 Gross domestic demand, at current market prices, witnessed a growth of 11.8 percent in 2005/06 compared to a growth of 9.9 percent last year. A significant growth in total consumption especially in private sector consumption accounted for the rise in gross domestic demand. The private sector demand, which accounts 86.8 percent share in aggregate domestic demand, increased by 12.4 percent in review year, compared to a growth of 10.8 percent last year. The public sector investment grew by 6.5 percent in the review year compared to a negative growth last year.

1.22 The total consumption increased by 10.9 percent to stay at 88.9 percent of GDP in 2005/06 compared to 87.6 percent last year. The private sector consumption and public sector consumption grew by 11.2 percent and 8.9 percent in 2005/06 compared to 7.5 percent and 8.0 percent growth recorded last year. The consumption of private sector increased on account of greater inflow of workers' remittances and improved consumption loans as a result of lower interest rates. The excess liquidity in the financial system also accounted for the growth in total consumption. Consequently, the total domestic saving in the review year declined to 11.1 percent of GDP from 12.4 percent of the previous year.

1.23 The total investment grew by 1.4 percentage points to 30.3 percent of GDP in 2006/07 from 28.9 percent last year. A substantial growth in the change in stock was the major factor behind the increment in investment. The ratio of fixed capital formation to GDP marginally declined by 0.4 percentage points to 18.5 percent in the review year compared to 18.9 percent last year. The ratio of private sector and public sector capital formation to GDP declined regardless of the rise in government capital expenditure and private sector credit in nominal terms. Political instability aggravated both private and public sector investment climate leading to a decline in gross fixed capital formation.

Net External Demand

1.24 Despite some improvement in the external demand for Nepalese goods and services, net external demand could not improve due to a higher growth of imports

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relative to exports in 2005/06. Higher growth in import particularly consumption goods other than capital goods accounted for the rise in total consumption thereby affecting the GDP. The external demand for pulses, *pashmina*, refined leather, ginger, homeopathic medicines, polyester yarn, readymade garments, and galvanized steel increased significantly, whereas the import of rice, agricultural equipments, electrical equipments' parts, coal, cosmetic items, M.S. billet, medicines and petroleum products increased in the review year.

Gross National Disposable Income

1.25 Gross National Disposable Income (GNDI) at current market prices witnessed a growth of 12.8 percent in 2005/06 compared to a growth of 9.1 percent last year. The GNDI accounted for 122.5 percent of GDP compared to 118.6 percent last year. The workers' remittance continued to be a substantial part in net transfer registering a growth of 48.8 percent in the review year. The workers' remittances as percentage of GDP stood at 16.7 percent. Similarly, the growth rate of GNDI at 1994/95 prices increased by 5.3 percent compared to a growth of 4.4 percent last year. (Table 1.c).

Millennium Development Goals

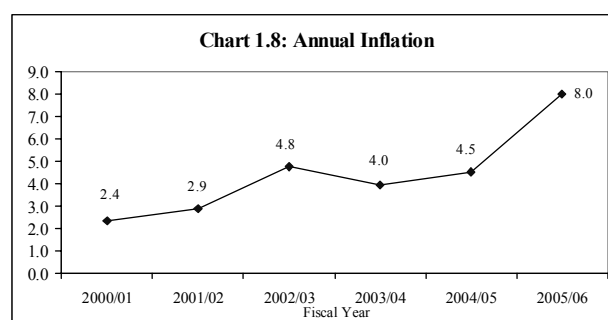
1.26 Nepal adopted the Millennium Declaration in 2000 committing to work towards attaining the Millennium Development Goals (MDGs) by 2015 or the final year of 12th five-year plan. The MDGs mainly focus on eight different targets including poverty reduction, improvements in health and education, gender equality, the environment and general human development. The 10th plan targets encompass many of the MDGs targets that Nepal aims to attain over three five- year plan period. Status of MDGs was evaluated in 2002 and 2005. Except for the goals set for

universal primary education and combating HIV/ AIDS, significant improvement has been seen in the targets of poverty reduction, child mortality reduction and ensuring environmental sustainability and hence is likely to be within the given period (Tenth Plan / PRSP Review 2004/05).

Inflation and Wage Rate

Consumer Inflation

1.27 The annual average inflation in 2005/06, as measured by the National Urban Consumer Price Index (CPI), rose by 8.0 percent compared to an increase of 4.5 percent in 2004/05. In the review year, the price of petroleum products was hiked with an average rate of 35.7 percent. It exerted an upward pressure on transportation costs of public and private vehicles. The index of housing goods and services also increased remarkably. In food and beverages group, rice and rice products played a significant role in raising the index.



1.28 Core CPI inflation rose on an average by 4.5 percent in 2005/06. Such inflation had increased by 3.4 percent in 2004/05. A rise in inflationary expectations on account of an increase in petroleum prices resulted in higher rate of core inflation.

Table 1 (C)
Gross National Disposable Income
(At current market prices)

| Particulars | Rs. in million | | | Percentage Change | |
|---|----------------|---------|---------|-------------------|---------|
| | 2003/04 | 2004/05 | 2005/06 | 2004/05 | 2005/06 |
| Total Consumption | 434359 | 467202 | 518236 | 7.6 | 10.9 |
| Total Investment | 130993 | 154132 | 176483 | 17.7 | 14.5 |
| Domestic Demand | 565352 | 621335 | 694720 | 9.9 | 11.8 |
| Net Export | -68607 | -87796 | -111772 | 28.0 | 27.3 |
| Gross Domestic Product | 496745 | 533538 | 582948 | 7.4 | 9.3 |
| Net Factor Income | -1684 | 1637 | 4943 | -197.2 | -202.0 |
| Net Transfers | 84889 | 97704 | 125988 | 15.1 | 28.9 |
| <i>Workers Remittances</i> | 58588 | 65541 | 97536 | 11.9 | 48.8 |
| Gross National Disposable Income | 579955 | 632879 | 713879 | 9.1 | 12.8 |
| Gross National Disposable Income (1994/95 prices) | 363932 | 379794 | 399892 | 4.4 | 5.3 |

Source: Central Bureau of Statistics and Nepal Rastra Bank.

Box 1: Millennium Development Goal

With an aim to bring equality and coordination among the people of the world, the UN Global conference of the 1990s, drew up a number of key global development goals and targets, known as International Development Targets. In September 2000, 189 nations adopted the Millennium Declaration that outlines peace, security, environment for development, human rights and good governance. The declaration mainstreams a set of inter-connected and mutually reinforcing development goals into a global agenda. The International Development Goals and the Development Goals contained in the Millennium Declaration have been merged under the designation of “Millennium Development Goals”. The MDGs adopted by Nepal and its current status till 2005 have been appended below.

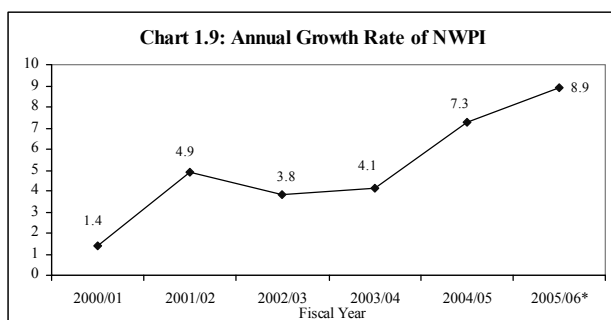
| Goal/Target | Status | | MGD Target |
|---|--------|------|------------|
| | 2000 | 2005 | 2015 |
| 1. Eradicate extreme poverty and hunger | | | |
| % of population below poverty line | 38 | 31 | 21 |
| % of population below \$1/day (PPP value) | NA | 24.1 | 17 |
| % of population below minimum level of dietary energy consumption | 47 | NA | 25 |
| % of underweight children aged 6-59 months | 53 | NA | 29 |
| % of stunted children aged 6-59 months | 55 | NA | 30 |
| 2. Achieve universal primary education | | | |
| Net enrolments in primary education (%) | 81 | 84 | 100 |
| % of pupils starting grade 1 and reaching grade 5 | 63 | 76 | 100 |
| Literacy rate 15-24 years olds | 70.1 | 73 | 100 |
| 3. Promote gender equality and empower women | | | |
| Ratio of girls to boys at primary level | 0.79 | 0.86 | 1.0 |
| Ratio of girls to boys at secondary level | 0.70 | 0.82 | 1.0 |
| Ratio of girls to boys at tertiary level | 0.28 | NA | 1.0 |
| Ratio of literate women to men 15-24 year olds | NA | 0.73 | 1.0 |
| 4. Reduce child mortality | | | |
| Infant mortality rate (Per Thousand) | 64 | 61 | 34 |
| Under five mortality rate (Per Thousand) | 91 | 82 | 54 |
| Proportion of 1 year old immunized against measles (Per Thousand) | 71 | 85 | 90 |
| 5. Improve maternal health | | | |
| Maternal mortality rate (Per Hundred Thousand) | 415 | NA | 213 |
| % of deliveries attended by health care providers | 11 | 20 | 60 |
| 6. Combat HIV/Aids, malaria and other diseases | | | |
| HIV/ Aids prevalence among 15-49 year olds (%) | 0.29 | 0.5 | NA |
| Contraceptive prevalence rate | 39 | NA | 67 |
| 7. Ensure environmental sustainability | | | |
| Area under forest (%) | 29 | 29 | NA |
| % of population with improved water sources | 73 | 81 | 73 |
| % of population with improved sanitation | 30 | 39 | 53 |
| 8. Develop global partnership for development | | | |

Source: Tenth Plan / PRSP Review 2004/05

1.29 The inflation remained higher in Hills and Terai than in the Kathmandu Valley. Inflation in Hills and Terai both increased by 8.6 percent, in 2005/06, whereas the inflation in the Kathmandu Valley increased by 6.5 percent.

Wholesale Price Inflation

1.30 On an annual average basis, the National Wholesale Price Index (WPI) stood at 134.3 points depicting a rise of 8.9 percent in 2005/06 compared to 7.3 percent increase last year. The higher growth in the price index was mainly attributable to the surge in the prices of food grains, cash crops, construction materials, pulses, chemical fertilizer and chemical goods together with an unprecedented rise in the prices of petroleum products and coal.



Salary and Wage Rate

1.31 The annual average National Salary and Wage Rate Index (SWRI) increased by 3.9 percent to 103.9 points in 2005/06, compared to an increase of 9.8 percent in the preceding year. The salary index and wage rate index increased by 0.3 percent and 5.3 percent respectively in the review period. The increase in wage rate of labourers working in agriculture, industry and construction sectors accounted for a rise in the salary and wage rate index. Besides this, the adjustment in the basic salary of civil services, army, police and in educational sector by 20 percent through the budget speech of GON also pushed up the salary and wage rate index. As the hike in the salary of civil services resulted the rise in wages of industrial workers, the wage rate index of industrial workers increased by 4.5 percent. The wage rate index of agricultural workers and construction workers increased by 6.6 percent and 1.3 percent respectively.

External Sector

Overall Trade Situation

1.32 In 2005/06, the external sector of the economy witnessed a mixed performance. Total exports growth decelerated owing to the slowdown in exports to India. Total imports increased significantly as a result of the upsurge in imports from both India and other countries. As a result, there was a significant expansion in trade deficit. Exports went up by 4.2 percent (Rs. 2.5 billion) and reached Rs. 61.17 billion in 2005/06 compared to an increase of 8.9 percent last year. As percent of GDP, exports accounted for 10.5 percent compared to 11.0 percent a year earlier. Compared to last year, total imports rose by 9.7 percent (Rs.

25.63 billion) to Rs. 175.11 billion. Consequently, the ratio of total imports to GDP went up to 30.0 percent from 28.0 percent last year. In the review year, total trade deficit increased significantly by 25.5 percent and aggregated Rs. 113.94 billion. Last year, trade deficit had expanded by 10.2 percent to Rs. 90.77 billion. The ratio of total trade deficit to GDP increased to 19.5 percent in 2005/06 from 17.0 percent in 2004/05. Likewise, total trade grew by 13.5 percent in the review year compared to a growth of 9.5 percent last year.

1.33 The additional 4.0 percent duty imposed by India in March 2006 adversely affected the exports to India. As a result, exports to India decelerated to 5.4 percent (Rs. 2.1 billion) to Rs. 41.0 billion in 2005/06 compared to a significant growth of 26.4 percent a year earlier (Table 1.11). In the review year, the exports of polyester yarn, readymade garments, zinc sheet, wire and ginger to India increased while that of textiles, vegetable ghee, plastic utensils, tooth paste and chemicals declined.

1.34 Exports to other countries rose by 1.8 percent (Rs. 365.7 million) to Rs. 20.15 billion as against a decline of 14.5 percent last year. Among the major goods exported to overseas countries, exports of readymade garments increased marginally by 0.7 percent to Rs. 6.17 billion in the review year as against a decline of 35.9 percent last year. The exports of *pashmina* increased by 50.1 percent to Rs. 1.58 billion. Likewise, poor manufacturing condition, static global demand along with the competition posed by Chinese and Vietnamese carpets lowered the demand for Nepalese products as a result of which the exports of Nepalese carpets declined by 0.7 percent to Rs. 5.82 billion. In the review year exports of *pashmina*, pulses and leather goods increased (Table 1.12).

1.35 Imports from India rose by 23.3 percent to Rs. 109.3 billion in the review year compared to a growth of 12.6 percent last year. The significant rise in imports from India was mainly ascribed to the rise in the import of petroleum products by 26.3 percent in 2005/06. Petroleum products constitute 30.8 percent of total imports from India. Excluding petroleum products, other imports from India that took an upward trend included rice, thread, medicine, chemical fertilizers and hot rolled sheet in coil. Imports of cold rolled sheet in coil, M.S. wire rod, steel sheet, textiles and live animals declined. Of the total imports from India, goods worth Rs.12.81 billion (11.7 percent of total imports from India) were imported on payment of convertible currency. Last year, such imports had amounted to Rs.16.33 billion (18.4 percent of the total imports). The decline in the imports of cold rolled sheet in coil, polythene granules and industrial chemicals led to the decline in the imports of goods from India under this provision. Trade deficit with India that had gone up by 3.7 percent last year, expanded significantly by 37.2 percent in the review year. As a result, the share of trade deficit with India in total trade deficit went up to 59.9 percent from 54.8 percent last year. The share of imports from India in total imports increased to 62.4 percent from 59.3 percent while the share of exports to India in total exports also rose to 67.1 percent from 66.3 percent.

1.36 In the review year, import from countries other than India increased by 8.2 percent and amounted to Rs. 65.80 billion compared to a rise of 5.7 percent last year. Among others, the major imports that witnessed an increase comprised of palm oil, crude palm oil, polythene granules, textile dyes and electrical goods. Similarly, there was a decline in the imports of readymade garments, raw wool, shoes & sandals, video, television & parts and telecommunication equipment & parts. As a result, the share of trade deficit with other countries in the total trade deficit declined to 40.1 percent from 45.2 percent last year. In the review year, trade deficit with other countries rose by 11.3 percent compared to a growth of 19.2 percent last year. The share of import from other countries in total imports declined to 37.6 percent in the review year from 40.7 percent last year. Likewise, the share of exports to other countries in total exports went down to 32.9 percent from 33.7 percent.

Balance of Payments

1.37 After adjusting border trade, total exports, under f.o.b valuation, rose by 4.4 percent to Rs. 62.57 billion in 2005/06. Last year, such exports had increased by 8.6 percent. In the review year, because of the increase in the import of petroleum products by 26.3 percent to Rs. 33.66 billion and the import of other merchandise goods by 16.9 percent, total imports went up by 18.6 percent to Rs. 172.89 billion. Last year, import of petroleum products and other merchandise goods had risen by 32.2 percent and 5.6 percent, respectively, leading to an increase of 9.6 percent in total imports. As a result, trade deficit increased by 28.6 percent to Rs. 110.32 billion compared to an increase of 10.4 percent last year.

1.38 While travel income which had declined by 42.3 percent last year, dropped by 8.9 percent and amounted to Rs. 9.53 billion in the review year, receipts under government n.i.e increased by 9.3 percent to Rs. 7.44 billion as compared to a decline of 4.7 percent last year. Likewise, receipts from other services increased by 8.5 percent to Rs. 9.47 billion compared to a decline of 3.2 percent last year. As a result, total service receipts increased by 1.7 percent to Rs. 26.44 billion in the review year in contrast to a decline of 24.2 percent in the previous year. Similarly, on the payment side, the increase in transportation, travel and other service expenses by 19.3 percent, 23.1 percent and 11.5 percent respectively, led to the increase in total service expenses by 18.5 percent to Rs. 33.22 billion. Because of the significant increase in total service expenses relative to receipts, net services income was negative by Rs. 6.78 billion in the review year. Net services income was negative by Rs. 2.03 billion last year. Consequently, the balance on goods and services posted a deficit of Rs. 117.10 billion, which was higher than that of the preceding year by 33.4 percent.

1.39 On the income front, income receipts increased by 47.4 percent to Rs. 11.42 billion in the review year while payment increased by 6.0 percent to Rs. 6.48 billion. Consequently, the overall deficit in goods, services and income increased by 30.2 percent to Rs. 112.16 billion. Last year, such deficit had gone up 22.6 percent to Rs. 86.16 billion.

1.40 Grants declined by 10.6 percent to Rs. 18.85 billion in contrast to an increase of 7.7 percent in the preceding year (Table 11.3). Workers' remittances, on the other hand, soared by 48.8 percent to Rs. 97.54 billion in the review year compared to a rise of 11.9 percent last year. Pension receipts declined by 4.0 percent to Rs. 12.00 billion whereas other transfer receipts (Indian excise refund) went up by 5.5 percent to Rs. 2.33 billion. In the review year, transfer payment rose by 30.8 percent to Rs. 4.72 billion in contrast to the decline by 15.6 percent last year. As a result, net transfer income increased by 28.9 percent to Rs. 125.99 billion compared to a growth of 15.1 percent last year.

1.41 In the review year, there was a surplus equivalent to Rs. 13.83 billion (2.3 percent of GDP) in the current account (Table 1.13). Although there was a decline in net services income and an expansion in trade deficit, the significant rise in workers' remittances led to such a surplus in the current account. Last year, such surplus was Rs. 11.54 billion (2.2 percent of GDP).

1.42 In the review year, the capital account transfers increased by 97.4 percent to Rs. 3.11 billion compared to an increase of 8.4 percent last year (Table 1.13).

1.43 Under the financial account, other investment assets rose by Rs. 13.18 billion of which trade credit comprised Rs. 2.19 billion. Last year, other investment assets had increased by Rs. 21.86 billion. Likewise, under the other investment liabilities, trade credit increased by Rs. 12.91 billion. In the review year, the inflow of the government loan was Rs. 7.69 billion while repayment amounted to Rs. 6.99 billion. Consequently, net government loan amounted to Rs 703.7 million. In the review year, currency and deposit liabilities rose by Rs. 3.39 billion.

1.44 As the current account was on significant surplus and miscellaneous capital inflow amounted to Rs. 8.96 billion, reserves and related items increased by Rs. 29.09 billion in the review year. As a result, the overall BOP remained in surplus by Rs 25.70 billion. Last year, BOP had recorded a surplus of Rs. 5.74 billion.

Gross Foreign Exchange Reserve

1.45 Compared to mid-July 2005, gross foreign exchange reserves soared by 27.1 percent to Rs. 165.13 billion in mid-July 2006, of which the NRB's share comprised 80 percent (Table 1.14). Last year, the gross foreign exchange holdings of the banking system had aggregated Rs. 129.90 billion out of which the NRB's share was 80.4 percent. Compared to mid-July 2005, the convertible foreign exchange reserve increased by 25.9 percent as at mid-July 2006 while the inconvertible foreign exchange reserve soared by 53.7 percent. In the previous year while convertible foreign exchange reserves had increased by 6.0 percent, inconvertible foreign exchange reserves had declined by 55.4 percent. The share of convertible reserves in total reserves declined to 94.5 percent as at mid-July 2006 from 95.4 percent in mid-July 2005, leading to a corresponding increase in the share of the non-convertible reserves to 5.5

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percent from 4.6 percent. The level of reserves was adequate for financing merchandise imports of 11.5 months' and merchandise and service imports of 9.6 months'.

1.46 The gross foreign exchange to broad money supply ratio and gross foreign exchange to reserve money ratio which stood at 43.2 percent and 134.6 percent respectively as at mid-July 2005 increased to 47.6 percent and 149.1 percent, respectively in mid-July 2006. The ratio of gross foreign exchange to GDP stood at 28.3 percent as at mid-July 2006 compared to 24.3 percent a year earlier. Similarly, the ratio of gross foreign exchange reserve to external debt was 70.5 percent in mid-July 2006 compared to 59.1 percent a year ago.

Table 1 (D)
Reserve Adequacy Indicators

| | 2003/04 | 2004/05 | 2005/06 |
|---|---------|---------|---------|
| <i>Trade-related indicators (in months)</i> | | | |
| Import Coverage (goods only) | 11.5 | 10.4 | 11.5 |
| Import Coverage (goods and services) | 9.7 | 8.8 | 9.6 |
| <i>Debt-related indicator (in percent)</i> | | | |
| Gross Foreign Exchange Reserve/External Debt | 55.9 | 59.1 | 70.5 |
| <i>Money-based indicators (in percent)</i> | | | |
| Gross Foreign Exchange Reserve/ Broad Money (M ₂) | 47.0 | 43.2 | 47.6 |
| Gross Foreign Exchange Reserve/ Reserve Money | 137.9 | 134.6 | 149.1 |
| <i>Macro-economic indicator (in percent)</i> | | | |
| Gross Foreign Exchange Reserve/ GDP (in percent) | 26.2 | 24.3 | 28.3 |

External Debt

1.47 The total outstanding external debt of Nepal increased by 6.6 percent to Rs. 234.22 billion as at mid-July 2006. As at mid-July 2005, such debt was Rs. 219.64 billion. The increase in total outstanding external debt was attributable to the depreciation of the Nepalese rupee vis-à-vis major foreign currencies (US dollar, pound sterling, euro and Japanese yen).

Table 1 (E)
Foreign Exchange Trends

| Foreign Currency | Buying Rate (Nepalese Rupee) mid-July | | | Appreciation (+) / Depreciation (-) (in percent) | |
|------------------|---------------------------------------|--------|--------|--|---------|
| | 2004 | 2005 | 2006 | 2004/05 | 2005/06 |
| 1 US Dollar | 74.14 | 70.35 | 74.10 | 5.39 | -5.06 |
| 1 Pound Sterling | 137.57 | 124.00 | 136.17 | 10.94 | -8.94 |
| 1 Euro | 91.64 | 84.98 | 93.82 | 7.84 | -9.42 |
| 10 Japanese Yen | 6.78 | 6.29 | 6.39 | 7.79 | -1.56 |

Fiscal Situation

Budget Deficit

1.48 In 2005/06, the budget deficit, on a cash basis, increased at a higher rate due to sluggish growth of

government revenue relative to government expenditure. Budget deficit of the Government of Nepal (GON) excluding local authorities' accounts widened by 37.1 percent compared to a growth of 12.9 percent last year.

1.49 Of the total budget deficit of Rs 19.60 billion (excluding bank balances of local authorities), the GON mobilized Rs 15.75 billion through internal loans and the remaining Rs 3.85 billion through foreign loans. Last year the GON had mobilized Rs 12.09 billion through internal borrowings and Rs. 2.21 billion through foreign loans.

1.50 The GON mobilized Rs 10.83 billion through the issuance of treasury bills (TBs). In the same period, the GON mobilized Rs. 750 million through development bonds (DBs) and Rs 250 million through citizen savings certificates (CSCs). Remaining amount of internal loan was fulfilled by utilizing overdraft from Nepal Rastra Bank (NRB). Last year, the government had borrowed Rs 5.47 billion through the issuance of TBs, Rs 3.0 billion through DBs and Rs 2.62 billion from NRB overdraft.

Government Expenditure

1.51 In 2005/06, the total expenditure of the GON, on cash basis, increased by 12.5 percent to Rs 101.64 billion. In 2004/05 the government expenditure had increased by 11.4 percent. The increase in total expenditure was attributable to an increase in security expenses and the mild expansion in capital expenditure.

1.52 In the review year, the share of recurrent expenditure, capital expenditure, principal repayments and freeze expenditure stood at 63.5 percent, 20.1 percent, 14.1 percent and 2.3 percent in the total expenditure respectively. Last year, such ratios were 65.3 percent, 18.2 percent, 15.0 percent and 1.5 percent respectively.

1.53 In the review year, total expenditure remained at 17.4 percent of GDP. Last year, such ratio was marginally lower at 16.9 percent. In the review year, the recurrent expenditure to GDP ratio stood at 11.0 percent and the ratio of capital expenditure to GDP remained at 3.5 percent. Last year, such ratios were 11.1 percent and 3.1 percent respectively.

Revenue

1.54 As against the double-digit growth of 12.5 percent last year, the revenue receipts registered a modest growth of 3.1 percent in 2005/06. In the review year, the ratio of government revenue to GDP came down to 12.4 percent from 13.1 percent last year. The reduction of customs duty in half-yearly budget announcement and the decrease in dividends from the government enterprises were responsible for the low growth rate of government revenue.

1.55 In 2005/06, indirect tax revenue of the GON increased by 5.9 percent. It had grown by 13.1 percent last year. One major reason for such a lower growth was the decrease in the customs revenue in the review year. As against the growth of 0.9 percent last year, the customs revenue decreased by 2.3 percent in the review year. Value Added Tax (VAT) the major source of government revenue recorded an increment but at a lower rate. VAT revenue increased by

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14.4 percent as against previous year's growth of 30.3 percent. In the review year, the excise revenue too increased by a lower rate of 0.9 percent compared to the last year's growth of 3.6 percent. As against the growth of 9.7 percent in the previous year, the direct tax revenue increased by 6.6 percent in the review year. Income tax, the major component of the direct tax revenue, increased by 4.4 percent compared to the previous year's growth of 10.0 percent. In the review year, the non-tax revenue decreased by 7.1 percent as against the growth of 13.2 percent last year. Of the non tax revenue, revenue from dividend declined by 26.1 percent in the review year in contrast to an increase of 72.5 percent last year.

1.56 In the review year, the share of tax revenue increased to 79.4 percent of total revenue from 77.1 percent last year. Consequently, the share of non-tax revenue decreased to 20.6 percent in the review year from 22.9 percent last year. The share of direct tax and indirect tax revenue in total tax revenue remained at 24.3 percent and 75.7 percent respectively. Such ratios were 24.1 percent and 75.9 percent respectively in 2004/05. VAT revenue, customs revenue and income tax revenue constituted 37.7 percent, 26.7 percent and 19.3 percent of the total tax revenue respectively. Such shares were 34.9 percent, 29.0 percent and 19.0 percent respectively last year.

Tax Policy Provisions

1.57 The exemption limit for personal income taxation was Rs 80,000 for an individual and Rs 100,000 for a couple/family in 2004/05. In the budget of 2005/06, such limits were raised to Rs 100,000 and Rs 1,25,000 respectively. The special duty of 0.5 percent in import was eliminated.

1.58 Financial Ordinance of 15 January 2006 changed the customs rate of 130 goods. The custom rates of many of the domestic consumer goods were reduced by 10 percent to 25 percent through the ordinance. Moreover, the Ordinance removed VAT of 13 percent on health services and made a

provision of launching excise of 5 percent on these services. The Ordinance increased nominally the customs rate on gray cement, petrol and air fuel.

Tax Rates

1.59 Income of Rs. 75,000 above the tax exemption limit was subject to income taxation of 15 percent and thereafter the rate was 25 percent i.e. the highest marginal rate of 25 percent plus 1.5 percent that was applied in 2004/05, remained constant in 2005/06 also. On the excise front, excise rates of 2, 4, 5, 15 and 32 percent were prevalent in 2005/06. Such rates were 4, 15 and 32 percent in 2004/05. In 2005/06, customs rates on import remained at 5, 10, 15, 25, 35, 40 and 80 percent at the same level of last year. In 2005/06, customs rates on export remained at 0.5, 1, 8, 70 and 200 percent which were 0.5, 1, 2, 10, 70 and 200 percent last year [Table 1(F)].

Foreign Cash Grants

1.60 Foreign cash grants of the GON witnessed a robust growth of 69.4 percent compared to a marginal increase of 1.8 percent last year. In the review year, the foreign cash grant increased to Rs 8.89 billion.

Outstanding Debt

1.61 Total outstanding domestic debt of the GON increased by 10.2 percent (Rs 8.73 billion) to Rs 94.19 billion as at mid July 2006. The amount of such debt stood at 16.2 percent of GDP. In the review year, total liability of TBs increased by Rs 11.58 billion, whereas the liability of development bonds (DBs) and citizen saving certificates declined by Rs 2.04 billion and Rs 2.70 billion respectively. In the review year, total liability of the government in banking sector increased by Rs 9.84 billion and that of the non banking sector decreased by 1.11 billion. In the review year, overdraft utilized by the government from NRB excluding local authorities account increased by 61.6 percent to Rs 4.24 billion as at mid July 2006.

Table 1(F)
Tax Rates

| | 2004/05 | 2005/06 |
|---------------------------------------|---------------------|---------------------|
| 1. Import Duties (Percent) | 5,10,15,25,35,40,80 | 5,10,15,25,35,40,80 |
| 2. Export Duties (Percent) | 0.5,1,2,10,70,200 | 0.5, 1, 8, 70, 200 |
| 3. Excise Duties (Percent) | 4, 15, 32 | 2, 4, 5, 15, 32 |
| 4. VAT (Percent) | 13 | 13 |
| 5. Income Tax | | |
| (a) Limit of Exemption | | |
| i) Individual | Rs 80,000 | Rs 100,000 |
| ii) Family | Rs 1,00,000 | Rs 125,000 |
| (b) Rate of Tax (percent) | | |
| i) First Rs 75,000 after Exemption | 15 percent | 15 percent |
| ii) After that | 25+1.5 percent | 25+1.5 percent |
| Corporate Tax | | |
| (a) Flat Rate at Corporate Net Income | | |
| (i) Banks and Financial Institutions | 30 percent | 30 percent |
| (ii) Others | 25 percent | 25 percent |
| (b) Partnership Firm | 25 percent | 25 percent |

1.62 As at mid July 2006, total foreign loan of the GON increased by 6.6 percent to Rs 234.22 billion, accounting for 40.2 percent of GDP.

1.63 At the end of 2005/06, total outstanding debt of the GON increased by 7.6 percent to Rs 328.43 billion, accounting for 56.3 percent of GDP. Last year, such debt was Rs 305.11 billion.

Public Enterprises

1.64 In 2005/06, of the 36 state owned enterprises, 19 enterprises earned profit and 17 enterprises incurred losses. The economic condition, capacity utilization and employee productivity of the most of the enterprises, even the profit earning ones, did not seem satisfactory. Up to 2004/05, the GON had share investment of Rs 59.68 billion and loan investment of Rs 64.55 billion. In the review year, the GON earned dividend of Rs 3.35 billion on its share investment, which comes out only 5.6 percent of share investment.

1.65 As a consequence of unsatisfactory performance of public enterprises, the corporate income tax from these enterprises declined by 85.3 percent to Rs 19.58 billion in 2005/06, which clearly shows the unsatisfactory financial position of the public enterprises.

Privatization and Dissolution of Public Enterprises

1.66 The GON has taken the privatization of public enterprises as one of the measures of economic liberalization. With a view to reducing the administrative and financial burden of government, enhancing business skill and productivity of the industry and enterprises and increasing the private sector's partnership in the economic development process, the GON has been implementing the privatization programme. Up to now, 26 public enterprises have been privatized and dissolved.

1.67 In 2004/05, assets of Lumbini Sugar Factory and Nepal Rosin and Turpentine Limited were sold to private sector and land and buildings of these enterprises were given in lease for 25 years and 10 years respectively.

Monetary Situation

Money Supply

1.68 Broad money supply (M2) expanded significantly by 15.6 percent in 2005/06 compared to a growth of 8.3 percent in 2004/05. Of the components of M2, the growth of narrow money supply (M1) also remained higher compared to that of last year. Compared to a growth of 6.6 percent last year, M1 increased by 14.0 percent in 2005/06. Similarly, time deposits, another component of M2, recorded a growth of 16.4 percent in 2005/06 compared to a growth of 9.2 percent in 2004/05. A significant growth of remittances contributed for the growth in time deposits in the review year.

1.69 Analyzing from the demand side, higher remittance inflow, increasing inflation and higher inflationary expectation contributed to monetary expansion despite the lower economic growth in the review year.

Factors Affecting Monetary Expansion

1.70 Of the expansionary factors, net foreign assets (NFA) after adjusting foreign exchange valuation gain/loss, increased by Rs 25.7 billion (23.9 percent) in the review year compared to a growth of Rs 5.74 billion (5.3 percent) last year. NFA expanded due to an encouraging inflow of remittances in the review year.

1.71 Domestic credit, another expansionary factor, grew at a lower rate in the review year. Compared to a growth of 13.8 percent last year, domestic credit increased by 7.8 percent in the review year. Slackness in the industrial activities due to internal conflict and the focus on loan recovery by Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB), including cautious loan flow by the whole banking sector contributed to the lower level of expansion in domestic credit.

1.72 Of the domestic credit aggregates, net claims on government grew at a lower rate of 10.4 percent in the review year. Such claims had grown by 11.3 percent in 2004/05. Compared to Rs. 2.62 billion overdrawn in the previous year, the government availed overdraft borrowing of Rs. 1.07 billion (including Local Authorities' deposit in banks) in the review year.

1.73 The expansion of private sector credit, the main components of domestic credit remained lower in the review year compared to that of last year. Private sector credit increased by 8.8 percent only compared to a rise of 14.2 percent last year. Increased risk in investment due to internal conflict and political instability led to such a lower expansion of private sector credit. Apart from this, the emphasis given in loan recovery by NBL and RBB and writing off of some overdrew loans by NBL at the end of the fiscal year, also contributed to lower the rate of the private sector credit growth.

1.74 In the review year, monetary sector's claims to non-financial government enterprises declined by 32.1 percent compared to an increase of 125.3 percent last year. Such a decline was mainly due to the loan repayment made by the National Trading Corporation, Nepal Food Corporation, Nepal Oil Corporation and Janak Education Material Centre along with the cautious approach taken by the commercial banks in providing credit.

1.75 Net non-monetary liabilities, which had increased by 21.5 percent last year, rose by only 0.8 percent in the review year. Such a decline in the growth rate was mainly due to decline in loan loss provisioning and interest suspense accounts following the overdue loans written off by NBL.

1.76 In the review year, net domestic assets (adjusting the exchange valuation gain/loss), derived by deducting the net non-monetary liabilities from domestic credit increased by 11.0 percent. Last year, such assets had increased by 10.3 percent.

Reserve Money

1.77 In the review year, on account of substantial expansion in foreign assets of the monetary authorities due

to significant increase in remittances, reserve money witnessed a higher growth. Reserve money rose by 14.7 percent in the review year compared to an increase of 2.2 percent last year. Of the components of reserve money, a growth of currency in circulation increased from 8.8 percent last year to 13.1 percent in the review year, whereas currency held by commercial banks increased by 23.8 percent compared to an increase of 11.4 percent last year. Likewise, in contrast to a decline by 16.5 percent last year, commercial banks' balances with NRB increased by 13.2 percent in the review year.

Money and Financial Market

Liquidity in Money Market

1.78 Throughout the review year, commercial banks had excess liquidity. Excluding cash reserve ratio, commercial banks held Rs 16.41 billion excess liquidity as at mid-July 2006 compared to excess liquidity of Rs 14.34 billion as at mid-July 2004/05. Because of growing liquidity, weighted average 91-day TBs rate decreased to 3.25 percent as at mid-July 2006 from 3.94 percent a year ago. Similarly, the weighted average inter bank transaction rate, too, declined to 2.13 percent in mid-July 2006 from 4.71 percent in mid-July 2005.

1.79 In order to manage the excess liquidity induced by higher inflow of remittances, the NRB undertook sale auctions of Rs 13.51 billion and reverse repo auctions of Rs 6.50 billion. Therefore, a total of Rs 20.01 billion liquidity in cumulative term was mopped up from money market in the review year. Similarly, the NRB undertook purchase auctions of Rs 830 million and repo auctions of Rs 450 million. Consequently, net liquidity of Rs 18.73 billion was absorbed cumulatively in the review year.

Primary Market Transactions in Treasury Bills

1.80 In the review year, TBs of Rs 72.74 billion were auctioned in the primary market including both renewal and fresh issue. Of the total amount of TBs auctioned, 28-day amounted to Rs 3.60 billion, 90-day Rs 30.98 billion, 182-day Rs 4.26 billion and remaining Rs 33.90 billion was of 364-day. In the review year, the TBs of 28-day were auctioned 23 times, 90-day 52 times, 182-day 12 times and 364-day 29 times.

1.81 The weighted average discount rate of 28-day TBs stood at 2.2033 percent, with maximum 3.2503 percent to minimum 1.5059 percent. The weighted average discount rate of 91-day TBs, stood at 2.8427 percent ranging from maximum 3.7500 percent to minimum 1.9975 percents. Similarly, the weighted average discount rate of 182-day TBs stood at 3.3992 percent, with minimum 2.5683 percent and maximum 4.3963 percent. Likewise, such rate for 365-day TBs averaged at 3.9504 percent, with minimum 2.9051 percent to maximum 4.7795 percent.

Open Market Operations in Treasury Bills

1.82 Since 2004/05, secondary market operations in TBs has been conducted through instruments such as outright

purchase auction, outright sale auction, repo auction and reverse repo auctions based on liquidity monitoring and forecasting framework (LMFF) and the situation of monetary targets.

1.83 This bank began to take initiatives to conduct open market operations based on the liquidity situation since 2004/05 instead of commercial banks taking initiative in the past. In 2005/06, under the open market operations of TBs, a single repo auction of Rs 450 million, nine reverse repo auctions of Rs 6.5 billion, fifteen outright sale auctions of Rs 13.5 billion and two outright purchase auctions of Rs 830 million were undertaken.

Inter-bank Transactions

1.84 Inter bank transaction reached Rs 175.75 billion as at mid-July 2006 from Rs 152.84 billion last year. The use of standing liquidity facility (SLF) by commercial banks declined in the review year due to the deepening of inter bank market. The use of loan under SLF by commercial banks remained at Rs 9.88 billion in the review year compared to Rs 49.31 billion last year. The situation of excess liquidity due to higher inflow of remittances also lowered the use of SLF in the review year.

Table 1 (G)
Situation of Inter Bank Transactions

| Mid-Month | Rs in million | | | |
|-----------|---------------|------|----------|------|
| | 2004/05 | | 2005/06 | |
| | Amount | Rate | Amount | Rate |
| August | 4309.0 | 1.02 | 20554.0 | 2.47 |
| September | 13165.0 | 0.39 | 24671.0 | 3.87 |
| October | 12145.0 | 0.83 | 12021.0 | 3.18 |
| November | 9056.0 | 2.24 | 10369.0 | 2.36 |
| December | 11018.0 | 3.54 | 15533.0 | 0.96 |
| January | 11030.0 | 3.49 | 11256.0 | 1.22 |
| February | 12710.0 | 3.95 | 14541.0 | 2.48 |
| March | 9500.0 | 4.33 | 20075.0 | 2.84 |
| April | 18162.0 | 4.50 | 15654.0 | 1.97 |
| May | 13050.0 | 4.28 | 7970.0 | 3.52 |
| June | 18334.0 | 4.11 | 10245.0 | 1.77 |
| July | 20359.0 | 4.71 | 12862.0 | 2.13 |
| Total | 152838.0 | 3.39 | 175750.0 | 2.47 |

Interest Rate

1.85 The review year witnessed some changes in interest rate compared to the previous year. Commercial banks' minimum saving deposit rate remained higher than that of the previous year. Such a deposit rate increased to 2.0 percent in the review year from 1.75 percent last year. However, no changes appeared in the fixed deposit rate. Compared to last year, the weighted annual average discount rate for government securities and inter bank rate remained low in the review year. The weighted annual average interest rate of 91-day and 364-day TBs declined to 3.25 and 4.04 percent respectively in the review year from 3.94 and 4.79 percent last year. Accordingly, weighted annual average

Overall Macroeconomic Situation

inter bank rate stood at 2.13 percent as at mid-July 2006 compared to 4.71 percent as at mid-July 2005.

Refinance to Commercial Banks and Other Financial Institutions

1.86 Compared to the previous year, the outstanding refinance facilities provided by the NRB to commercial banks and other financial institutions declined by 11.4 percent in the review year. The outstanding loan under this facility, which stood at Rs 1.23 billion as at mid-July 2005 came down to Rs 1.10 billion as at mid-July 2006. Of the total outstanding amount, refinance to commercial banks stood at Rs 329.2 million as at mid-July 2006 compared to Rs 222.9 million as at mid-July 2005. Outstanding refinance facility used by ADB/N stood at 110.7 million as at mid-July 2006 compared to Rs 224.0 million as at mid-July 2005. Similarly, outstanding refinance to Nepal Industrial Development Corporation (NIDC) came down to Rs. 618.7 million at mid-July 2006 from Rs 773.4 million last year, because of repayment of some of the outstanding refinance loans. The use of refinance facility from the NRB by Rural Development Banks (RDBs) stood at Rs 100 million in the review year as in the preceding year. The outstanding refinance facility provided to Nepal Development Bank stood at Rs 27.3 million as at mid-July 2006.

Foreign Exchange Market

1.87 In 2005/06, NRB intervened 64 times in the foreign exchange market, which injected net liquidity of Rs 55.22 billion in the economy. A total purchase of the US dollar of Rs 55.88 billion and the sale of the US dollar of Rs 654.5 million were made in the review year. Last year, net liquidity of Rs 34.28 billion was injected through the sale of the US dollar of Rs 378.90 million and the purchase of the US dollar of Rs 3.62 billion. Compared to the previous year, a substantial growth of remittances in the review year contributed to the increase in net liquidity injection through interventions in the foreign exchange market.

Trend of Exchange Rate

1.88 The exchange rate of Nepalese currency vis-à-vis Indian currency remained constant in the review year. However, the exchange rate of Nepalese currency vis-à-vis other major international currencies depreciated. The exchange rate of Nepalese currency with the US dollar depreciated by 5.06 percent as at mid-July 2006 over mid-July 2004. Likewise, Nepalese currency depreciated by 8.94 percent with Sterling Pound, 9.42 percent with Euro and 1.56 percent with Japanese Yen in the review year.

Development Bond of Government of Nepal and Debentures

1.89 'Primary Issue and Secondary Market Management Regulations, 2004', a legal base for the sale of development bonds through auction in the primary market, has been in implementation since its approval by the government on 30 April 2004. Accordingly, development bonds of the GON worth Rs 3.0 billion were issued on auction basis in the primary market four times in 2004/05. In 2005/06 also development bonds worth Rs 750 million were issued through auctions in the primary market. The development bonds of lesser amount were issued in the review year, as the secondary market transactions in development bonds could not take place in the security market. In order to facilitate the secondary market transaction in development bonds issued on auction basis, the listing of these bonds in Securities Board of Nepal (SEBON) has been done and a provision has been made to conduct it through Nepal Stock Exchange Ltd. Total securities of the GON stood at Rs. 17.96 billion as at the end of 2005/06.

1.90 Total debentures of Rs 1.91 billion have been issued by commercial banks and NIDC mutual fund until mid-July 2006. Out of these debentures, debentures of Rs 1.51 billion have been listed in Nepal Stock Exchange Ltd.

Table 1 (H)
Debentures issued by the Private Sector

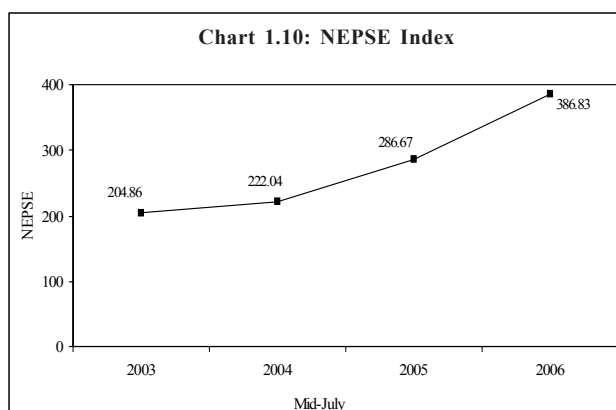
| Institutions | Date of Issue | Amount | Interest Rate | Rs. in million | |
|--|------------------|-------------|---------------|-----------------|--|
| | | | | Maturity Period | |
| Nepal Investment Bank Ltd | 25 March 2002 | 300 | 8.5 | 7 years | |
| Himalayan Bank Ltd | 25 March 2002 | 360 | 8.5 | 5 years | |
| Everest Bank Ltd | 29 November 2004 | 300 | 6.0 | 7 years | |
| Bank of Kathmandu Ltd | 7 September 2005 | 200 | 6.0 | 7 years | |
| Nepal Investment Bank Ltd | 30 May 2006 | 250 | 6.0 | 7 years | |
| Nepal Industrial and Commercial Bank Ltd** | 31 May 2006 | 200 | 6.0 | 7 years | |
| Nepal SBI Bank Ltd | 25 June 2006 | 200 | 6.0 | 7 years | |
| NIDC Mutual Fund | 6 June 2002 | 100 | 5.0* | - | |
| Total | | 1910 | | | |

*Dividend rate

**Yet to be listed

Share Market

1.91 The Nepal Stock Exchange (NEPSE) index reached 386.83 as at mid-July 2006 increasing by 100.16 percentage points over 286.67 as at mid-July 2005. Increasing remittance inflows, attraction to investment in securities due to the lower real rate of interest on deposits, lack of alternative investment opportunity in the economy and increasing investment in the share of financial institutions on the expectation of likely increase in profit and value of the share of these institutions in future accounted for the increase in NEPSE index in the review year.



1.92 The number of companies listed in Nepal Stock Exchange Limited reached 135 as at mid-July 2006 compared to 125 as at mid-July 2005. The paid-up capital of these companies increased by 19.0 percent to Rs 19.96 billion as at mid-July 2006 from Rs 16.77 billion as at mid-July 2005.

1.93 The market capitalization increased by 57.7 percent to Rs 96.76 billion as at mid-July 2006 from Rs 61.37 billion as at mid-July 2005. The ratio of market capitalization to GDP increased to 16.6 percent at the end of the review year from 11.5 percent last year. Similarly, the ratio of paid-up capital to GDP, which was 3.1 percent last year, reached 3.4 percent in the review year.

Financial Institutions

Number of Financial Institutions

1.94 Total number of financial institutions stood at 218 in mid-July 2006. These included 18 commercial banks ('A' class financial institutions), 29 development banks ('B' class financial institutions), 70 finance companies ('C' class financial institutions), 11 micro-credit development banks ('D' class financial institutions), 19 credit cooperatives licensed by the NRB to undertake limited financial transactions, and 47 Non-government Organizations (NGOs) licensed by the NRB to undertake micro-credit transactions. In addition, Employees' Provident Fund (EPF) and Citizens Investment Trust (CIT), and 21 insurance companies were in operation. Some office of Postal Savings Bank provided limited banking services.

Table 1 (I)

Number of Financial Institutions

| | 2005 (Mid-July) | 2006 (Mid-July) |
|--|--------------------|--------------------|
| Commercial Banks (A class) | 17 | 18* |
| Development Banks (B class) | 26 | 29 |
| Finance Companies (C class) | 60 | 70 |
| Micro-credit Financial Institutions (D class)** | 11 | 11 |
| Credit Cooperatives*** | 20 | 19 |
| Non-government Organization | 47 | 47 |
| Insurance Companies | 19 | 21 |
| Employees Provident Fund | 1 | 1 |
| Citizens Investment Trust | 1 | 1 |
| Postal Savings Bank Offices | 117 | 117 |

* Including the Agriculture Development Bank

** Including the Rural Development Banks

*** Licensed by the NRB to conduct limited banking transactions.

1.95 In 2005/06, the NRB's share in total assets and liabilities of financial institutions increased due to the increase in the NRB's foreign exchange reserve resulting from the large surplus in BOP. The share of commercial banks remained the highest as in the previous year. Though a decline in the share of development banks was observed due to the conversion of ADB/N into commercial bank, no change was recorded for the share of cooperatives and micro-credit institutions. However, the share of contractual savings institutions increased in the total assets/liabilities of financial institutions because of the increase in resource mobilization of EPF and insurance companies.

1.96 The ratio of total assets/liabilities of financial institutions and contractual saving institutions to GDP remained at 119.9 percent in mid-July 2006. Including the market capitalization of listed shares in the Nepal Stock Exchange, the ratio stood at 136.5 percent.

1.97 The share of commercial banks in the total assets/liabilities of the financial system was 54.8 percent, the highest among all. Such shares of the NRB, EPF, finance companies, development banks and insurance companies were 24.3 percent, 7.4 percent, 5.6 percent, 1.5 percent, and 3.7 percent respectively.

Commercial Banks

Sources of Funds

1.98 Assets/liabilities of the commercial banks increased by 10.9 percent to Rs. 377.72 billion in the review year. Such increase was 10.2 percent last year. In the sources side, general reserve fund witnessed a decline despite the huge rise in total deposits. And in the uses side, banking sector's claims over the non-financial government enterprises declined significantly along with a decline in growth rate of the private sector credit, notwithstanding the large increase in the liquid fund. These factors affecting the sources and uses together accounted for the marginal increase in the assets/liabilities of commercial banks. A huge amount of

Overall Macroeconomic Situation

Table I(J)
Financial Structure

(Rs. in million)

| | Mid-July 2005 | | | Mid-July 200 | | |
|---|-----------------------------|--------------------------------|---|---------------------------------|---------------------------------|--|
| | Total Assts/ Liabilities | Percentage Shar in Total | Ratio of Total Assts to GDP (in %) | Total Assets/ Liabilities | Percentage Share in Total | Ratio of Total Assets to GDP (in %) |
| Financial institutions | 580498.0 | 89.3 | 108.8 | 605769.0 | 87.9 | 103.9 |
| Nepal Rastra Bank | 142824.0 | 22.0 | 26.8 | 167577.0 | 24.3 | 28.7 |
| Commercial Banks | 340633.0 | 52.4 | 63.8 | 377716.0 | 54.8 | 64.8 |
| Finance Companies | 30515.0 | 4.7 | 5.7 | 38841.0 | 5.6 | 6.7 |
| Development Banks* | 57815.0 | 8.9 | 10.8 | 10611.0 | 1.5 | 1.8 |
| Cooperatives | 2411.0 | 0.4 | 0.5 | 2834.0 | 0.4 | 0.5 |
| Micro-credit Financial Institutions | 6300.0 | 1.0 | 1.2 | 8190.0 | 1.2 | 1.4 |
| Contractual Savings Institutions | 69210.0 | 10.7 | 13.0 | 83440.0 | 12.1 | 14.3 |
| Employees Provident Fund | 45130.0 | 6.9 | 8.5 | 51060.0 | 7.4 | 8.8 |
| Citizen Investment Trust | 5830.0 | 0.9 | 1.1 | 6850.0 | 1.0 | 1.2 |
| Insurance Companies | 18250.0 | 2.8 | 3.4 | 25530.0 | 3.7 | 4.4 |
| Total | 649708.0 | 100.0 | 121.8 | 689209.0 | 100.0 | 118.2 |
| Nominal GDP | 533530.0 | | | 582948.0 | | |
| Ratio of Stock Market Capitalization to GDP (%) | | 11.6 | | | 16.6 | |

* Excluding Agriculture Development Bank and Nepal Industrial Development Corporation in 2005/06.

write-off consisting of Rs. 3.76 billion principal and Rs. 8.32 billion interest by NBL mainly accounted for the marginal growth rate in the assets and liabilities of commercial banks.

1.99 Total deposit of commercial banks increased by 16.0 percent and reached Rs. 290.43 billion in mid-July 2006. Such increase was 7.7 percent in the preceding year. Total deposit to GDP ratio increased to 49.8 percent from 46.9 percent last year. Demand deposits, savings deposits, and fixed deposits increased by 8.1 percent, 16.6 percent and 18.2 percent compared to their growth of 3.3 percent, 13.9 percent and 1.0 percent respectively last year. Of the total deposits, fixed deposit remained at Rs. 99.48 billion registering a share of 34.3 percent in the total deposits. Last year, fixed deposit with commercial banks was Rs. 84.14 billion. Surge in remittances has been the main cause for the expansion in the deposit of commercial banks.

1.100 In the review year, borrowing of the commercial banks from the NRB decreased by Rs. 1.39 billion compared to an increase of Rs. 1.25 billion last year. A significant rise in the liquid fund of commercial banks on account of the high remittances resulted in the contraction on the commercial banks' borrowings.

1.101 Foreign liabilities of the commercial banks declined by 72.1 percent to Rs. 7.7 million in the review year from Rs. 27.6 million a year ago. Foreign currency deposit with commercial banks increased by 16.4 percent compared to a meager increase of 1.8 percent last year. Likewise, other liabilities of the commercial banks decreased by 1.7 percent in the review year compared to a growth of 16.9 percent in

the preceding year. This is due to the marginal increase in the paid up capital and a large decline of Rs. 5.31 billion (35.9 percent) in the general reserve in the review year compared to a rise of Rs 1.03 billion (7.5 percent) in the preceding year.

Uses of Funds

1.102 Liquid fund of commercial banks increased by 22.8 percent in the review year as against a decline of 0.3 percent in the preceding year. Out of the various components of liquid funds, cash fund increased by 23.8 percent compared to an increase of 11.4 percent in the preceding year. Commercial banks' cash reserve with the NRB increased by 13.2 percent compared to a decline of 16.5 percent last year. Commercial banks' balance abroad increased by 30.6 percent to Rs. 7.36 billion compared to a 15.6 percent (Rs. 3.25 billion) increase last year. And cash in transit increased by 32.5 percent compared to an increase of 24.3 percent in the preceding year.

1.103 Commercial banks disbursed loans and advances amounting to Rs. 26.10 billion in the review year compared to such disbursement of Rs. 32.63 billion last year. Of the components of loans and advances, commercial banks claim against the GON increased by 20.4 percent to Rs. 58.46 billion in mid-July 2006 compared to an increase of 10.9 percent last year. However, the growth rate of total loans and advances decelerated to 10.0 percent compared to a growth of 14.3 percent last year. The lower growth was mainly attributable to a large decline in the credit disbursement to both non-governmental entities and the private sector.

Commercial banks claim on non-financial governmental enterprises declined by 32.1 percent (Rs. 2.11 billion) compared to an increase of 125.6 percent (Rs. 3.65 billion) in the preceding year.

1.104 Commercial banks credit to the private sector increased by 9.2 percent compared to an increase of 14.6 percent last year. In mid-July 2006, claims on private sector stood at Rs. 211.11 billion (principal Rs. 175.02 billion, and interest Rs. 36.09 billion), compared to Rs. 193.27 billion a year ago. The lower rate of credit growth to the private sector was attributable mainly to the internal strife, political instability, cautious approach of commercial banks in lending, and the loan recovery drive adopted by RBB and NBL. In addition, the loan write off by NBL at the end of the fiscal year also contributed to lower the credit growth rate.

Non-Performing Loans of Commercial Banks

1.105 The review year also observed some improvements in the non-performing loans (NPLs) of commercial banks as the NPLs came down to 14.2 percent in mid-July 2006 from 18.7 percent in mid-July 2005. The level of NPL has significantly come down in NBL from 49.0 percent a year ago to 25.1 percent as at mid-July 2006, resulting in a lower NPL of the financial system as a whole. As mentioned earlier, NBL wrote off Rs. 3.76 billion principal and Rs. 8.32 billion interests at the end of 2005/06.

Table 1(K)
Non-performing Loans of Commercial Banks

(In percent)

| SN | Commercial banks | 2004/05 | 2005/06 |
|----|--|---------|---------|
| 1 | Nepal Bank Limited | 49.0 | 25.1 |
| 2 | Rastriya Banijya Bank | 50.7 | 45.3 |
| 3 | NABIL Bank Limited | 1.3 | 1.3 |
| 4 | Nepal Investment Bank Limited | 1.6 | 2.3 |
| 5 | Standard Chartered Bank Limited | 2.7 | 2.1 |
| 6 | Himalayan Bank Limited | 11.3 | 6.1 |
| 7 | Nepal SBI Bank Limited | 7.1 | 6.3 |
| 8 | Nepal Bangladesh Bank Limited | 12.3 | 12.3 |
| 9 | Everest Bank Limited | 1.6 | 1.2 |
| 10 | Bank of Kathmandu Limited | 7.4 | 2.5 |
| 11 | Nepal Credit and Commerce Bank Limited | 8.6 | 11.1 |
| 12 | Lumbini Bank Limited | 14.7 | 32.0 |
| 13 | Nepal Industrial and Commercial Bank Limited | 3.8 | 2.6 |
| 14 | Machhapuchhre Bank Limited | 0.4 | 0.3 |
| 15 | Kumari Bank Limited | 1.1 | 0.9 |
| 16 | Laxmi Bank Limited | 1.6 | 0.7 |
| 17 | Siddhartha Bank Limited | 2.5 | 1.3 |
| 18 | Agriculture Development Bank Limited | NA | 21.2 |
| | Total | 18.7 | 14.2 |

Development Banks (Including ADB/N)

1.106 Government owned Agricultural Development Bank (ADB/N) has been playing a leading role in the sphere of development banking. On the development side, loan disbursement and loan recovery of the bank were Rs. 12.68

billion and Rs. 12.00 billion respectively in the review year (Table 1.18). At the end of the review year, total outstanding loan of the bank stood at Rs.21.85 billion. ADB/N is registered as limited company and acquired the status of 'A' class financial institution (commercial bank) in 2005/06. As at mid-July 2006, total assets/liabilities of all 'B' class financial institutions excluding ADB/N and NIDC stood at Rs. 10.61 billion. In the review year, total deposit mobilization of these institutions was Rs. 8.27 billion while total loan and investment stood at Rs. 6.60 billion.

Finance Companies

1.107 In the review year, total funds of finance companies increased by Rs. 8.32 billion and stood at Rs. 38.84 billion at mid-July 2006 (Table 1.19). Last year, total funds of these companies had increased by Rs. 3.32 billion. Deposits mobilization, the major source of funds of finance companies, increased by Rs. 4.98 billion to Rs. 27.32 billion at the end of 2005/06. Last year, total deposits mobilization had increased by Rs. 2.95 billion. Similarly, capital funds of the companies stood at Rs. 4.31 billion. In the review year, total borrowings of these companies stood at Rs. 1.16 billion compared to Rs. 0.99 billion last year.

1.108 On the uses side of total funds of finance companies, loans and advances increased by Rs. 5.83 billion to Rs. 27.06 billion at mid-July 2006. In the review year, investment of the companies increased by Rs. 0.33 billion to Rs. 2.74 billion. Likewise, liquid assets of these companies stood at Rs. 5.39 billion as at mid-July 2006.

'D' Class Financial Institutions Performing Microfinance Transactions

1.109 Total assets/liabilities of 'D' class financial institutions (including RDBs) licensed by the NRB for microfinance activities stood at Rs. 8.20 billion as at mid-July 2006. In the review year, total deposit mobilization of these institutions was Rs. 0.93 billion while total loan and investment was Rs. 4.30 billion.

Financial Cooperatives

1.110 Total capital fund of the cooperatives with limited banking activities stood at Rs. 324 million as at July 2006 compared to Rs. 278 million as at mid-July 2005 (Table 1.21). Similarly, total deposit mobilization of such cooperatives increased to Rs. 1.99 billion while their borrowing was Rs. 64 million in the review year. Loans and advances of these cooperatives increased to Rs. 1.65 billion in the review year. These cooperatives invested Rs. 162 million in government securities, fixed deposits and other sectors together.

Insurance Companies

1.111 Annual premium collection of insurance companies stood at Rs.7.08 billion at mid-July 2006 compared to Rs. 5.85 billion last year. Similarly, investment of insurance companies increased to Rs. 18 billion at mid-July 2006 compared to Rs. 15 billion as at mid-July 2005. Total assets/liabilities of the insurance companies increased by 40.0 percent to Rs. 25.53 billion in the review year.

Employees' Provident Fund

1.112 Employees' Provident Fund (EPF) mobilizes provident fund of civil servants, armies, police, teachers and employees of corporations and some private companies. In the review year, total assets/liabilities of EPF increased by 13 percent and stood at Rs. 51.06 billion as at mid-July 2006 compared to Rs. 45.13 billion as at mid-July 2005. Provident fund contribution, which assumes major share in the liability side of the fund, increased by 13.3 percent and stood at Rs. 48.18 billion as at mid-July 2006 compared to Rs. 42.51 billion as at mid-July 2005.

Citizen Investment Trust

1.113 Total assets/liabilities of Citizen Investment Trust (CIT) increased by 17.4 percent in the review year and stood at Rs. 6.85 billion as at mid-July 2006 compared to

Rs. 5.83 billion as at mid-July 2005. Fund mobilization, which assumes major share in the liability side of CIT, increased by 21.0 percent to Rs. 6.38 billion in the review year compared to Rs. 5.27 billion last year. On the assets side, investment of the trust increased by 43.4 percent to Rs. 5.19 billion at the end of the review year compared to 3.62 billion last year.

Postal Savings Bank

1.114 Deposit collecting offices of Postal Savings Bank remained unchanged at 117 in the review year. Total deposit collection of such offices increased to Rs. 395.2 million as at mid-July 2006 from Rs. 158.3 million as at mid-July 2005. Of the total deposits, lending to post office employees by 49 investment offices of the bank stood at Rs. 278.3 million as at mid-July 2006.

PART

II



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Activities of Nepal Rastra Bank

Monetary Policy of 2005/06

Monetary Policy Stance

2.1 As per the NRB Act 2002, NRB formulated and implemented the monetary policy of 2005/06. The monetary policy was formulated on the background of economic, monetary and financial situation of 2004/05, by attaching the importance of opening up the external sector and the likely developments in domestic and external economies. The pegged exchange rate regime with Indian currency was taken as a nominal anchor. A cautious monetary policy stance was adopted considering sluggish economic activities, pressure on inflation and need for the consolidation of financial sector stability.

Objectives

2.2 An inflationary pressure was expected in 2005/06 on account of possibility of hike in petroleum price and supply side bottlenecks. However, a positive effect on Nepal's inflation was assumed from the tight monetary policy adopted by the central banks in the global level, globalization and growth in productivity. Accordingly, average inflation rate of 5 percent was estimated for 2005/06. But, earlier inflation estimation was revised in the mid-term review of monetary policy, considering frequent hike in petroleum prices and subsequent rise in price of transportation and communication sector. In 2005/06, prices of petroleum products were hiked two times (19 August 2005 and 17 February 2006) by an average rate of 35.7 percent. Subsequently, transportation fares were revised upwards by 25.0 to 28.0 percent in February 2006. As a consequence, average inflation stood at 8.0 percent in the review year.

2.3 Maintaining the necessary surplus in BOP was the second objective of monetary policy of 2005/06. Due to excessive inflow of remittance, BOP in 2005/06 remained higher than initially targeted.

2.4 Against the background of sluggish economic activities, monetary policy was directed at facilitating the economic activities without the prejudice to the primary goal. In line with the monetary policy aimed at directing more and more credit to private sector by limiting the growth of credit to the government at a lower rate of 10.8 percent to

facilitate the economic growth of 4.0 to 4.5 percent. However, the economic growth remained very low in 2005/06 owing to adverse weather condition and difficult political situation.

Intermediate Target

2.5 In consonance with the pegged exchange rate regime, targets for monetary aggregates were set. Broad money was estimated to grow by 13.0 percent in 2005/06 compared to a growth of 12.0 percent in 2004/05. Although economic growth was expected to be higher than the previous year, in order to avoid the pressure on inflation, M1 was projected to grow just marginally higher than the growth of the previous year. Compared to a growth of 11.2 percent in 2004/05, M1 was estimated to grow by 12.0 percent in 2005/06. Of these two types of monetary aggregates, M2 was taken as intermediate target of monetary policy. Monetary aggregates remained higher than the targets on account of higher inflow of remittance.

2.6 Domestic credit was projected to grow by 15.4 percent in 2005/06 compared to a growth of 14.2 percent in 2004/05. Of the components of domestic credit, credit flow to government was estimated to be Rs. 4.80 billion in 2005/06 compared to Rs. 3.50 billion last year. Such an increase in claims on government, marginally higher than the previous level, was estimated on the expectation that capital expenditure of the GON would not be high. However, the government used a higher amount of bank credit than the amount estimated owing to unexpectedly low revenue mobilization.

Operating Target

2.7 Excess reserves of commercial banks was continued as an operating target of monetary policy of 2005/06. This system was introduced in 2004/05. Liquidity Monitoring and Forecasting Framework (LMFF) was continued as a guide to manage the excess liquidity of the commercial banks as the operating target of the monetary policy. This framework, introduced last year, has reflected the liquidity situation of commercial banks accurately and remained helpful for its management and maintaining stability in financial and money market. The review year also continued the use of this framework. The year 2005/06 witnessed excess liquidity with the commercial banks in most of times. Low private sector credit off take compared to growth of deposit

resulted in such a high liquidity condition in the review year.

Monetary Policy Instruments

Bank Rate and Refinance Rate

2.8 The monetary policy of 2005/06 also maintained the practice of signalling ex-ante monetary policy stance through the bank rate. The bank rate was increased from 5.5 percent to 6.0 percent in order to anchor inflationary expectation. The stance was also reflective of concern on the external sector front. A provision of providing liquidity to commercial banks at the bank rate was made in case of a shortage of liquidity. The bank rate was further increased by 0.25 percentage point to 6.25 percent in the mid-term review of the monetary policy.

2.9 Refinance rates were also adjusted in line with the rise in the bank rate. Refinance rate for export credit and agriculture credit was revised upward to 3.5 percent from 3.0 percent while the rate for foreign currency loans was maintained at 3.25 percent which was effective from May 31, 2005. There was no change in sick industries refinance rate of 1.5 percent, for which commercial banks and development banks were not allowed to charge more than 4.5 percent for the concerned borrowers.

Table 2 (A)

Change in Bank Rate and Refinance Rates (in percent)

| Bank Rate and Refinance Rates | 2004/05 | 2005/06 |
|--|---------|---------|
| Bank Rate | 5.5 | 6.25 |
| Export and Agriculture Credit in Domestic Currency | 3.0 | 3.5 |
| Export Credit in Foreign Currency | 2.0 | 3.25 |
| Sick Industries Loans | 1.5 | 1.5 |

Cash Reserve Ratio

2.10 Since the past few years, a policy of reducing cash reserve ratio (CRR) has been adopted to increase the financial intermediation by lowering the intermediation cost of commercial banks. However, it remained unchanged at 5.0 percent considering the pressure and risk on price and external sector stability.

Sick Industry Refinance

2.11 NRB has made the provision of sick industry refinance facility in order to help revitalize the sick industries since 2001/02. In the last five years, 151 hotels and 41 industries, used a total of Rs. 3.0 billion sick industry refinance facility on turnover basis. In 2005/06, Rs 461.0 million was provided as a sick industry refinance.

Open Market Operations

2.12 The implementation strategy of open market operation (OMOs) was changed in the monetary policy of 2004/05. Depending on the situation of objectives of monetary policy and the outcome of LMFF, a provision of conducting OMOs on auction basis through the initiation of NRB was introduced as an important short-term monetary instrument. Accordingly, open market instruments like

outright sale auction, outright purchase auction, repo auction and reverse repo auction were introduced. Outright sale auction and outright purchase auction have the objective of mopping up and injecting liquidity for the medium term. To inject and absorb short-term liquidity (one day to 7 days), the repo and reverse repo auctions were introduced. In the process of using these instruments in OMOs, a total of Rs. 13.51 billion was mopped up, on turnover basis, through outright sale auctions and a total of Rs. 830 million was injected through outright purchase auctions in 2005/06. Likewise, repo auctions injected liquidity of Rs. 450 million and reverse repo auctions mopped up the liquidity of Rs. 0.65 billion.

Table 2 (B)

Secondary Market Operations

| | In million | |
|---------------------------|------------|---------|
| | 2004/05 | 2005/06 |
| Outright Purchase Auction | 1310 | 830 |
| Outright Sale Auction | 1500 | 13510 |
| Repo Auction | 6688 | 450 |
| Reverse Repo Auction | 5270 | 650 |

Standing Liquidity Facility

2.13 The amount of borrowing by commercial banks under SLF declined to Rs. 9.88 billion in 2005/06 from Rs. 49.31 billion in 2004/05. The maturity period of SLF was lowered from 5 days to 3 days with the objective of preventing the commercial banks from misusing this facility. Such a reduction in maturity period accompanied with an increase in inter bank transactions lowered the use of SLF in the review year. The limit for SLF facility was determined as usual on the basis of holdings of the amount of TBs and DBs of the GON by the individual commercial banks.

Financial Sector Reform Programme

2.14 Financial sector reform programme has been taken as one of the major components of economic reform programme in Nepal. The programme has been implemented with the grant and loan assistance of the World Bank and Department for International Development (DFID) of the UK government and the help of the GON. The reform programme includes: reengineering of NRB, restructuring of NBL and RBB, and capacity building of financial sector.

Reengineering of Nepal Rastra Bank

2.15 Reengineering of NRB includes the programmes of human resource development, strengthening the regulatory and supervision ability, restructuring of organizational structure based on the functions, mechanization of the bank, standardization of auditing and accounting system of the bank as per international standard and simplifying the bank's functions.

2.16 Human resource (HR) development plan was implemented in order to obtain an appropriate level of

manpower; enhance their capacity and efficiency, and appoint, promote and train professional manpower in the organization. Organizational set-up of the bank was restructured based on the nature of the work, and new personnel by-regulation was also introduced. Further, an international expert from Sri Lanka was appointed as an international HR advisor to the bank.

2.17 Experienced and competent supervisors were appointed in the process of improving supervisory and inspection capacity of the bank. Existing manpower of the bank was trained on 'risk analysis of financial institutions'. Seven international consultants were appointed out of whom four were placed as bank examiners, two as non-bank examiners and one as off-site supervisor at the supervision department. Out of seven, five consultants took up their duty and submitted inception report after one month of their job assignment in the bank. The bank has accepted their inception report. In place of the two absentees, the bank has interviewed the two new proposed consultants.

2.18 Separate directives were issued for improving and maintaining transparency in the accounting system of the bank and financial institutions. A list of appropriate and skilled auditors was prepared and a provision was made to timely accomplish the auditing. Likewise, provision was made for auditing the NRB's account by Office of Comptroller General and international auditors. As advised by the WB, a group of seven auditors from within the bank was formed in order to improve its auditing standard. The group has started to work since 1 February 2006. The group submitted Inception Report, Preliminary Draft of Proposal, Budget Chart, Chart of Accounts and General Observation Report as mentioned in TOR.

2.19 Bank has started information technology (IT) system for collection, compilation and dissemination of the information. In this process, an IT expert was appointed as IT advisor. As advised by the IT advisor, staffs of the bank working as domain expert were trained on 'pre-procurement' by IT trainer. Contract with them was made on slot basis. As per the first slot of the contract, the IT advisor submitted a 'Bid Specification Document' in the bank and necessary steps were taken to finalize it.

2.20 In order to retain appropriate level of staffs in the bank and uplift their efficiency and capacity in the organization, staffs of different departments, as per the nature of the departmental functions, were sent on foreign training in financial assistance of the World Bank. 82 personnel including both officer and non-officer level received foreign training.

2.21 As per the provision of sub-article (2) of article 110 of NRB Act 2002, 'NRB Personnel Service by-Regulation 2002' was made effective from 16 July 2005 by replacing the 'NRB Personnel by-Regulation 1992' enacted as per the NRB Act, 1955.

Restructuring of Nepal Bank Limited

2.22 Under the financial sector reform programme of the GON, the management of NBL has been handed over to the

management team of ICC Consulting firm from Bank of Scotland (Ireland) since 22 July 2002. The contract has been extended for further two years to 21 July 2007.

2.23 The management team has completed the audit of the bank up to 2005, which had not taken place for the last three years. In 2004/05, the bank earned net profit of Rs 1.31 billion and according to un-audited financial report of the bank, such profit stood at Rs 728.0 million in 2005/06. In order to mechanize its functions, the bank has installed LIVE NEWTON system in its 44 branches until 2006.

2.24 The management team has introduced and implemented HR development plan, management plan and skill enhancement plan for the bank's reform. The purchase of necessary computer hardware and software was completed to carry out 80 percent transactions of the bank through the mechanized process. Credit policy, credit guidelines and asset/liability management guidelines of international standard were formulated and implemented. The review of loan portfolio of the bank was accomplished, and the function of loan recovery and restructuring was continued. Credit manuals, credit recovery guidelines and problematic loan guidelines were formulated in order to follow modern system of credit management and accordingly, various departments and units were formed for this purpose.

2.25 Within the period of four years, the management team has recovered around Rs 7.49 billion amount of non-performing loan and has been making an effort to recover and reschedule the loan taken by big borrowers. Though the recovery status is not satisfactory, the management team is making concerted effort for it. Likewise, the process of bank rationalization was initiated and voluntary retirement scheme (VRS) was introduced in order to retain the appropriate level of manpower in the bank. Through this process, the total personnel of the bank were retrenched to 2,960 from the existing level of 6,322.

Restructuring of Rastriya Banijaya Bank

2.26 A foreign consultant appointed as a CEO for restructuring of RBB initiated its work since 16 January 2003. The team for restructuring of the bank was formed from domestic and foreign consultants under the leadership of the CEO, the contract of whose was renewed for next two years effective from 16 January 2006, as the contract period ended on 15 January 2006 to continue the restructuring process of the bank.

2.27 The team has formulated and implemented the management plan, budget plan, accounting and auditing manuals, and a new credit policy in the bank. The management has completed the auditing of the bank up to 2004/05 and has submitted the audit report. According to the audited financial report, the bank earned a net profit of Rs 1.32 billion in 2004/05, whereas un audited financial report of the bank showed net profit of Rs 1.69 billion in 2005/06. The management team was able to recover the non-performing loan of Rs 8.5 billion. In order to retain the

manpower at appropriate level, a VRS was introduced, which reduced the manpower from existing number of 5,422 to 3,301. Mechanization of the banking transactions was completed in 15 branches and necessary equipments were sent in other branches for this purpose.

2.28 One of the components of various programs under financial sector restructuring projects was to restructure two big banks, NBL and RBB, under which, a process was initiated to appoint a 'Bank Restructuring Advisor' for their privatisation.

Capacity Enhancement of the Financial Sector

2.29 Registration as a company and mechanization of Credit Information Bureau was completed for enhancing the capacity of overall financial sector. A draft of act relating to the establishment of 'Asset Management Company' was submitted to the GON. Establishment of a training centre for enhancing the capacity of personnel in bank and financial institution was initiated.

2.30 A draft of Anti-money Laundering Ordinance was submitted to the GON. Secured Transaction Ordinance 2005 relating to the registration and collateralisation of property other than house and land was put in place. Accordingly, the bankruptcy act has also been in effect. The need of banking fraud control act, merger and acquisition act, anti-money laundering act, credit rating agency act has been felt and the work has been initiated to draft these acts. Thus, some acts were enacted and some acts were being drafted. These all have made legal framework of financial sector more strong and developed.

2.31 Bank and Financial Institution Ordinance (BAFIO) was made effective from 2005 by scraping various acts governing bank and financial institutions. BAFIO was again promulgated in 2006 with further amendment and refinement through the omission of weaknesses and incorporation of other necessary arrangements in it.

2.32 A need for legal provision was felt to declare a company insolvent or likely insolvent in the event of its inability to pay the loan or passing through economic difficulties. In this context, an 'Insolvency Act' was prepared and submitted to the GON. The Act has been effective since 23 September 2005.

2.33 In order to promote optimum economic activities and thereby achieve economic development, a draft of 'Secured Transaction Act' relating to the unification of the rules for assuming the liabilities of tangible and intangible assets was submitted to the GON. This Act has been effective since 23 September 2005.

2.34 Draft of anti-money laundering act, required to control illegal activities such as corruption, supply of drug, girls-trafficking, supply of ammunition etc and the Laundering of money through the use of banking channels, was submitted to the GON incorporating the suggestions made by an evaluation team of 'Asia Pacific Group on Money Laundering'.

2.35 A draft of micro-credit and co-operative act was under preparation in order to govern micro-credit institutions and co-operatives by a single umbrella act.

2.36 A draft of legal provision necessary to control fraud in the financial sector was submitted to the GON.

Regulation, Inspection and Supervision of Banks and Financial Institutions

Regulation of Banks and Financial Institutions

Grievance Hearing Cell

2.37 Grievance Hearing Cell (GHC) was formed under the coordination of senior Deputy Governor of NRB on 24 April 2005 to hear the complaints of banks and creditors. To operate the cell with greater efficiency and to ensure that none of the bank or creditor is mistreated while carrying out transactions, the GON, as per the cabinet decision of 28 December 2005, provided advisory support of two external advisors for six months to the GHC. Of the total 221 cases registered in the GHC in the review year, hearing of 183 cases was completed and thus decisions were taken.

2.38 The activities of GHC have helped resolve the problems that arise between banks and its clients. This has further helped reduce the problems related to recovery and restructuring of loans.

Unified Directives

2.39 A unified directive was issued to all commercial banks and financial institutions licensed by NRB on 16 July 2005 in place of different directives issued earlier to commercial banks, development banks, finance companies and micro finance banks.

2.40 Effective from 2005/06, financial institutions falling in A, B and C- class were required to maintain capital funds of 12 percent of their risk-adjusted assets. The required core capital of these institutions was set at least 6 percent of such assets. In 2004/05, these institutions were required to maintain their capital fund at 11 percent of risk-adjusted assets, 5.5 percent of which was to be the core capital. As per the new provision, institutions categorised in D-class should maintain a capital fund of 8.0 percent of their risk-adjusted assets, 4.0 percent being the core capital. Last year, these institutions were required to maintain a capital fund of 6.0 percent of the risk-adjusted assets, 3.0 percent of which being the core capital. The sub-categories of core capital and supplementary capital were redefined. In case of shortage of capital funds, a new provision to submit capital fund planning and programs along with the recommendation of the meeting of Board of Directors within 35 days was introduced. The new provision has barred the financial institution from distributing dividends and bonus shares in the event of inadequacy of capital fund.

2.41 A new provision was introduced to include credit card loans as loan and classify one-year-working-capital-loan as pass loan if accrued interest was paid and renewed.

While the definitions of restructuring and reclassifying were included, the definitions of term loan and credit misuse were revised. As per the new provision, the financial institutions could write back restructured and reclassified loans from loan loss provisioning if principal and interest payment of such loan was regular for two years. Financial institutions, however, were barred from showing such amount as profit and distributing dividends and bonus shares.

2.42 Micro-credit limit was increased to Rs. 40 thousand from 30 thousand. As per the new provision, in case the size of micro credit loan exceeded the stipulated limit, the financial institution should make a hundred percent loan loss provisioning for the additional amount. Earlier, institutions were required to increase the capital in such cases. The sectoral credit limit for development banks and finance companies was withdrawn and a new provision on customer credit limit was introduced. However, such limit would not be applicable on loans provided to Nepal Oil Corporation (NOC) and Nepal Food Corporation (NFC).

2.43 The financial statements of commercial banks, development banks and finance companies were standardized. Accounting procedure of balance sheet and profit and loss accounts was modified. As per the new provision, balance sheet, profit and loss accounts, change in share capital and cash flows should be reflected in the front page. While emphasis was given on the preparation of accounts in line with Nepal standard and international standard, higher importance was given to disclosure requirements. Institutions were required to show the interest income from loans on a cash basis.

2.44 A new provision was added forbidding a director of any deposit taking institution to become a director of another financial institution licensed by NRB. Chief Executive / Directors were entrusted with greater responsibility, and a higher stress was given to self-regulation. While an employee of an institution licensed by NRB was forbidden to become a director of another NRB-licensed institution, an individual, firm or an associate was prohibited to work as internal as well as external auditor of the same institution.

2.45 Considering the importance of time frame in communication, the duration of financial reporting to NRB was brought down to 30 days from 45 days.

2.46 Share investment limit of the C-class financial institutions in all organized institutions was raised to 50 percent of the core capital from existing limit of 30 percent. If investment was made on the institutions with financial interest, then such investment would be reduced from the core capital.

2.47 As per the new provision, financial institutions were required to send liquidity statements by 7 days and other statements by 15 days, and in case of failure to meet the deadline, a new provision to fine such institutions was introduced. Regarding the provision on sectoral credit limit, minor modification was made and the new provision of self-monitoring was introduced.

2.48 In case of purchase and sale of shares among the promoters, and ownership transfer of share to nominee in case of death of a promoter, the provision to ask for approval from NRB was withdrawn.

2.49 Provisions to classifying defaulters as wilful or non-wilful by banks and financial institutions and making recommendation to seize passport of wilful defaulters were introduced. Similarly, a provision was also added to defer, by the board of directors, blacklisting of a non wilful defaulter for one year who could not repay loan because of adverse circumstance.

2.50 Financial Institutions of Class A, B and C operating current account deposits were directed to maintain 5 percent CRR. Financial Institutions of Class B and C that do not operate current account deposits were directed to maintain 2 percent CRR. As against the earlier provision to consider weekly average deposit of the fourth week prior to the date of measurement, a new provision was introduced to consider weekly average deposit of the second week prior to the date of measurement while calculating CRR. The report of CRR should be sent to NRB within the seven days from the weekend.

2.51 While D-class institutions were allowed to open branches within their region, other institutions which meet the required paid up capital could open branches according to their financial planning. New policy was announced for financial institutions of A, B or C - class, allowing them to open a branch inside Kathmandu Valley after opening a branch outside the Valley.

2.52 A variation up to 0.5 percent on published interest rate on deposits is allowed. A new provision has been made allowing publication of financial statements of regional level institutions in regional/district level papers. A new provision was added disallowing the treatment of accrued interest as interest income unless it was realized on cash.

2.53 New directive has fixed the limit of corporate deposit collection. Financial Institutions of Class B, C and D were allowed to collect financial resource up to 20 times, 15 times and 30 times of their core capital respectively. In case of resource mobilization more than the stipulated limit, it should be brought under the limit within three months. In case of failure to bring the financial resources under limit, the financial institutions would be restricted to declare and distribute dividends, and should raise additional financial resources. Those institutions fulfilling the conditions could issue debentures up to 50 percent of the core capital to raise the financial resources. Notice of deposits/ dividends, unclaimed for a specific time period, should be published. Such deposits/ dividends should be transferred to a separate account as specified by NRB if remained unclaimed even after publishing the notice.

2.54 Considering the difficulties observed during the implementation of unified directives to banks and financial institutions, NRB has made several revisions, amendments, and additional provisions in the directive.

Know Your Customer

2.55 The following guidelines were issued regarding the concept of 'Know Your Customer (KYC)', as NRB felt the importance of issuing guidelines to commercial banks and financial institutions:

- a. As the major objectives of introducing KYC concept was to prevent money-laundering, banks and financial institutions should focus on customer acceptance procedure, identification of a customer, monitoring the transactions of the customer and risk management while preparing guidelines on KYC. A separate staff should be deputed to carry out such functions.
- b. While opening accounts for a customer, providing loan to a customer, preparing draft, telegraphic transfer (TT), mail transfer in foreign currency or accepting such draft, TT and mail transfer, making transaction on money or monetary substitutes with the customer, and other transaction including letter of credit (L/C) banks and financial institutions should seek necessary information from the customer on a mandatory basis. Concerned banks and financial institutions should inquire more to prevent money laundering and investment on terrorist activities.
- c. Banks and financial institution should depute a staff to verify the documents as per the directive and other documents submitted by the customer. Such documents should be verified by the assigned staff and recorded properly.
- d. In case of doubtful and abnormal increase or decrease of transactions carried out by a customer, unexpected volume of amount transferred through inward remittance, remittance income with ambiguous source, the bank or financial institution should submit the details of such transactions and of the customer (individual, firm, company or an institution) to its board of directors on a monthly basis. Furthermore, for transactions above Rs. one million, the customer should be asked to produce the source and such information should be recorded and updated. A separate mechanism should be developed for the transactions exceeding Rs. one million.
- e. If banks and financial institutions find doubtful or unusual transactions even if the amount is less than Rs. one million, the institution should keep updated records of such accounts.
- f. Banks and financial institutions should provide account payee cheque or deposit in the customer's account while making payment of inward remittance through draft, TT, mail transfer or electronic transfer exceeding Rs. 100 thousand.
- g. Banks and financial institutions should keep the record of all transactions including electronic transactions up to five years from the date of transaction.

- h. The information related to clause (e) and (f) of this guidelines should be submitted to NRB within fifteen days from the completion of every quarter of year.
- i. Banks and financial institutions should ask for information as required by this guideline while providing loan to an individual, firm, company or institution.
- j. This guideline came into enforcement from April 14, 2006 and if there were unusual transactions before the enforcement of this guideline, such accounts and transactions should also be recorded and updated as per this guideline before mid-April 2007.

Directives issued to Banks and Financial Institutions

2.56 Finance Companies, licensed by NRB as C-class financial institutions were allowed to sale and purchase or accept government securities in accordance with clause 47 (3)(V) of BAFIO.

2.57 Foreign Employment Loan provided to workers going abroad for employment by any commercial banks in co-ordination with Bank of Kathmandu Limited under the Youth Self-employment and Employment Training Programme of GON, and the loan disbursed for foreign employment by any financial institutions licensed by NRB after borrowing from a commercial bank would be counted as a loan disbursed to deprived sector by the concerned commercial bank.

2.58 Financial institutions licensed by NRB as per Clause 47 (2),(3) and (4) of BAFIO would be allowed to carry out following additional functions in foreign currency after acquiring approval from the Foreign Exchange Management Department of NRB:

- a) B, C and D-class financial institutions are allowed to carry out inward remittance functions after acquiring license as per the rules and regulations.
- b) B and C-class financial institutions are allowed to carry out functions related to sales and purchase of Indian currency.
- c) National level financial institutions of B-class can accept deposits in foreign currency.
- d) National level financial institutions under B-class can purchase and sale foreign currencies provide foreign currency against the passport, open accounts in foreign currencies and open nostro accounts.
- e) As an assisting agent of licensed banks, B and C class financial institutions can issue debit and credit card in Nepalese and Indian currency.

2.59 Banks and financial institutions should comply with the following provisions while providing loan against promoter share as collateral:

- a) Banks and financial institutions have to adopt necessary measures to minimize and manage risk while providing loan under the collateral of a promoter share.
- b) While providing loan under the collateral of promoter shares banks and financial institutions could lend up to

50 percent of the market value of the shares. However, additional security should be arranged in case of decline in market price of the share. If more than 50 percent is to lend, an approval should be taken from higher level authority with adequate reasoning. Board of directors is the final authority for this purpose.

- c) While providing loan under the collateral of promoter shares, such shares should not be counted as non-banking assets. Such share should be sold in market as per existing laws and direction of the NRB within six months after the due date.
- d) While providing loan under the collateral of promoter shares, the date of repayment should be specified and such period should not exceed one year.
- e) The loan provided under the collateral of promoter shares could not be restructured or rescheduled.
- f) In case of loan loss provisioning for other than pass loan while providing loan under the collateral of promoter shares, a hundred percent loan loss provisioning should be made.
- g) In case of failure to repay the loan within the stipulated date, promoter/director must be recommended for black listing within 21 days. Such provision must be mentioned in the loan deed.
- h) Banks and financial institutions should clearly mention the aforementioned provisions in their credit policy / by-regulations.

2.60 While transferring promoter shares of bank and financial institutions within the promoters, a provision was introduced to allow the sale and purchase even if the holding of the share by individual, firm, company, institution or a group exceeds the limit of 15 percent. Such share, however, must be brought down under limit of 15 percent within five years of transaction, through sales.

2.61 As mentioned in clause 6 of the directives to banks and financial institutions regarding the preparation of guidelines related to 'KYC', the provision to issue account payee draft or deposit in the customer's account while making payment of more than Rs. 100 thousand received from remittance (in the form of draft, TT, mail transfer or electronic transfer) is annulled.

2.62 As mentioned in section 11 of the BAFIO, the directors, chief executive officer, auditor, secretary of banks or financial institutions or the persons and their family-members of those directly involved in management and account related activities of the bank and financial institutions are not allowed to sale or purchase shares or submit their shares for collateral, or make or allow others to do so or transfer or give or take as donation. If their shares are already placed as collateral, renewal of such loan is prohibited.

2.63 Interest accrued within mid-July 2005, if realised before mid-August 2005, was allowed to book as the income for 2005/06 on deferred cash basis. This provision was made

only for 2005/06 despite the provision of realizing interest income only on cash basis since 2005/06.

2.64 Co-operative societies established under the existing laws are not allowed to invest in equity shares in a corporate way in the promoter share or share of the same group of bank and financial institutions licensed by the NRB or those in the process of receiving license. In case of the cooperative societies that have invested in the promoter shares or share of the same group of bank and financial institutions, such societies should follow the legal procedure to sell out their shares before mid July 2008.

2.65 The existing provision that allows NRB-Licensed bank and financial institutions to classify commercial loan such as trust receipt loan, pre-shipment and post shipment loan, short-term loan, demand loan, working capital loan and loan related to monthly equated instalment such as vehicle loan, as pass loan and extend the repayment period to mid July 2006. The provision to realize at least 25 percent of matured interest while restructuring or reclassifying the instalments of short-term and long-term loans disbursed for capital expenditure up to mid-July 2006 has been withdrawn for this time. Such loan could be classified as pass loan and such loan would be subject to one percent loan loss provisioning.

2.66 While purchasing, repurchasing and taking over loans provided by one bank or financial institution by another bank or financial institution, the following procedures should be followed:

- a) While purchasing credit, the purchaser should have the right to recover such loan from the customer. In such cases, an approval should be taken from the concerned customer.
- b) The purchaser should account such loan in the sub-head of credit borrowing in their respective accounts.
- c) The credit purchase should happen only when the detail of the status of credit and agreements is obtained.
- d) The purchasing institution should ask for written information on the date of loan borrowed, type of the loan, status of repayment, status of past transactions, status of guarantee, situation of credit classification and etc.
- e) Purchasing institution should make loan loss provisioning for the purchased loan, as per the existing provisions for loan loss and loan classification.
- f) While purchasing credit, the documents showing whether the activity is profitable or not should be maintained and updated in the credit file.
- g) Only those bank and financial institution that have the provision for credit purchase in their credit policy could purchase credit. The record of such transactions should be sent to the respective Supervision Departments of NRB within 15 days after the completion of half yearly period.

While purchasing and selling such credits, in case the purchaser fails to recover the credit, the selling institution should show such credit as contingent liability in the balance sheet. Such loan would be subject to 50 percent risk weight while calculating capital fund.

2.67 Additional provisions on the section 4 of unified directive number 2/061/62 related to term loan has been revised. As per the revision, if the instalment amount of the term loan provided by financial institutions licensed by the NRB but not authorized to extend overdraft facility exceeds one year, total loan amount should be classified as bad loan. If the over-due period of the instalment is less than one year, only the instalment amount should be treated as bad loan, thereby making necessary loan loss provisioning. However, this provision would not affect any NRB-licensed institutions willing to classify entire loan as bad loan and make necessary loan loss provisioning even in such cases.

2.68 NRB licensed bank and financial institutions are not allowed to carry out transactions of deposit or credit with other institutions operating under existing laws in the field of deposit mobilisation and credit. The deposit and lending transactions, carried out in the past should be regulated as per the directive before mid-July 2008 or repayment period, whichever comes earlier. This provision, however, would be inapplicable for those institutions carrying out wholesale transactions for micro credit.

New policy for Establishment of Banks and Financial Institutions

2.69 The NRB formulated new policy for the establishment of banks and financial institutions and was issued on 16 July 2006 with effect from 17 July 2006.

Re-licensing of Bank and Financial Institutions

2.70 The NRB has provided re-licensing to a total of 105 bank and financial institutions including 17 commercial banks (A-class), 20 Development Banks (B-class), 57 Finance Companies (C-class) and 11 Micro credit institutions (D-class) established and functioning under different Acts viz. Commercial Banks Act, Agricultural Development Bank Act, Nepal Industrial Development Corporation Act, Development Bank Act and Finance Companies Act. These banks/financial institutions had submitted necessary documents and application as per clause 30(2) of BAFIO. NIDC, that was established and functioning as per NIDC Act, was licensed as B-class financial institution.

ADB/N Licensed as A-class Financial Institution (Commercial Bank)

2.71 As per the recommendation of consultants from ADB funded Rural Finance Sector Development Cluster Programme and the decision of Council of Ministers, an initiation was taken in July 2005 to establish ADB/N as A-class financial institution (commercial bank). With the recommendation of NRB, ADB/N was registered as public limited company in the Office of Company Registrar after fulfilling the conditions imposed by the NRB and a license of A-class financial institution (commercial bank) was issued to ADB/N as per BAFIO in April 2006.

Development Banks

2.72 In 2005/06, licenses were issued to Merchant Development (Financial Institution) Limited, Dang Ghorahi; Himchuli Development Financial Institution Limited, Pokhara; and Arniko Development Financial Institution Limited, Dhulikhel to conduct regional-level transactions as B-class financial institution. Accordingly, the number of development banks (B-class financial institutions) reached thirty. Among these, six banks were national-level development banks based in Kathmandu while 23 regional-level development banks were located outside the Kathmandu Valley.

Finance Company

2.73 In 2005/06, a total of 9 finance companies were licensed to conduct financial transactions. Among seventy C-class financial institutions, 47 were operating inside the Kathmandu Valley and twenty-three were operating outside the Valley. By the end of 2005/06, 10 more C-class financial institutions were in process of registration and obtaining license from the NRB to conduct financial transactions.

Micro-finance

2.74 The number of NRB-licensed cooperative institutions authorised to conduct limited banking transactions remained at nineteen after cancellation of the license of Makalu Yatayat Cooperative Institution Limited, Biratnagar on 21 August 2005. Currently, a policy of not granting license to cooperative institutions for undertaking financial transactions has been adopted.

2.75 The number of non-governmental organizations (NGOs) licensed to conduct financial intermediation was 47 last year and remained at the same level in 2005/06 too after giving license to Rural Self-help Society, Hariwan Sarlahi on 20 November 2005 and cancellation of license of Singana Youth Club, Baglung on 4 December 2005.

Publication of List of Professional Experts

2.76 Regarding the preparation of list of professional experts as per the Clause 13 of BAFIO, NRB listed 163 professional experts including 57 persons listed on 6 September 2004 and 29 December 2004, in addition to selecting additional 46 and 60 persons after necessary investigation from the applications received in response to the notice published on 31 March 2005 and 6 February 2006 respectively. The list was published in newspapers and posted in the NRB website too.

Publication of List of Approved Auditors

2.77 The NRB cancelled the list of approved auditors maintained in 29 April 2005 and issued a new list of 117 persons and firms categorizing them into chartered accountants group and registered auditor group for the audit of the accounts of NRB-licensed banks and financial institutions from 2005/06 onward.

Formation of Review Committee

2.78 In order to review the report of a committee formed on 9 March 2005 and its recommendations regarding wilful

defaulters in accordance with the principle of limited liability and other universally accepted principles and make suggestions, a three-member review committee was formed on 19 March 2006 as per the decision of the cabinet (the GON). The three member review committee submitted its report to the NRB.

Inspection and Supervision of Banks and Financial Institutions

Commercial Banks

2.79 On-site inspection of 17 commercial banks including 76 branches and some projects was completed in 2005/06 (Table 2.1).

Table 2 (C)
On-site Inspection of Commercial Banks and Their Branches

| S.N. | Commercial Banks | Branches |
|------|--|-----------|
| 1 | Nepal Bank Limited | 7 |
| 2 | Rastriya Banijya Bank | 4 |
| 3 | Nabil Bank Limited | 4 |
| 4 | Nepal Investment Bank Limited | 4 |
| 5 | Standard Chartered Bank Nepal Limited | 5 |
| 6 | Himalayan Bank Limited | 5 |
| 7 | Nepal SBI Bank Limited | 5 |
| 8 | Nepal Bangladesh Bank Limited | 6 |
| 9 | Everest Bank Limited | 8 |
| 10 | Bank of Kathmandu Limited | 2 |
| 11 | Nepal Credit and Commerce Bank Limited | 3 |
| 12 | Lumbini Bank Limited | 3 |
| 13 | Nepal Industrial and Commercial Bank Limited | 6 |
| 14 | Machhapuchchhre Bank Limited | 4 |
| 15 | Kumari Bank Limited | 4 |
| 16 | Laxmi Bank Limited | 4 |
| 17 | Siddhartha Bank Limited | 2 |
| | Total | 76 |

2.80 In the review year, overall on-site inspection of 17 commercial banks and special on-site inspection of 20 branches of different commercial banks was done. Among them, special on-site inspection of five branches of Nepal Bangladesh Bank Limited, four branches of Nepal Credit and Commerce Bank Limited, two branches of Nepal Industrial and Commercial Bank Limited and one branch each of RBB, NBL, Bank of Kathmandu Limited, Kumari Bank Limited and Siddhartha Bank Limited was done.

2.81 Regular follow-up was done to ascertain the implementation of the directives issued to the commercial banks based on the reports and the findings of the overall, special as well as targeted on-site inspections. Altogether 78 follow-up reports of 17 commercial banks were prepared in 2005/06.

2.82 In the review year, the transactions (specially the credit flows) of Nepal Bangladesh Bank Limited, Nepal Credit and Commerce Bank Limited and Lumbini Bank Limited were kept under close monitoring, and special

inspection was carried out in these banks. These banks were asked to get pre-approval of NRB in the case of extending loan of Rs. five million or more. A special committee was also formed by the NRB for this purpose. On the recommendation of this committee, 28 projects of Nepal Bangladesh Bank Limited, 24 projects of Nepal Credit and Commerce Bank Limited and 77 projects of Lumbini Bank Limited were granted approval till mid July 2006.

2.83 Various instructions were given regarding the implementation of directives as well as the shortcomings listed after the regular monitoring of the balance sheets and the financial statements of various commercial banks. The instructions were also posted on the website of the NRB (Annex 2.1).

Financial Institutions Other than Commercial Banks

2.84 Overall on-site inspection of 13 financial institutions of B-class, 29 financial institutions of C-class and 8 financial institutions of D-class was completed in 2005/06 (Annex 2.2).

2.85 Follow-up inspection of 3 financial institutions was completed in 2005/06 on the basis of the progress of the implementation of the directives issued after on-site inspection and off-site supervisions (Annex 2.3).

2.86 Special inspection of 5 financial institutions was completed in 2005/06 on the basis of the public grievances and complaints filed by individuals as well as institutions (Annex 2.3).

2.87 Necessary instructions were given to different financial institutions after the completion of overall off-site supervision on the basis of balance sheet and income statements. Similarly, follow-up was done on a regular basis of the implementation of instructions issued after receiving remarks of off-site supervision and on-site inspection reports. Despite all these, off-site supervision of 5 financial institutions could not take place on account of the unavailability of audited financial statements of 2004/05 (Annex 2.3)

2.88 Action was taken against different financial institutions in 2005/06 which did not comply with the instructions given in remarks of the on-site inspection and off-site supervision reports.

2.89 In 2005/06, ten financial institutions were penalized on the basis of weekly follow-ups, which could not meet their CRR level in accordance with the directives of NRB.

2.90 Chief executive officer and board of directors of Standard Finance Company Limited; who were involved in the decision to distribute dividends of 2001/02 only to the promoters violating NRB's directive of 1 November 2004 regarding the distribution of dividends and other legal provisions; were instructed to return back the distributed amount of Rs 5.8, million with 14 percent interest equal to Rs 688 thousands to the company. In addition, each of them were fined Rs 15,001 as per the clause 99 (2) of NRB Act, 2002.

Micro Finance Programmes

Production Credit for Rural Women

2.91 Production Credit for Rural Women (PCRW) programme was commenced from 1981/82 as per the loan agreement between the GON and IFAD with a view to improving economic and social status of rural women by enhancing the access to institutional credit and thereby generating income and employment for deprived rural women. A total credit disbursed to participating financial institutions namely, NBL, RBB and ADB/N under the programme reached Rs. 235 million till mid-July, 1998. As the project is already phased out, loan recovery process from the participating financial institutions is in progress. In this regard, NRB has paid the principal amount of Rs. 93.8 million and interest of Rs. 41.2 million to the GON as at mid-July 2006. Of the loan disbursed under the programme, a total of Rs. 93.6 million remained outstanding with the two participatory banks to the GON as at mid-July 2006. However, NBL repaid the entire amount of loans disbursed.

Micro Credit Programme for Women

2.92 Micro Credit Programme for Women (MCPW) was initiated as a supplementary project for Production Credit for Rural Women Programme in accordance with the loan agreement between the GON and ADB/M on 16 September 1993. The implementation period had expired on 30 June 2002. Under the programme, loans were distributed through 16 branches of RBB and 26 branches of NBL since 1994/95. A total of loan disbursed had reached Rs. 195.29 million during 1994/95 to 1999/00. The NRB paid a sum of Rs. 80.8 million including interest of Rs. 38.1 million to the GON as at mid-July 2006. Of the loan disbursed to two participatory banks, the entire outstanding amount has already been recovered.

Poverty Alleviation Project in Western Terai

2.93 With an aim to uplifting the socio-economic condition of deprived women and enhancing the financial condition of participating branches of eight districts, Poverty Alleviation Project in Western Terai came into operation since 1998/99 under the loan agreement between the GON and IFAD entered on 9 February, 1998. This project is in operation in eight districts of Terai – Kailali, Kanchanpur, Banke, Bardia, Dang, Kapilvastu, Rupandehi and Nawalparasi. Western Region Rural Development Bank, Mid-Western Region Rural Development Bank, Far-Western Region Rural Development Bank, Nirdhan Utthan Bank and Self-Reliance Development Centre are the participatory financial institutions of this project. For the implementation of the project, the NRB has received Rs. 131.0 million from the GON, the entire amount of which was disbursed to participatory financial institutions.

2.94 The expiry date of the project as per the loan agreement between the GON and IFAD was 31 December, 2004. Of the loan amount of Rs. 137.0 million disbursed (out of which Rs. 131.0 million acquired from the GON and Rs.

5.0 million from Revolving Fund), Rs. 62.0 million was recovered while Rs. 75.0 million remained outstanding as at mid-July, 2006. During the project period, the beneficiaries reaping benefits from the project reached 22 thousand. By the end of 2005/06, the NRB had already paid the GON a sum of Rs. 24.0 million as interest. Of the principal amount payable to the GON in 36 instalments that commenced from January 2006, a sum of Rs. 7.39 million was paid in two instalments till mid-July, 2006. The outstanding loan to be paid to the GON remained Rs. 124 million as at mid-July 2006.

Community Groundwater Irrigation Sector Project

2.95 With a view to enhancing the income level of marginal farmers by increasing agricultural production under the Agriculture Perspective Plan of the GON, Community Groundwater Irrigation Sector Project came into operation in 12 districts of Eastern and Central Terai in accordance with a loan agreement between the GON and ADB/M signed on 17 November 1998. Of the SDR 22.0 million needed to implement the project, the amount equivalent to SDR 9.9 million will be made available to farmers for installation of shallow tube wells and for crop production. The loan amount was initially received by Rural Self-reliance Fund and disbursed to farmers through participatory financial institutions. The project has aimed to install 15 thousand shallow tube wells including 13.5 thousand for groups and 1.5 thousand for individuals. Consequently, around 657 thousand farmers of 110 thousand marginal family (among them about 50 percent are below poverty line) are expected to benefit directly through the expansion of irrigation facility in an area of around 60 thousand hectares of land.

2.96 By mid-July 2006, NBL, Eastern Region Rural Development Bank, Central Region Rural Development Bank, Sahara Nepal Credit and Cooperatives Limited, Depros Development Bank Limited, Chhimek Development Bank Limited, Arunodaya Savings and Credit Cooperative and Krishak Upakar Savings and Credit Cooperative were selected as participatory financial institutions under this project. In order to accommodate additional financial institutions as participatory financial institutions, the existing policy of selecting new institutions on a bi-annual basis was also changed with effect from mid-July, 2004 so that any financial institutions intended to participate could apply any time. Replacing the existing policy that limits the participating financial institutions to disburse loans at the particular sectors determined by the project itself, the participatory financial institutions under the revised policy, effective from mid-July, 2004 were allowed to disburse loans to any sector within their respective working areas in order to enhance the loans facility to the farmers more competitively.

2.97 By mid-July, 2006, participatory financial institutions working under this project which commenced from 2000/01, invested Rs. 157.0 million to install 5,365 shallow tube wells including 5,324 for groups and 41 for individuals.

Consequently, 21,262 marginal farmers benefited directly through the expansion of irrigation facility in an area of around 24,741 *bigahs*. Under the project, 5,400 shallow tube wells were expected to be installed in 2006/07. In this regard, ADB/N and Small Farmers Development Bank were requested to serve as participatory financial intermediaries.

2.98 ADB/M has already extended the duration of the project by one year from the scheduled completion date of 1 August 2006 with a provision to extend it further by one year based on the implementation progress during the extended period.

2.99 With an aim to make the project effective, separate units were set up in the NRB's Biratnagar, Birgunj and Janakpur offices while ADB/M has opened a separate 'Imprest Account' in the name of the NRB as well. By mid-July 2006, one annual review seminar and 10 trainings and seminars were conducted in participation with different participatory financial institutions, association of water consumer, NRB's employees, Ministry of Water Resources, Ministry of Finance, ADB/M and technical aid team. All the stakeholders opined that no policy problems existed in the flow of credit, and Rural Self-reliance Fund was positive for any procedural changes.

Third Livestock Development Project

2.100 With an aim to encourage livestock entrepreneurs to use locally available technology and thereby to provide necessary services and credit, the Third Livestock Development Project came into operation as per the loan agreement between the GON and ADB/M entered on 23 December 1996. Of the SDR 12,555 thousand granted to Nepal by ADB/M, the present system of disbursing credit of SDR 351.7 million to different participatory financial institutions through NRB was revised to SDR 2.0 million. As per the loan agreement entered on 11 April 1997 between the GON and the NRB, the participatory financial institutions were given a reimbursement of 80 percent of the investment in the project of up to equivalent rupees of 2 million SDR.

2.101 Altogether 19 participating financial institutions including two commercial banks, three development banks, four rural bank replicators, eight co-operatives and two NGOs were taking part in the project. Until mid-July 2005, 17 financial institutions received a reimbursement amounting to Rs. 183.4 million under the project.

2.102 The project's duration period was extended by one year up to 31 July 2004 from the earlier completion period of 31 July 2003. The participatory financial institutions should refund the loan amount provided under the project within the period of January 2001 to July 2011 while the NRB should refund the amount to the GON within the period of January 2004 to July 2034. Of the credit disbursed, a total of Rs. 142 million was recovered from participatory financial institutions while Rs.41 million remained outstanding up to July 2006. A study of effectiveness of the credit programme of the project was completed.

Rural Self-reliance Fund

2.103 Rural Self-reliance Fund came into operation in 1990 with an aim to uplift the deprived people living in rural areas with no access to institutional credit through wholesale credit facility to carry out income and self-employment generating businesses. The Fund has been providing wholesale credit facility to the target groups to uplift their socio-economic condition with focus on maximum utilization of resources and skills available locally through NGO/co-operatives working in rural areas. The Fund can provide a maximum of Rs. 30 thousand per person for the first time, Rs. 35 thousand for the second time and Rs. 40 thousand for the third time as a micro-credit. A sum total of Rs. 293.4 million with Rs. 40 million (Rs. 10 million each on 17 March 1991 and 7 July 1992 and Rs. 20 million in 2005) from the GON and Rs. 253.4 million (Rs. 100.0 million in 2002/03, Rs. 74.8 million in 2003/04 and Rs.78.6 million) from the NRB has been received so far as capital in the Fund. Similarly, the GON in the budget of 2006/07 has also allocated Rs. 100 million for the Fund. The Fund has been providing the participatory institutions, based on the potentiality of the business, a wholesale credit of up to Rs. 1.0 million for the first time, Rs. 1.5 million for the second time and Rs. 2.0 million for the third time (the amount not exceeding 15 times of primary capital for the first and second loan and 20 times for the third loan) in instalment.

2.104 The credit can be provided from the Fund to a maximum period of 3 years to the registered institutions carrying out saving and credit transactions since one year and collecting regular savings from a minimum of 70 percent of their members. The people living in village with land up to 15 *ropanies* in Mountain region and 1 *bigah* in Terai under the ownership of single family; having hand to mouth problem with no regular sources of income of the members of the single family and having no outstanding credit for the loan taken under the income generating programmes run by government agencies or bank or financial institutions are included as the target groups and are given the credit from the Fund through NGOs/co-operatives to carry out income generating activities.

2.105 A wholesale credit is being made available to NGOs/co-operatives from the Fund at an annual interest rate of 8.0 percent. In case the interest along with the principal amount was repaid at a stipulated time, a sum equal to 75 percent of interest payment is refunded for the development of concerned institution. As a result, the annual net interest income of the Fund remains 2.0 percent only. Of the approved credit, while distributing the first instalment, the interest free loan is disbursed for a maximum period of six months.

2.106 Until mid-July 2006, a total of Rs. 101.4 million credits were disbursed through 51 NGOs and 199 co-operatives. Of the credit disbursed, Rs. 68.6 million was already recovered leaving Rs. 32.8 million as outstanding. The loan recovery rate remained at 92.0 percent. NGOs in 26 districts and cooperatives in 42 districts altogether in 47 districts

have provided albeit overlapping services from the credit made available by the Fund. Until mid-July 2006, a total of 9,949 households of 47 districts benefited directly from the Fund.

2.107 With an aim to provide capital for the businesses requiring long-term capital such as tea, coffee, cardamom, cold storage, the Fund has been providing wholesale credit out of its total capital contribution to ADB/N and development banks working on micro-finance. Under this project, a sum total of Rs. 40.0 million with Rs. 10.0 million each was made available to Eastern, Central and Mid-Western Region Rural Development Banks and Small Farmer Development Bank while under long-term loan, a sum of Rs. 119.2 million was made available to ADB/N.

Rural Development Banks

2.108 With a view to help combat poverty by making financial services easily available to the deprived people, five rural development banks in joint capital participation of the NRB and the GON are under operation in each development region. To make regulation and supervision work more effective, the NRB has taken a policy of gradually privatizing these banks through the sale of its shares.

2.109 With an aim to privatize profit making regional rural development banks gradually, the process of handing over the 51 percent share out of 61 percent of Western Region Rural Development Bank owned by the NRB was completed in 2004/05. Out of 66.75 percent share of Eastern Region Rural Development Bank owned by the NRB, the process was initiated to sell out 56.75 percent shares, holding 10 percent shares with the NRB itself. As such, 31.7 percent shares were allocated to the group members of Eastern Region Rural Development Bank, 5 percent to the employees of the bank, 10 percent to micro-finance institutions and 10 percent to the general public. Altogether 31.8 percent shares were sold to the group members (22.8 percent), general public (8.3 percent) and employees (0.7 percent) at mid-July 2006. Under the second phase of privatization, the process of selling remaining 24.9 percent shares is underway.

2.110 As per the policy guidelines to appoint efficient, experienced and expert person for the post of Executive Director of the Regional Rural Development Banks through open competition, Executive Directors for three such banks were selected accordingly. Similarly, other activities under the reengineering programme under implementation.

Foreign Exchange Management

2.111 The NRB has been managing foreign exchange in consistent with the policies of gradual economic liberalization and gradual opening up of the capital account. In this context, following measures of improvement were carried out in 2005/06 in the field of foreign exchange management:

- a. The commercial banks were allowed to provide foreign exchange facility directly up to USD 1,500 to individual/institutions for different purposes.
- b. Commercial banks are allowed to debit the foreign currency accounts of firms/institutions/companies maintained with them to deposit the earnings from export or tourism for the payments of different expenditure like stall booking, registration fee, service fee etc. while attending the fair or exhibitions organized in different countries other than India with a view to promote their trade/business.
- c. The provision of operating foreign currency account by the account holder was relaxed to allow the operation by the account holder's spouse, parents, son or daughter with the consent of the account holder.
- d. Commercial banks were allowed to send payments to India by debiting foreign currency account of international organizations, institutions and diplomatic missions having foreign currency account with them if such international bodies have to send payments to India for various purposes.
- e. Commercial banks were allowed, with conditions, to swap the interest rate in process of hedging the interest rate, from any debtor in foreign currency loans.
- f. The provision requiring prior approval of the NRB to cancel cheques of guarantee amount issued in favour of the Customs Offices at the time of making advanced payment was revised to allow commercial banks to cancel such cheques if an amount sent as advance to import goods from third country was returned back by the exporter without the shipment of goods.
- g. Commercial banks were allowed to extend the due date of cheques of guarantee amount drawn in favour of the Customs Offices while sending advanced payment or releasing document from bank under draft, TT or L/C to be paid in convertible foreign currency and if such cheques remained unused within the due date of 90 days.
- h. If the amount in document of L/C exceeds the amount of the import L/C to be paid in convertible foreign currency, the concerned commercial bank itself was allowed to accept that document up to 2 percent of issued amount or USD 1,000 whichever was more.
- i. The provision of providing exchange facility up to USD 2,000 as passport facility to Nepalese citizens going abroad (other than India) through private or formal ways once in a fiscal year was amended to withdraw the limitation of one time a year.
- j. Commercial banks were allowed to open L/C receiving either cash or saving certificates or development bonds or any other securities acceptable to commercial bank equal to 2 percent of the import cost of fertilizer as a guarantee as against the previous provision of getting permission from the NRB to open the import L/C

- submitting bank guarantee equal to 10 percent of import value by the fertilizer importers of the private sector.
- k. The provision of providing export license by the NRB, after receiving a bank guarantee equal to 5.0 percent of the export value from exporters to export (except those exporting under bank guarantee) abroad (other than in India) under Cash Against Documents (CAD) facility was amended to allow commercial banks to do so under the specified terms and conditions up to the amount of USD 200 thousand.
- l. The number of importable goods by paying convertible foreign currency from Indian producers firms/companies by the industrial firms and energy related industries of more than 5 megawatt capacity and registered in Nepal, reached 91.
- m. The provision of specifying name of foreign currency and its amount using protectograph on the front cover of air ticket, signed by the concerned officer of the bank along with the bank's stamp in case of Nepalese citizens visiting abroad (other than India) was made compulsory for electronic ticket too.
- n. Gold and silver (including semi-finished) were removed from the list of goods banned for the import. Accordingly, a provision was made to allow the registered firms/companies and commercial banks to import gold and silver (including semi-finished) through L/C or draft/TT.
- o. The number of money transfer firms/companies reached 32 as at the mid July 2006, after providing license of money transfer to additional 9 firms/companies/institutions within the period of mid July 2005 to mid July 2006. Similarly, the letter of intent was given to additional 6 such firms/companies and hence the number of firms/companies taking letter of intent reached to 86 as at mid July 2006.
- p. In the review year, additional 11 money changer firms/companies were given license for transactions. In this way, there were altogether 253 such firms/companies as at mid July 2006 within Nepal, of which 93 were in the Kathmandu valley.

Currency Management

2.112 The amount of notes in circulation surpassed last year's level by 13.6 percent and reached Rs. 84.6 billion as at mid-July 2006 (Table 2.2). A year earlier, such an amount was Rs. 74.5 billion, 9.4 percent above the quantity of mid-July 2004. Of the total amount, Rs. 5.7 million was received from the GON as the old print (OP) notes.

2.113 Of the total value of notes in circulation 64.6 percent share was occupied by the notes of Rs. 1,000 denomination followed by Rs. 500 notes (23.7 percent). Notes of Rs. 100 and Rs. 50 denominations carried 5.7 percent and 2.0 percent shares respectively. Share of notes of Rs. 10 and Rs. 20 were 1.1 percent and 1.3 percent whereas the share of notes

of Rs. 5, Rs. 2 and Re 1 were 0.8 percent, 0.2 percent and 0.2 percent respectively. Notes of Rs. 250 occupied the least share of 0.1 percent in the total value of notes in circulation.

2.114 Regarding the quantity of notes, 23.5 percent of the total circulation was covered by 1 rupee note whereas 17.8 percent, 13.8 percent and 12.7 percent was occupied by notes of Rs. 5 and Rs. 2 and Rs. 10 respectively. Likewise, the share of Rs. 1000, Rs. 20 and Rs. 100 notes were 7.4 percent, 7.2 percent and 6.6 percent respectively. Notes of Rs. 500, Rs. 50 and Rs. 25 occupied 5.5 percent, 4.7 percent and 0.7 percent of the total pieces of notes in circulation. The share of notes of Rs. 250 was negligible, in quantity, in total circulation.

2.115 Foreign currencies and securities constituted 95.1 percent of the assets kept as security against the issue of notes and the remaining portion was occupied by securities of the GON.

2.116 In 2005/06, a sum of Rs. 7.9 billion was deposited to different offices of NRB under fund transfer and Rs. 22.8 billion was transferred to elsewhere from those offices. In the same period, Rs. 13.5 billion was transferred to different branches of RBB from the NRB while Rs. 743 million was transferred from RBB branches to the NRB. Similarly, Rs. 6.9 billion was transferred from the NRB to different branches of NBL whereas Rs. 247.0 million was transferred from those branches of NBL to the NRB.

2.117 In 2005/06, note chest transactions were conducted from the Currency Management Department and seven offices of NRB in addition to 43 branch offices of RBB and 23 branches of NBL.

2.118 In 2005/06, soiled and defective notes worth Rs. 115.3 billion were destroyed by burning in the Currency Management Department and other offices of NRB.

2.119 A total of 7,273 pieces of commemorative coins and 22,344 pieces of medallions were produced or imported in 2005/06.

2.120 In the review year, 1,237 Kg of gold was sold in 2005/06 in the form of 50-gram blank coin, minted coins of various weight, commemorative coins and medallions. 208.2 Kg of silver was purchased whereas 1,478.6 Kg of silver and 4,667.3 Kg of miscellaneous metals was sold.

Miscellaneous Activities of Nepal Rastra Bank

Institutional Reforms

2.121 Central banks of many countries have formulated the "Strategic Plan" in order to effectively discharge their responsibilities. Accordingly, the NRB has implemented a five-year Strategic Plan (2006-2010) to enhance its productivity by performing its duties in scientific, efficient, transparent and accountable manner. The vision, mission, objectives, strategies, actions/performance monitoring indicators for the next five years are explicitly mentioned in the Strategic Plan.

Box 2.1

Vision, Mission, Core Values, Strategic Objectives and Strategic Guidelines

Vision

A modern, dynamic, credible and effective Central Bank.

Mission

Maintaining macro-economic stability through sound and effective monetary, foreign exchange, and financial sector policies.

Core Values (CREATE)

- C = Credibility*
- R = Responsibility*
- E = Efficiency*
- A = Accountability*
- T = Transparency*
- E = Effectiveness*

Strategic Objectives

Formulate necessary monetary and foreign exchange policies in order to maintain price and balance of payments stability for sustainable development of the economy and managing it; Promote financial stability and ensure adequate liquidity in the banking and financial system; Develop a secure, healthy and efficient currency management and payments system; Regulate, inspect, supervise and monitor the banking and financial system, and Promote and develop the overall banking and financial system, and enhance accessibility and its public credibility.

Strategic Guidelines

Develop long-term vision of the Bank and implement it through medium-term and annual strategic plans; Formulate and implement sound and effective monetary, foreign exchange, and financial sector policies; Formulate and implement sound, efficient, and effective regulatory and supervisory system to make financial system healthy and stable; Reengineer the organizational structure of the Bank; Formulate and implement strategic human resource planning and development; Develop and implement management information system; Automate and modernize payments and settlement system of the country.

2.122 To fulfil the objectives as stipulated in the NRB Act, 2002 and to enhance its efficiency, various study reports were prepared in 2005/06 to carry further the re-engineering programme of NRB and to make timely amendments in it. Major special studies on the implementation phase were related to (a) simplify the internal procedures of the Public Debt Management Department and effective reconciliation of accounts, (b) the structural reforms of the Public Relations Division, and (c) structural reforms of the Foreign Exchange Management Department.

Internal Auditing

2.123 In 2005/06, regular auditing of eleven different departments and offices and special auditing of six departments viz. Research Department, Corporate Planning Department, Financial Institutions Supervision Department, General Services Department (Construction) and Banking Promotion Committee were carried out. Likewise, to adopt the risk based audit approach, the audit framework of the Currency Management Department, Mint Division and Banking Office were prepared and accordingly the auditing was initiated.

2.124 The internal audit reports were discussed in the Audit Committee, and sent the relevant section of the report to the related department for the implementation of the required policy measures. The NRB Board of Directors was informed the major decisions of the committee, as the report was also submitted to it.

2.125 To conduct risk-based auditing, the proposals to be presented in the Audit Committee were refined as per the training and suggestions of IMF and financial advisors. Likewise, the letter of engagement was provided to the internal audit team and the related departments/offices mentioning the functions of the concerned departments/offices, objectives of the auditing, the areas of the auditing and the time frame of the staffs involved in the auditing.

Fourth Household Budget Survey

2.126 With a view to prepare national level consumer price index to represent overall price level of the country, to analyse the income expenditure trend of Nepalese households and to determine the socioeconomic indicators, the NRB collected data including income and expenditure from selected households from 16 November 2005 to 15 December 2006. For the fourth household survey, a total of 133 market centres were covered comprising of all the municipalities in the country, 32 district headquarters (all the district headquarters which did not have municipalities) and 43 rural market-oriented centres. The process of compiling data from the selected 52 market centres and 5,095 households using multi-stage stratified random sampling technique is underway.

**Table 2(D)
Number of Selected Market Centres and Households for the Fourth Household Budget Survey**

| Development Region | No. of Market Centres | | | No. of Households | | |
|-------------------------------|-----------------------|-----------|-----------|-------------------|--------------|--------------|
| | Urban | Rural | Total | Urban | Rural | Total |
| Eastern | 5 | 8 | 13 | 500 | 880 | 1380 |
| Mid (except Kathmandu Valley) | 5 | 5 | 10 | 455 | 410 | 865 |
| Kathmandu Valley | 4 | 4 | 8 | 92 | 235 | 1155 |
| Western | 5 | 6 | 11 | 425 | 460 | 885 |
| Mid-Western | 2 | 5 | 7 | 135 | 450 | 585 |
| Far-Western | 3 | - | 3 | 225 | - | 225 |
| Total | 24 | 28 | 52 | 2,660 | 2,435 | 5,095 |

2.127 Apart from identifying the items for measuring the consumer price index (CPI) to measure inflation, the fourth household survey also seeks to identify the income and expenditure pattern of households, information regarding the remittances, Indian currency transactions, credit structure and the interest rates of credit disbursed from the institutional and private sectors.

2.128 In Nepal, CPI is used to measure inflation. The existing urban CPI consumption basket and weight is based on the household budget survey of 1995/96. Since the CPI is a very sensitive indicator, it should represent the expenditure and consumption patterns of the households as closely as possible. The on-going fourth household budget survey is being conducted after a period of ten years. Since then major changes have occurred in business strategies, development of markets in the urban oriented rural areas, the income and expenditure patterns of the consumers as well as the emergence of new products and the disappearance of the old products. In this context, the main objective of the fourth household survey was to expand the coverage of the consumption basket and to make the timely changes in it to reflect the existing economic behaviour.

Human Resource Management

2.129 With a view to prepare human resource of NRB to accept existing and forthcoming challenges, 17 young individuals were recruited as third class officers. Similarly, to improve the internal security of NRB, twelve security guards were recruited on contract basis.

2.130 The Employee's By-regulation of NRB is effective from mid-July 2005. It was amended for the first time on 10 May 2006. As per the provision of the by-regulation, staffs would get retirement after the age of 58 or after 30 years' service period. Accordingly, in mid-July 2006, thirty staffs of different levels retired. The number of staffs who terminated the NRB-service because of compulsory retirement, resignation, death and dismissal is as follows:

**Table 2 (E)
Termination of NRB-service**

| Level | Reasons of Termination | | | |
|-------------------|------------------------|-------------|-----------|----------|
| | Compulsory Retirement | Resignation | Dismissal | Death |
| Officer level | 11 | 4 | 0 | 0 |
| Officer- Special | 3 | - | - | - |
| Officer- First | 1 | - | - | - |
| Officer- Second | 3 | 3 | - | - |
| Officer- Third | 4 | 1 | - | - |
| Assistant Level | 5 | 3 | 4 | 3 |
| Assistant- First | 2 | 3 | 2 | - |
| Assistant -Second | 2 | - | 1 | - |
| Assistant -Third | 0 | - | 1 | 1 |
| Assistant -Fourth | 1 | - | - | 2 |
| Assistant- Fifth | 0 | - | - | - |
| Total | 16 | 7 | 4 | 3 |

2.131 After the new recruitment to and exit from the service of NRB as stipulated earlier, the total number of employees stood at 1,556 including 429 officers and 1,127 assistants with officer/assistant ratio of 1:2.63 as at mid-July 2006.

2.132 To enhance the welfare and benefits of employees, the NRB adopted the following policy provisions:

- A bed in Eye Hospital, Tripureswor was reserved for every day to facilitate the treatment of eye problems of the family members of the employees.
- A provision was made to pay Rs. one thousand by the bank in addition to the minimum charge of mobile phones of executive directors.
- Salary of the employees was increased by twenty percent, revision was done on the medical facilities, daily allowances were increased by fifty percent, provision of staff security fund was added and the individual employees' balance of one hundred thousand rupees was returned to the respective employees from the staff welfare fund
- The annual increment in salary (grade) of 764 staffs was adjusted.
- The amount of house loan and house maintenance loan were increased by hundred percent effective 17 July 2006.
- The initial pay scale of the Assistant third level and lower was increased by Rs. 100 effective 14 April 2006.
- The existing counter responsibility allowances were increased by hundred percent effective from 14 April 2006.

2.133 The outstation allowance was increased by hundred percent in each level effective 14 April 2006. Among the vacant posts as of mid April 2006, 61 posts were fulfilled through internal competition. Similarly, to fulfil some of the vacant posts by internal competition, written examinations for four posts were taken.

**Table 2(F)
Recruitment**

| Position | Service | Open competition | File competition | Internal competition |
|--|---------|------------------|------------------|----------------------|
| 1 Officer-Special | General | - | 4 | - |
| 2 Officer-First | General | - | 1 | 1 |
| 3 Officer-Second | General | - | 3 | 1 |
| 4. Officer-Third | General | 17 | 1 | 1 |
| 5 Assistant-Cashier (Officer-Third) | Cash | - | 2 | 1 |
| 6. Head Cash Assistant (Assistant First) | Cash | - | 50 | - |
| Total | | 17 | 61 | 4 |

Information Technology

2.134 With a view to mechanize different departments, the works of developing new software and updating the existing software were completed as follow:

- The Banking Software, being used in the banking offices and district offices was refined in accordance with the revenue and government transactions system of the GON.

- b) Central Account Software was improved adding necessary reports.
- c) Necessary reports were refined and added to currency management system software.
- d) Necessary reports were refined and added to the BOP Trade and Current Software.
- e) Some reports were added in the Personnel Record System Software.
- f) Necessary amendment was done in the software used in the Bank Supervision Department to receive and process the data from commercial banks.
- g) Banking Cash Software was developed for the Banking Office.
- h) Necessary improvements were made in the Consumer Price Index software.
- i) The study for the document management in the Human Resource Management Department was completed.
- j) Software for the Investment Division of the Foreign Exchange Management Department was developed partially.

2.135 To make the internet service in the Central Office of NRB more efficient and also to make the service available to the Banking Office, feasibility study was completed and the specification was prepared. Similarly, E1 line to expand the internet and corporate e-mail facility was installed and made ready for operation. To increase the capacity of internet and email services, proxy server and email servers were procured and the new servers were used with necessary configuration in addition to the internet system for the internal purpose of the bank. Likewise, modification of the central server and the computer room was completed.

2.136 The efficiency of network backbone was enhanced by replacing it with fibre optics cable. Networking in the central office was expanded.

Training, Workshop, Seminar, Study Visit and Interaction

2.137 In 2005/06, Bankers' Training Centre conducted 23 trainings and workshops including 12 officer-level and 11 non-officer-level in Dhulikhel, Kathmandu, Biratnagar, Siddharthnagar and Pokhara. Of the total 464 trainees, 309 from NRB and 155 from other institutions participated in those trainings including 235 officers and 229 non-officers.

2.138 Of the 470 sessions of the training programs, presentation in 292 sessions were made by resource persons from NRB and rest were from external sources.

2.139 In 2005/06, a total of 630 employees of NRB took part in domestic and foreign trainings and observation tours. Among them 217 participated in the programs abroad while 413 received domestic trainings.

2.140 To strengthen the Computer Operation Core Group (COCG) that was formed in district offices, computer trainings including ICT Infrastructure in NRB, Operating Systems, Banking System, Hardware and Troubleshooting,

Utility S/W, Network, Client Server Concepts and internet and email were conducted. Total 80 persons were benefited from the program.

2.141 In order to facilitate the report writing work, an eight day long "MS Access" training including database designing, preparation of input format and storing, processing and analysis of data, was conducted for 12 officers of various departments.

2.142 A training programme was organized to familiarize the employees of Internal Audit Department with the banking software BANKSYS installed in Banking Office.

2.143 An interaction programme was conducted with the participation of head of Information Technology Department of all commercial banks, officers of Information Technology Department of NRB as well as other related Departments of NRB and representative from Office of the Comptroller General with a view to discuss and enhance the effectiveness of present electronic data communication mechanism and problems identified in IT Platform and Security System in commercial banks.

2.144 Four workshops consisting one each in A and B-class and two for C-class financial institutions licensed by NRB in the period of mid July 2005 to mid July 2006, were organized in Kathmandu to provide them with additional information regarding the reporting formats to be sent monthly, quarterly, half yearly and yearly to NRB.

2.145 A three-day seminar on banking Supervision was conducted in technical association with OSFI, IAG Canada during March 6-9, 2006. Total 33 officers from NRB and commercial banks benefited from the program.

2.146 An interaction programme with internal auditors of the commercial banks was conducted on May 17, 2006. A total of 62 persons participated in the program.

2.147 An interaction programme on 'Basel-II Implementation and Draft Capital Adequacy Framework' was conducted with the help of Banks and Financial Institutions Regulation Department on 10 July 2006. The programme was attended by employees of commercial banks and NRB.

2.148 A study visit programme entitled 'Study Visit on Highland Project' was jointly conducted by NRB and Asia Pacific Rural and Agricultural Credit Association (APRACA) during June 5-9, 2006. Of the study visit completed in Kathmandu and Dhulikhel, the study of Mahila Adarsha Sewa Kendra and Small Farmers Development Bank in Kathmandu and Central Region Rural Development Bank at Dhulikhel was undertaken. The programme was attended by five members from India, Thailand and Philippines.

2.149 An interaction programme on foreign exchange management was conducted separately in Siddharthnagar and Pokhara with the participation of local entrepreneurs, businessman who were involved in import and export business and representative of commercial banks and money changers.

2.150 NRB organized a meeting of the board of directors of Asian Clearing Union (ACU) during May 22-23, 2006 in

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Kathmandu. Main agenda of the meeting was the adoption of Real Time Gross Settlement System (RTGS). Participants of the meeting emphasized on the enhancement of banking skill through technology and need for making clearing house of ACU effective. The governor of Bangladesh Bank and Managing Director of Monetary Authority of Bhutan were elected as chairman and vice-chairman respectively. The meeting decided the next meeting to be held in Bangladesh in 2007.

2.151 Interaction programs were conducted in Kathmandu, Siddharthanagar, and Biratnagar in order to provide necessary information regarding public debt management and transaction of government bonds to general people, associations, institutions and market makers. A special interaction programme for the dignitaries of financial institutions about the auction of long term government securities and process of secondary market was also conducted in Kathmandu.

2.152 A one day workshop on role of auditors in financial institutions, another on role of directors in financial institutions were conducted in 2005/06 along with the workshop on corporate governance with the participation of chief executive officers of development banks and finance companies. Two workshops on inspection manual were also completed.

2.153 Seminar and workshops in various issues were conducted with the participation of the stakeholders of financial sector. Likewise, with a view to enhance their skills, a training programme for economic journalists was organized through British Council.

Publication and Broadcasting

2.154 The regular publications of the various departments such as Main Economic Indicators, Macroeconomic Indicators of Nepal, Quarterly Economic Bulletin, Economic Report, Economic Review, Banking and Financial Statistics, Public Debt Newsletter, Nepal Rastra Bank Samachar, Prashikshan, Mirmire were published in review year. The Current Macroeconomic Situation of Nepal is being published monthly in Nepali and English languages. Besides this, a Macroeconomic Modelling Unit (MMU) was formed in Research Department. Likewise, Research Department

started to publish a research newsletter to cover the activities of the department.

2.155 In the review year, radio banking programmes were produced and broadcasted 52 times by the Banking Promotion Committee. Likewise, a total of 27 (9 from NTV and 18 from Channel Nepal) TV programs related to banking activities and awareness were transmitted during October 2005 to July 2006. The website of the Banking Promotion Committee, which was developed with a view to integrate the information of the member banks, was continued.

Other Activities

2.156 In 2005/06, NRB licensed a total of 36 banks and financial institutions as market makers for the transaction in government bonds. Of these, NRB conducted on-site inspection and monitoring of the following market makers.

- a. Mahalaxmi Finance Company Limited, Birgunj
- b. Annapurna Finance Company Limited, Pokhara
- c. Lalitpur Finance Company Limited, Lalitpur
- d. Malika Bikas Bank, Dhangadi
- e. Butwal Finance Company Limited, Butwal
- f. Om Finance Company Limited, Pokhara
- g. Goodwill Finance Company Limited, Dillibazar, Kathmandu
- h. Citizen Investment Trust, Sharemarkets Complex, Putalisadak, Kathmandu
- i. Pokhara Finance Company Limited, Pokhara
- j. Krist Merchant and Banking Finance Company Limited, Kathmandu

2.157 On-site inspection of 93 money changers of the Kathmandu valley was completed in 2005/06.

2.158 A close circuit television (CCTV) and a security gate were installed for the sake of internal security at the cost Rs. 1359 thousand. Likewise, telephone exchange was upgraded to manage the internal communication system.

Meeting of the Board of Directors

2.159 The meeting of the Board of Directors was held 38 times in 2005/06. Such meetings had been held 33 times last year.

Table 2.1
Outstanding Refinance to Banks and Financial Institutions

Rs. in million

| S.No. | Financial Institutions | 2004/05 | 2005/06 |
|-------|-------------------------|---------|---------|
| 1. | Commercial Banks | 222.9 | 329.0 |
| 2. | ADB/N | 224.0 | 111.0 |
| 3. | NIDC | 773.4 | 619.0 |
| 4. | RDBs | 10.0 | 10.0 |
| 5. | Other Development Banks | 0.0 | 27.0 |
| | Total | 1,230.3 | 1,096.0 |

Table 2.2
Notes in Circulation

Rs. in million

| Denominations | Mid July | | | | | |
|---------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| | 2004 | | 2005 | | 2006 | |
| | Amount | Percent | Amount | Percent | Amount | Percent |
| 1 | 177.8 | 0.3 | 176.6 | 0.2 | 173.1 | 0.2 |
| 2 | 211.0 | 0.3 | 208.4 | 0.3 | 202.4 | 0.2 |
| 5 | 518.3 | 0.8 | 586.6 | 0.8 | 654.1 | 0.8 |
| 10 | 921.7 | 1.4 | 922.1 | 1.2 | 935.2 | 1.1 |
| 20 | 7654 | 1.1 | 914.1 | 1.2 | 1,064.3 | 1.3 |
| 25 | 214.6 | 0.3 | 153.5 | 0.2 | 129.3 | 0.2 |
| 50 | 1,343.9 | 2.0 | 1,503.0 | 2.0 | 1,716.6 | 2.0 |
| 100 | 4,301.3 | 6.3 | 4,576.0 | 6.1 | 4,865.5 | 5.7 |
| 250 | 89.9 | 0.1 | 86.7 | 0.1 | 83.9 | 0.1 |
| 500 | 16,759.0 | 24.6 | 17,309.5 | 23.2 | 20,094.1 | 23.7 |
| 1000 | 42,846.9 | 62.9 | 48,083.2 | 64.5 | 54,711.2 | 64.6 |
| Total | 68,150.0 | 100.0 | 74,520.0 | 100.0 | 84,630.0 | 100.0 |

Table 2.3
Security against Note Issued

Rs. in million

| Mid-July | Gold | Silver | Foreign Currency and Securities | Total | Government Securities | Security against Currency Issued* | Percent share of Foreign Exchange, Gold and Silver in Total Security |
|----------|-------|--------|---------------------------------|----------|-----------------------|-----------------------------------|--|
| | | | | (1+2+3) | | | (4+6)/100 |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 2004 | 831.7 | 459.3 | 62,687.2 | 63,978.2 | 4,171.7 | 68,150.0 | 93.9 |
| 2005 | 702.5 | - | 69,645.7 | 70,348.2 | 4,171.7 | 74,520.0 | 94.4 |
| 2006 | - | - | 80,458.3 | 8,0458 | 4,171.7 | 84,630.0 | 95.1 |

Table 2.4
Number of Class-wise Established Posts and Employees

| | Permanent | | | | Temporary/Contract | | | | Total | | | |
|----------------------------|----------------|--------------|----------------|--------------|--------------------|-----------|----------------|-----------|----------------|--------------|----------------|--------------|
| | Mid- July 2004 | | Mid- July 2005 | | Mid- July 2005 | | Mid- July 2006 | | Mid- July 2005 | | Mid- July 2006 | |
| | EP | FP | EP | FP | EP | FP | EP | FP | EP | FP | EP | FP |
| Officer-Special | 17 | 10 | 16 | 11 | 0 | | | | 17 | 10 | 16 | 11 |
| Officer-First | 47 | 35 | 37 | 33 | 0 | 1 | - | 1 | 47 | 36 | 37 | 34 |
| Officer-Second | 133 | 95 | 106 | 93 | 1 | 2 | 1 | 3 | 134 | 97 | 107 | 96 |
| Officer-Third | 303 | 279 | 307 | 292 | 1 | 1 | 1 | 1 | 304 | 280 | 308 | 293 |
| Assistant- First | 700 | 587 | 665 | 600 | 0 | 1 | - | | 700 | 588 | 665 | 600 |
| Assistant-Second | 206 | 124 | 119 | 101 | 2 | 2 | 2 | 1 | 208 | 126 | 121 | 102 |
| Assistant-Third | 92 | 90 | 91 | 79 | 1 | 1 | 1 | 1 | 93 | 91 | 92 | 80 |
| Assistant-Fourth and Fifth | 358 | 351 | 350 | 347 | 73 | 60 | 69 | 68 | 431 | 411 | 419 | 415 |
| Total | 1,856 | 1,571 | 1,691 | 1,556 | 78 | 68 | 74 | 75 | 1,934 | 1,639 | 1,765 | 1,631 |

E= Established Posts

F= Filled up Posts

Table 2.5
Seminars and Trainings Conducted by Bankers' Training Centre

| S.No | Topics | Level | Frequency | Participants |
|------|---|----------------|-----------|--------------|
| 1 | Organisational Behaviour | Senior Officer | 1 | 20 |
| 2 | Stress Management | Senior Officer | 1 | 20 |
| 3 | Nepal Macro econometric Modelling | Senior Officer | 1 | 20 |
| 4 | Information Security | Senior Officer | 1 | 20 |
| 5 | Management Development Programme | Officer | 1 | 20 |
| 6 | Monetary and Fiscal Management | Officer | 1 | 20 |
| 7 | Research Methodology and Report Writing | Officer | 1 | 20 |
| 8 | Computer Exposure | Officer | 1 | 14 |
| 9 | Risk Based Supervision | Officer | 1 | 20 |
| 10 | Pre- Service (On Recruitment) | Officer | 1 | 20 |
| 11 | Central Banking | Officer | 1 | 20 |
| 12 | Project Appraisal | Officer | 1 | 20 |
| 13 | Micro Finance | Assistant | 1 | 25 |
| 14 | Forex Operation | Assistant | 1 | 20 |
| 15 | L/C Operation | Assistant | 1 | 20 |
| 16 | Central Banking | Assistant | 2 | 50 |
| 17 | Cash Operation | Assistant | 1 | 25 |
| 18 | Inspection and Supervision | Assistant | 1 | 20 |
| 19 | Computer Operation | Assistant | 1 | 14 |
| 20 | BOP Statistics & Analysis | Assistant | 2 | 45 |
| 21 | Public Debt Management | Assistant | 1 | 20 |
| | Total | | 23 | 473 |

Table 2.6
Foreign Trainings, Seminars, Meetings and Workshops

| S.No | Details | Participants | Organizer | Venue |
|------|--|--------------|------------------------|----------------------------------|
| 1 | APEC Financial Regulators Training Initiative to Regional Seminar on Market Risk Analysis. | 1 | ADB | Malaysia |
| 2 | Workshop on the Fifth Quantitative Impact Study | 1 | BIS/FSI | Switzerland |
| 3 | 6th SEACEN/Federal Reserve System/World Bank Seminar for Senior Bank Supervisors from Asia Pacific Economics | 2 | SEACEN Centre | Malaysia |
| 4 | SEACEN-BIS Seminar on Changing Structures of the Financial System Challenges for Central Banks | 3 | SEACEN Centre | Thailand |
| 5 | Macroeconomic Management & Financial Sector Issues. | 1 | IMF | Singapore |
| 6 | Monetary Policy in Developing Countries | 1 | Study Center Gerzensee | Switzerland |
| 7 | 7th SEACEN Conference of Directors of Supervision of Asia Pacific Economies | 1 | SEACEN Centre | Malaysia |
| 8 | International Conference on Engaging / Observation tour of Reserve Bank of Australia, Bank of Thailand, Banco Sentral ng Pilipinas | 1 | UNDP/NRB | Australia, Philippine & Thailand |
| 9 | Seminar on Enhancing Economic Growth: Evidence, Policy & the Experience of Singapore | 1 | IMF | Singapore |
| 10 | Development of Modern Payments Systems at NRB | 4 | CBSL / NRB | Sri Lanka |
| 11 | Study Visit Program on Rural Banking | 2 | APRACA | Manila |
| 12 | 35th Meeting of the Managing Committee of CICTAB | 1 | CICTAB | Pune, India |
| 13 | 5th SEACEN-BOJ Course on Monetary Policies and Strategies | 1 | SEACEN Centre | South Korea |
| 14 | Staff Exchange Program | 4 | CBSL | Sri-Lanka |
| 15 | Fifth Meeting of SAARC Finance Coordinators | 1 | State Bank of Pakistan | Pakistan |
| 16 | Seminar on Conduct of Monetary Policy and Management of Capital Flows | 2 | State Bank of Pakistan | Pakistan |
| 17 | Observation Tour of WTO Service Sector Enquiry Points under Nepal Window II Trade Related Capacity Building Project | 1 | UNDP | Bangkok and Colombo |
| 18 | Governors' Symposium, 2005 | 2 | SAARC FINANCE | Delhi, Mumbai |
| 19 | Seminar on Internal Audit | 1 | Deutsche Bundesbank | Germany |
| 20 | Management of Rural Financing Institutions & Cooperatives for Rural Development | 2 | CICTAB | Delhi, Hyderabad |
| 21 | Joint Conference on Remittances 2005 | 1 | ADB / MIF / IDB / INDP | Philippines, Manila |
| 22 | Seminar on Market Risk Analysis | 1 | FSI / BIS | Switzerland |
| 23 | SEACEN-BOJ Workshop on International Reserve Management for Central Banks | 2 | SEACEN Centre | Taipei, Taiwan |
| 24 | Seminar on Consolidated Supervision | 2 | SEACEN Centre | Indonesia |
| 25 | 4th SEACEN-CPSS Course on Payments & Settlement Systems | 2 | SEACEN Centre | Malaysia |
| 26 | Annual Meeting of IMF/World Bank | 2 | IMF/World Bank | Washington D.C. |
| 27 | 2nd Swift Strategic Financial Industry Forum-SAARC Region | 2 | SWIFT | Mumbai, India |
| 28 | APRACA Planning Workshop | 1 | APRACA | Manila, Philippine |
| 29 | Senior Trainer Work Planner | 1 | SEACEN Centre | Malaysia |

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| S.No | Details | Participants | Organizer | Venue |
|------|---|--------------|---------------------|------------------------------------|
| 30 | Disaster Recovery for Swift Alliance Access & Entry | 1 | SWIFT | Sri Lanka |
| 31 | SEACEN-IMF Workshop on Financial Stability and Financial Soundness Indicators | 2 | SEACEN Centre | Bali, Indonesia |
| 32 | Feasibility Study of National Level Bankers Training Centre and Research Institution | 2 | NRB | Pune, Delhi |
| 33 | APEC Financial Regulators Training Initiative Fundamentals of Interest Rate Risk Management Seminar | 2 | ADB | Malaysia |
| 34 | Study of Indian Revenue system | 1 | GON | Delhi, India |
| 35 | Seminar on International Reserves & Foreign Currency Liquidity | 1 | IMF | Singapore |
| 36 | Course on Monetary and Financial Statistics (MFS) | 1 | IMF | Washington, D.C. |
| 37 | 5th SEACEN-Toronto Centre Leadership Seminar for Senior Management of Central Banks on Financial System Oversight | 3 | SEACEN Centre | Singapore |
| 38 | Course on Financial Programming & Policies | 1 | IMF | Singapore |
| 39 | Programme on Development of Managerial Skills for Agricultural Cooperatives & Rural Financing Institutions | 3 | CICTAB | Gurgaon, India |
| 40 | 18th Meeting and Conference of Asian Credit Supplementation Institution Confederation (ACSIC) | 1 | (ACSIC) | Seoul, Korea |
| 41 | Study Visit of Cooperative System in Korea | 2 | APRACA | Seoul, Korea |
| 42 | The International Forum to Build Inclusive Financial Sectors and Seminar on Regulation & Supervision | 2 | UNDP | New York, USA |
| 43 | Seminar for Banking and Insurance Supervisors on Asset Liability Management | 1 | BIS/FSI | Basel, Switzerland |
| 44 | SEACEN-IMF Course on Balance of Payments Management | 1 | SEACEN | Manila, Philippines |
| 45 | Procurement of Goods and Services | 1 | SETYM International | Malaysia, Kuala Lumpur |
| 46 | Study Visit to Micro-Finance Institutions in Indonesia | 2 | APRACA | Jakarta, Indonesia |
| 47 | Workshop for Financial Intelligence Unit Officials on Anti-Money Laundering | 1 | IMF | Singapore |
| 48 | 27th Meeting of SEACEN Directors of Research & Training | 2 | SEACEN Centre | Brunei |
| 49 | Meeting on Implementation of Basel II in Asia | 1 | FSI-EMEAP | Singapore |
| 50 | SEANZA Advisor's Meeting | 1 | SEANZA | Kuala Lumpur, Malaysia |
| 51 | International Program in Banking & Finance | 1 | NIBM, India | Pune, India |
| 52 | CICA-RACAs World Congress on Agricultural and Rural Finance and 50th Excom Meeting | 2 | APRACA | Addis Ababa, Ethiopia, Rome, Italy |
| 53 | SEACEN-BOJ-BOT Workshop on Survey Methodology for IIP, PDI & CPIS | 1 | SEACEN Centre | Chengmai, Thailand |
| 54 | APEC Financial / Regulators' Training Initiative Regional Seminar on Market Supervision | 2 | ADB | Manila, Philippines |
| 55 | 2nd MAS Regional Banking Supervisor Training | 1 | MAS | Singapore |
| 56 | 43rd Seacen / Federal Reserve System Course on Banking Supervision (Intermediate Level): Credit Risk Analysis | 1 | SEACEN Centre | Kuala Lumpur, Malaysia |

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| S.No | Details | Participants | Organizer | Venue |
|------|--|--------------|--|------------------------------|
| 57 | Seminar on Safeguards Assessments of Central Banks | 1 | IMF | Washington D.C. |
| 58 | Program on Integrated Management Approach in the Development of Cooperatives & Rural Financing Institutions | 3 | CICTAB | Pune, India |
| 59 | Course on Financial Fragility and Banking Crisis | 1 | IMF | Singapore |
| 60 | International Year of Micro-Credit; Regional Conference on Micro-Finance in South Asia Today and Tomorrow | 1 | World Bank | Delhi, India |
| 61 | Seminar on On-Site & Off-Site Supervision of Banks with a Special Focus on Basel II's Supervisory Process (Pillar 2) | 1 | BIS/FSI | Switzerland |
| 62 | SEACEN Seminar on Basel II: Preparation of Implementation in the Asia Pacific Region and 10th SEACEN-FSI Regional Seminar for Bank Supervisors & Regulators: Basel II & Operational Risk | 1 | SEACEN Centre | Sri-Lanka |
| 63 | Meeting on Formulating the APRACA Regional E-Commerce Program | 1 | APRACA | Manila, Philippines |
| 64 | Regional Polymer Banknote Symposium | 1 | State Bank of Vietnam | Hanoi, Vietnam |
| 65 | Establishment of Assets Management Company in Nepal | 3 | NRB | China, Thailand and S. Korea |
| 66 | Banking Supervision Under Basel II Basic Seminar | 1 | Deutsche Bundesbank | Germany |
| 67 | Note Printing | 2 | Perum Peruri | Jakarta, Indonesia |
| 68 | Note Printing | 1 | Francois Charies Oberthur Fiduciaire | France |
| 69 | Seminar on Derivatives & Risk Management | 1 | AMERICAN Express Bank, Singapore | Singapore |
| 70 | SAARCFINANCE Seminar on "Current Oil Price Shock & Its Implications on South Asian Economies" | 1 | Central Bank of Sri Lanka | Sri Lanka |
| 71 | SAARCFINANCE Seminar on Current Oil Price Shock & Its Implications on South Asian Economies | | Central Bank of Sri Lanka | Sri Lanka |
| 72 | Internal Audit System | 2 | Reserve Bank of Australia / New Zealand | Australia / New Zealand |
| 73 | Seminar in Future of Central Banking in Collaboration with The London School of Economics and Political Science | 1 | NIBM | Mumbai, India |
| 74 | Regional Conference on Investment & Trade /Study Visit of State Bank of Pakistan | 1 | IBA / SAARC Chamber of Commerce & Industry | Karachi, Pakistan |
| 75 | International Seminar on Payment Systems | 1 | RBSC | Madras, India |
| 76 | Advance Topics in Empirical Finance | 1 | Study Centre Gerzensee | Switzerland |
| 77 | Course on Financial Programming & Policies | 1 | IMF | Singapore |
| 78 | Cheque book printing | 2 | NRB | Kanpur, India |
| 79 | Monetary Policy & Exchange Rate Issues | 1 | DEUTSCHE Bundesbank | Germany, Frankfurt |
| 80 | 2nd SEACEN-BOJ Workshop on Communication Strategy for Monetary Policy | 1 | SEACEN Centre | Seoul, Korea |
| 81 | SAARC FINANCE Governors Symposium on Micro Credit | 2 | Bangladesh Bank | Bangladesh |
| 82 | 4th SEACEN EXCO Meeting | 1 | The SEACEN Centre | Fiji |

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| S.No | Details | Participants | Organizer | Venue |
|------|---|--------------|--|---------------------|
| 83 | Seminar on Changes in Operational Framework and Transmission Mechanism of Monetary Policy in the SEACEN Countries. | 2 | SEACEN | Bali, Indonesia |
| 84 | Study Visit of HSBC, Hong Kong | 4 | HSBC, Singapore | Hong Kong |
| 85 | Micro Finance System | 1 | Rural Microfinance Development Centre Ltd. | Dhaka, Bangladesh |
| 86 | Study Visit on Computer Operation | 4 | CBSL | Sri-Lanka |
| 87 | Workshop on Foreign Exchange Reserve Management: Framework of Strategic Asset Allocation | 2 | IMF | Singapore |
| 88 | Seminar on Payments & Securities Settlement Systems | 1 | Deutsche, Bundesbank | Germany |
| 89 | Seminar on International Accounting & Auditing for Banks | 1 | BIS / FSI | Switzerland |
| 90 | 41st SEACEN Governors Conference & 25th Meeting of The SEACEN Board of Governors | 2 | SEACEN Centre | Brunei |
| 91 | 11th SEACEN-FSI Regional Seminar for Bank Supervisors and Regulators: Supervisory Review Process of Basel II and its Implementation & 2nd SEACEN Seminar on Basel II: Preparation for Implementation in the Asia-Pacific Region | 2 | SEACEN Centre | Bangkok, Thailand |
| 92 | Program on Financing Self Help Groups | 2 | CICTAB | Lucknow, India |
| 93 | SEACEN-BIS Workshop on Legal Trends and Development for Regulators and Central Bank | 2 | SEACEN Centre | Bangkok, Thailand |
| 94 | Course on Balance of Payments | 2 | IMF | Singapore |
| 95 | Course on Monetary and Financial Statistics | 1 | IMF | Singapore |
| 96 | 37th International Central Banking Course | 1 | State Bank of Pakistan | Pakistan |
| 97 | 2nd Meeting of APRACA FUND | 2 | APRACA | Vietnam |
| 98 | 1st Central Training Committee Meeting | 1 | „ | „ |
| 99 | 3rd SEACEN Expert Group (SEG) Technical Meeting | 1 | SEACEN Centre | Malaysia |
| 100 | Seminar on Cash Management and Combating Counterfeit Money | 1 | Deutsche Bundesbank | Germany |
| 101 | Workshop on the Debt Sustainability Framework for Low-Income Countries | 1 | The World Bank | Sri-Lanka |
| 102 | 36th Meeting of the Managing Committee of CICTAB | 1 | CICTAB | Pune, India |
| 103 | Workshop on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) for Financial Sector Supervisors | 1 | IMF | Singapore |
| 104 | Financial Programming and Policies | 1 | IMF | Singapore |
| 105 | Operational Project Planning | 1 | SETYM International | Tanzania, Dare Slam |
| 106 | Second Research Workshop on Adequacy of The Existing Levels of Capital Implied by the Basel Standards, Relative to Credits Risk Exposures of Banks in The SEACEN Region | 1 | SEACEN Centre | Malaysia |
| 107 | SEACEN-OCC Advanced Seminar on Quantitative Techniques for Macro Surveillance and Determining Resilience of the Banking Sector | 1 | SEACEN Centre | Malaysia |
| 108 | Study Visit Program on Credit Plus Approach | 2 | APRACA | Manila, Philippines |

Activities of Nepal Rastra Bank

| S.No | Details | Participants | Organizer | Venue |
|------|--|--------------|--|---------------------|
| 109 | APEC Financial / Regulators' Training Initiative Regional Seminar on Bank Analysis & Examination School | 1 | ADB | Manila, Philippines |
| 110 | Seminar on Controlling at Central Banks | 1 | Deutsche Bundesbank | Germany |
| 111 | 5th Central Banking Study Program | 1 | Bank of Korea | South Korea |
| 112 | First STI Meeting on Training | 1 | IMF | Singapore |
| 113 | Course on Supervisory Challenges and Financial Stability | 1 | IMF | Washington D.C. |
| 114 | First SEACEN Research Workshop on Impact and Policy Responses to Volatile Oil Price in the SEACEN Countries | 1 | SEACEN Centre | Malaysia |
| 115 | Trainers' Training Course | 1 | APRACA | Malaysia |
| 116 | 44th SEACEN Federal Reserve System Intermediate Course on Banking Supervision: Market Risk Analysis. | 2 | SEACEN Centre | Malaysia |
| 117 | 3rd MAS Regional Banking Supervisors Training Program. | 1 | MAS | Singapore |
| 118 | Net Security | 2 | AIT, Bangkok | Bangkok, Thailand |
| 119 | International Investment Position | 1 | RMAB | Bhutan |
| 120 | FSI Seminars on Advance Risk Management in Beatenberg. | 1 | FSI | Switzerland |
| 121 | SEACEN-CeMCoA/BOJ Seminar Formulation & Implementation of IT Policies by Central Banks. | 1 | SEACEN Centre | South Korea |
| 122 | Monetary Cooperation Within SAARC | 1 | The University of Melbourne, Australia | Australia |
| 123 | Field Visit Program on Micro & Small Enterprises. | 2 | APRACA | Bangkok, Thailand |
| 124 | FSI & IIF, Inc. Public/Private Sector Round Table on Basel II and other Regional Risk Management Priorities. | 2 | FSI, BIS | Hong Kong |
| 125 | SEACEN-BI-CEMCoA/BOJ Intermediate Course on Payment and Settlement Systems for Emerging Economies. | 2 | SEACEN Centre | Indonesia |
| 126 | Bank Analysis & Examination School | 2 | Federal Reserve's Training Centre | Washington D.C. |
| 127 | Seminar on Corporate Governance of Banks in Asia. | 1 | FSI & OECD | Hongkong |
| 128 | 1st SEACEN CoMCoA/BOJ Intermediate Course on Macroeconomic and Monetary Policy Management | 2 | SEACEN Centre | Brunei |
| 129 | Seminar on Macroeconomic Management for Senior Officials (MMSO) | 1 | IMF | Singapore |
| 130 | APG Annual Meeting & Annual Forum on Technical Assistance 2006 | 2 | APG | Manila |
| 131 | Study Visit Program on Micro Finance | 2 | APRACA | Manila |
| 132 | 2nd APRACA Training and Research Committee (ATRC) Meeting | 1 | APRACA | Malaysia |
| 133 | 6th SAARCFINANCE Coordinators' Meeting | 1 | Bangladesh Bank | Dhaka |
| 134 | APEC Financial Regulators Training Initiative, Invitation to Regional Seminar on Risk-Focused Supervision & Risk Assessment. | 1 | ADB | Australia |
| 135 | Macro Economic Management & Fiscal Issues | 1 | IMF | Singapore |

Report of Fiscal Year 2005/06

| S.No | Details | Participants | Organizer | Venue |
|------|--|--------------|------------------------------------|-------------------|
| 136 | APRACA Regional Consultation on the Status & Development of Conducive Policy Environment & Regulatory Framework for Rural Finance. | 1 | APRACA | Bangkok, Thailand |
| 137 | Training Program on Household Budget Survey. | 3 | Bangladesh Bureau of Statistics | Bangladesh |
| 138 | The Boulder Microfinance Training 2006 | 1 | ILO, International Training Centre | Turin, Italy |
| 139 | Oracle 9i Database Administration Track | 3 | Colombo, Sri Lanka | Colombo Sri Lanka |
| 140 | 3rd SEACEN Seminar on Basel II: Preparation of Implementation in The Asia-Pacific Region. | 7 | SEACEN Centre | Malaysia |
| | Total | 213 | | |

Table 2.7
Higher Studies

| S.No. | Description | No. | Institute/Country |
|-------|-----------------------------------|-----|-------------------------|
| 1 | M.A. in Development Economics | 1 | Williams College, USA |
| 2 | M.A. in Human Resource Management | 1 | Bradford University, UK |
| 3 | M.Sc. in International Economics | 1 | Bradford University, UK |

Appendix 2.1

Instructions Given to Commercial Banks While Giving Clearance to disseminate their Financial Statement of 2005/06

1. Nepal Bank Limited

- a. To show the loan of Arihanta Aparels, in the name of the same, that was purchased from Himalayan Bank Limited and shown in the name of the latter and hence omitted from the list of the credit to private sector from banking sector. NBL was also instructed to put the loan under the category of bad loan and to make additional provisioning of Rs. 18.1 million. After adjusting the amount, net profit of the bank would be Rs. 1,712.1 million with a negative primary capital of Rs. 7,532.9 million. The bank was also instructed to clarify the cause of providing loan to Golchha group in excess of the single obligator limit.
- b. To correct the discrepancies in credit management in accordance with the credit policy guidelines as indicated by the auditor.
- c. To correct the discrepancies indicated by auditor in accounting procedure of fixed assets as per the accounting manual.
- d. To bring down the loan exceeding single obligor limit within the specified limit.
- e. To correct auditor's other remarks and report to NRB accordingly.

2. Nabil Bank Limited

- a. To hold the meeting of the Board of Directors in accordance with the provision of BAFIO.
- b. To correct auditor's remarks and report to NRB accordingly.

3. Nepal Investment Bank limited

- a. To amend and publish the schedule 10 (a) of the financial statement in accordance with the statutory format of NRB.
- b. To take a note that restructured and rescheduled loans could be converted into pass loan, only if the principal and interest of such loans were paid regularly for two years. In addition, the ratio of total capital fund to risk weighted assets stood at 11.6 percent calculating supplementary capital with loan loss provisioning of pass loans only instead of counting loan loss provisioning of restructured and rescheduled loans.
- c. To correct auditor's remarks and report to NRB accordingly.

4. Standard Chartered Bank Nepal Limited

- a. To amend and publish the schedule 10 (a) of the financial statement in accordance with the statutory format of NRB.
- b. To classify bad loans in accordance with the loan classification and to publish it.

5. Himalayan Bank Limited

- a. To classify some of the loans in adverse category and to show additional provisioning of Rs. 18.2 million as expenditure in profit and loss account of mid July 2005 and to report NRB by adjusting accordingly into employees' bonus and other headings.
- b. To correct auditor's remarks and report to NRB accordingly.

6. Nepal Bangladesh Bank Limited

- a. To take a note that, losses of the bank increased by Rs. 715.2 million after adjusting Rs. 516.5 million as loan loss provisioning for bad loans, Rs. 190.8 million as provisioning for overdue loans, Rs. 6.2 million as provisioning for investment and Rs. 1.8 million as provisioning for cheque forgery as found in the on-site inspection of the bank.
- b. The board of directors of the bank was warned for putting the bank in financially critical situation by not complying with the directives of NRB, as the losses of the bank as at mid July 2005 could increase by Rs. 832.4 million adjusting Rs. 117.2 million which was accounted as income by the bank instead of transferring into interest suspense account.
- c. NRB expressed its deep concern for the non compliance of its directives and also for the critical condition of the financial health of the bank as the bank did not correct the major errors regarding loan disbursement and management; failure to comply with NRB directives on priority sector and deprived sector loans; failure to perform the bi-annual internal auditing of the L/C transaction, failure to meet the capital adequacy requirement as specified by NRB, net loss of a large amount it incurred and failure to comply with the directives related to corporate governance.
- d. In addition, Nepal Bangladesh Bank Limited was instructed to publish again the financial statement including the amendments regarding loan classification and capital adequacy.
- e. To report to NRB after taking the necessary action against the staff involved in the cheque forgery, converting the schedule 10 of the financial statement as per the statutory framework of NRB and correcting other remarks pointed out by the auditor.
- f. In addition, the bank was instructed to publish in its Annual Report the following directives given on 24 February 2006:

- i. Distribution of dividend, prior to meeting the capital adequacy norms, was prohibited as per clause 100 (1) (e) of NRB Act, 2002,
 - ii. Ceiling of Rs. 30 million for funded loans and Rs. 50 million for non-funded facilities were fixed as per clause 100 (1) (f) of NRB Act, 2002. Loans disbursed earlier should be brought under limits before mid-July 2007.
 - iii. Alteration or release of collateral pledged by the borrowers related to NB Group Nepal (49 borrowers of the bank as specified in the letter of NRB dated 7 December 2004) was prohibited as per clause 100(1) (5) of NRB Act, 2002 until the loan was recovered.
 - iv. Commitment of the bank to disburse loan in cash exceeding Rs. 5 million with prior approval of NRB was made applicable for non funded loans and advances too. While approving such loans and advances, either funded or non-funded, the status of the borrower should be appraised in detail by the bank. Total responsibility of such loans should be borne by the bank itself, not by NRB, directly or indirectly.
- g. Nepal Bangladesh Bank Limited was instructed to implement the following commitments it made through its letter dated 15 February 2005:
- i. Plan to expand branch network should be implemented only after accomplishing the rehabilitation programme of the bank since the process of business consolidation is underway.
 - ii. Follow the loan recovery schedule as approved by NRB through the letter dated 30 May 2005.
 - iii. Despite the effort of the bank to maintain minimum capital fund as specified by NRB, capital fund was found inadequate because of the deteriorating industrial and business environment, restriction imposed by NRB to mobilize savings and ban to issue bonds. Thus the bank was instructed to maintain capital adequacy within three years, as per NRB directive, either by issuing bond after maintaining adequate primary capital or by increasing share capital and minimizing loan loss provisioning along with non-banking assets.
 - iv. To give special emphasis to risk management through necessary restructuring of management for the successful implementation of business plan prepared to meet the capital adequacy norms as per the capital plan of the bank.
 - v. In order to minimize the amount of existing non-performing loans and loan loss provisioning, the bank was instructed to pay special attention to loan recovery in order to improve the quality of loans, by proper management of non performing loans.
 - vi. To submit the details of loan exceeding Rs. 10 million to the Monitoring Committee formed as per the letter of NRB dated 6 January 2005 on monthly, weekly or daily basis and to disburse cash loans exceeding Rs. 5 million only with the approval of NRB till the capital adequacy norm is met.
 - vii. The proposal to merge Nepal Sri Lanka Merchant Bank Limited and Nepal Bangladesh Finance and Leasing Company Limited with Nepal Bangladesh Bank Limited was submitted to NRB with the approval of board of directors of the related banks and financial institutions. A letter of intent was given by NRB in this regard. It was known that the proposal was approved by the annual general meeting of Nepal Sri Lanka Merchant Bank Limited and Nepal Bangladesh Finance and Leasing Company Limited. In case of Nepal Bangladesh Bank Limited, it was known that the proposal was approved by the 135th board meeting of the bank with consent of IFIC Bank, the joint investor of the bank, and in presence of the representatives from IFIC Bank. Since the detail discussion with the respective financial institutions about the modality of merger was underway, Nepal Bangladesh Bank Limited was instructed to merge those financial institutions within six months after getting the approval of its 11th annual general meeting.
- h. To implement directive no. 7 of the unified directive of NRB making necessary corrections on the remarks and other matters on which attention of the board of directors was sought (including the discrepancies regarding loans as per schedule 1) in accordance with the overall onsite inspection report prepared on the basis of provisional financial statements of Nepal Bangladesh Bank Limited as of mid- July 2005.

7. Nepal SBI Bank Limited

- a. To depute adequate number of employees in Internal Audit Department in accordance with the volume and types transaction.
- b. To report to NRB making additional loan loss provisioning of Rs. 11 million in some of the loans within the ongoing quarter and making adjustments in staff bonus and other headings accordingly.
- c. To correct the auditor's remarks and report to NRB accordingly.

8. Everest Bank Limited

- a. To regularly hold the meeting of the board of directors as per the provisions of the BAFIO.
- b. To formulate loan write-off policy and report to NRB accordingly.
- c. To publish in the national level newspaper, the details of unpaid dividends remaining pending for five years.
- d. To publish the financial statement revealing the number of proposed bonus share and the number of bonus share to be issued.

- e. To calculate net worth excluding loan loss provisioning and to reveal in financial statement accordingly, and
- f. To correct the discrepancies as pointed out by auditor.

9. Bank of Kathmandu Limited

- a. Attention of the board of directors was sought to correct the shortcomings in operation along with the auditor's remarks regarding loans.
- b. To carry out internal auditing in accordance with the size of the bank and nature of transaction.
- c. To depute separate employees for NRB reporting and other functions.

10. Nepal Credit and Commerce Bank Limited

- a. The board of directors of the bank was warned against non compliance of directive no. 2 while classifying loans and not maintaining risk bearing fund in adequate level as the losses of the bank was found to increase by Rs. 646 million after making provisions for the losses. The bank was instructed to make additional provisions of Rs. 485.4 million for loans as per schedule of onsite inspection report, provision of Rs. 6.2 million for loans to be classified on the basis of due date, additional loan loss provision of Rs. 106.5 million as per the preliminary audit report, provision of Rs. 31.0 million for interest income shown on accrual basis and provision of Rs. 16.8 million for investment.
- b. Deep concern of NRB was expressed as the financial position of the bank was found to be critical for major errors in loan disbursement and management were not corrected, directives of NRB regarding priority sector and deprived sector loan were violated, capital adequacy norms of NRB was not adhered to, directives regarding single borrower's limit, corporate governance etc were not complied with.
- c. Nepal Credit and Commerce Bank Limited was instructed to correct auditor's remarks and report to NRB accordingly and also to publish its financial statement including Rs. 52.9 million only in supplementary capital.
- d. The bank was instructed on 24 February 2005 to publish the following instructions in its annual report in addition to the above:
 - i. Distribution of dividend was prohibited as per clause 100 (1) (e) of NRB Act, 2002 until the capital fund was maintained at adequate level.
 - ii. Ceiling of Rs. 30 million for funded loans and Rs. 50 million for non-funded facilities were fixed as per clause 100 (1) (f) of NRB Act, 2002. Loan distributed earlier was instructed to bring under limits before mid-July 2007.
 - iii. Alteration or release of collateral pledged by the borrowers related to NB Group Nepal (49 borrowers of the bank as specified in the letter of NRB dated 7 December 2004) was prohibited as per clause 100(1) (5) of NRB Act, 2002 except in case of recovery of the loan.
 - iv. Commitment of the bank to disburse loan in cash exceeding Rs. 5 million with prior approval of NRB was made applicable for non funded loans and advances too. While approving such loans and advances, either funded or non-funded, the status of the borrower should be appraised in detail. Total responsibility of such loans should be borne by the bank itself, not by NRB, directly or indirectly.
- e. The bank was instructed to implement the following commitments made on 12 February 2006 and 23 February 2006 by the board of directors of the bank and submitted to the NRB:
 - i. Plan to expand branch network should be implemented only after accomplishing the rehabilitation programme of the bank since the process of business consolidation was ongoing.
 - ii. Follow the loan recovery schedule as approved by NRB through the letter dated 30 May 2005.
 - iii. To issue bonds in order to increase the capital fund after maintaining the core capital as per NRB directives. To meet the capital adequacy norms of NRB within two years by bringing down markedly non banking assets and loan loss provisioning of the bank in addition to increasing the share capital or applying other alternative methods.
 - iv. To give special emphasis to risk management through necessary restructuring of management for the successful implementation of business plan prepared to meet the capital adequacy norms as per the capital plan of the bank.
 - v. In order to minimize the amount of existing non-performing loans and loan loss provisioning, the bank was instructed to give special emphasis on loan recovery so as to improve the quality of loans, through proper management of non performing loans.
 - vi. To submit the details of loan exceeding Rs. 10 million to the Monitoring Committee formed as per the letter of NRB dated 6 January 2005 on monthly, weekly and daily basis and to disburse cash loans exceeding Rs. 5 million only with the approval of NRB till the capital adequacy norm was met.
 - vii. The bank was instructed to initiate necessary action submitting a proposal, within two years to the annual general meeting and getting approval of the meeting, regarding the merger of Nepal Credit and Commerce Bank Limited and Nepal Bangladesh Bank Limited if the result of such merger was seen favourable after making appraisal of the strength and weaknesses of the merger.

viii. To implement directive no. 7 of the unified directive of NRB making necessary corrections on the remarks and other matters on which attention of the board of directors was sought in accordance with the overall onsite inspection report prepared on the basis of provisional financial statements of Nepal Credit and Commerce Bank Limited as of mid- July 2005.

11. Lumbini Bank Limited

- a. The bank was instructed to report NRB after showing Rs.136.4 million as expenditure in the retained profit/loss account as of mid-July 2005 with immediate effect. The bank was also directed to include the additional loan loss provisioning of Rs. 99.3 million as per the attachment of onsite inspection and Rs. 37.1 million accounted as income after interest capitalization instead of transferring into interest suspense account. It was also pointed out that, after adjustment of these amounts, net losses of the bank as at mid- July 2005 came down to Rs. 333.2 million from Rs. 17.8 million while core capital was maintained at Rs. 106.6 million (2.52 percent) with capital fund of Rs. 137.7 million (3.19 percent).
- b. A serious concern of NRB was expressed for the continuation of severe errors in loan disbursement, and management's reluctance in formulating manuals for daily operation such as banking operation manual, treasury manual, loan administration and follow-up manual, security documentation, IT manual etc. Likewise, the concern was expressed on weakness of management in the field of risk management and non compliance of directives regarding corporate governance.
- c. To report NRB correcting the discrepancies as pointed out by the auditor and to publish financial statements including into supplementary capital the loan loss provisioning of good loans only except loan loss provisioning of Rs. 29.4 million for restructured and rescheduled loans.
- d. To publish financial statement by including loan loss provisioning for good loans only in supplementary capital in addition to Rs. 29.4 million as loan loss provisioning for restructured and rescheduled loans in accordance with the provision of converting the restructured or rescheduled loans into good loan if the principal and interest of such loans were paid regularly in the last two years. The bank was also instructed to correct the auditor's remarks and report to NRB accordingly.

12. Nepal Industrial and Commercial Bank Limited

To perform internal auditing effectively in reference to the banking transactions and to report to NRB after correcting major issues raised by auditor.

13. Machhapuchhre Bank Limited

No instruction was given to the bank, since the financial statements of the bank were produced as per the prescribed format and all the directives issued by NRB were complied well.

14. Kumari Bank Limited

- a. To establish the system of acquiring details of net worth from debtors and guarantors before disbursing loan,
- b. To update the credit policy and report to NRB about the loan recovery procedure,
- c. To modify schedule 10 (A) of the financial statement as per the statutory framework of NRB, and to publish the financial statement - indicating clearly the name, per cent and amount of the shareholder individuals/groups/firms having 0.5 percent or more shares in schedule 1.
- d. To report to NRB making 50 percent additional loan loss provisioning for the term loan of Everest Floriculture and adjusting staff bonus and other headings accordingly.
- e. To take a note that the total capital fund of the bank stood at Rs. 701.5 million with total capital fund / risk weighted assets ratio of 11.05 percent while calculating them as per the directives of NRB.
- f. To correct the auditor's remarks and report to NRB accordingly.

15. Laxmi Bank Limited

- a. To transfer the title deed of realty of Hisef Finance Company Limited to Laxmi Bank limited.
- b. To calculate capital fund in schedule 24, avoiding double counting of cumulative profit and loss of the previous year in primary capital.
- c. To publish the financial statement showing the Rs. 17.0 million in risk weighted assets as investment in the debenture of GON instead of showing it as investment in NRB debenture.
- d. To deduct the amount of goodwill (fictitious assets) and expenditure to be written-off, while calculating net worth.
- e. To correct the auditor's remarks and report to NRB accordingly.

16. Siddhartha Bank Limited

- a. To make arrangement for the implementation of matters under the responsibilities of Audit Committee.
- b. To report to NRB after making amendment on credit policy directives and financial rules and regulations as suggested by auditor.
- c. To hold regularly the meeting of board of directors as per BAFIO,
- d. To follow the directives of NRB regarding sector wise credit concentration and information.
- e. To correct the auditor's remarks and report to NRB accordingly.

Appendix 2.2

**Overall On-site Inspection of Financial Institutions
2005/06**

1. B-Class Financial Institutions

- a. Bhrikuti Development Bank Limited
- b. Gaurishankar Development Financial Institution Limited
- c. Business Development Financial Institution Limited
- d. Gandaki Development Financial Institution Limited
- e. Bageshwori Development Bank Limited
- f. Excel Credit and Commerce Financial Institution Limited
- g. Nepal Cottage and Small Industries Development Bank Limited.
- h. Sanima Development Financial Institution Limited
- i. Gorkha Development Bank Limited
- j. Uddyam Development Bank Limited
- k. Siddhartha Development Bank Limited
- l. Triveni Development Bank Limited, and
- m. Paschimanchal Development Bank Limited

2. C-Class Financial Institutions

- a. Ace Finance Company Limited
- b. General Finance company Limited
- c. United Finance Company Limited
- d. Nepal Housing Development Finance Company Limited
- e. Gorkha Finance Company Limited
- f. International Leasing and Finance Company Limited
- g. Universal Finance Company Limited
- h. Bhajuratna Finance and Saving Company Limited
- i. Phewa Finance company Limited
- j. Mahalaxmi Finance Company Limited
- k. Paschimanchal Finance company Limited
- l. Nepal Bangladesh Finance and Leasing company Limited
- m. Samjhana Finance Company Limited
- n. Patan Finance Company Limited
- o. Kist Merchant Banking and Finance Company Limited
- p. Goodwill Finance Company Limited
- q. Yeti Finance Company Limited
- r. Merchant Finance Company Limited
- s. Nepal Merchant Banking and Finance Company Limited
- t. Central Finance Company Limited
- u. Lumbini Finance Company Limited
- v. ICFC Financial Institution Limited
- w. National Finance Company Limited
- x. Srijana Finance Company Limited
- y. Om Finance Company Limited
- z. Shree Investment and Finance Company Limited
- aa. Cosmic Merchant Finance Company Limited and
- bb. Guhyeshwari Merchant Banking and Finance Company Limited

3. D-Class Financial Institutions

- a. Rural Microfinance Development Center
- b. Nirdhan Utthan Bank Limited
- c. Small Farmers Development Bank Limited
- d. Co-operative Society: Shree Yeti Savings and Credit Co-operative Limited
- e. Non-governmental Organizations:
 - i. Singana Yuba Club
 - ii. Grameen Mahila Utsukta Bikas Manch
 - iii. Nepal Grameen Bikas Samaj Kendra, and
 - iv. Srijana Samudaik Bikas Kendra.

Appendix 2.3

Follow-up and Special Inspection

2005/06

1. Follow-up Inspection of the Following was done

- a. Eastern Region Rural Development Bank
- b. Paschimanchal Finance Company Limited
- c. Arun Finance and Savings Company Limited

2. Special Inspection of the Following was done

- a. Nepal Cottage and Small Industries Development Bank Limited
- b. Guhyeshwari Merchant Banking and Finance Company Limited
- c. Bhajuratna Finance and Saving Company Limited
- d. Patan Finance Company Limited
- e. United Development Bank Limited

3. Off-site Inspection of the Following could not be done in Detail

- a. Samjhana Finance Company Limited
- b. Himalayan Finance and Savings Company Limited
- c. Arun Finance and Savings Company Limited
- d. Nepal Bangladesh Finance and Leasing Company Limited,
- e. Nepal Srilanka Merchant Banking and Finance Company Limited.

Appendix 2.4

Action taken against Financial Institutions in course of Implementation of Inspection and Supervision Remarks

1. License given to Singana Youth Club, Baglung on 2 September 2002 to act as financial intermediary was revoked as the club failed to carry out the assigned function right from the date of licensing. The club also declined to renew the license as per clause 7 of Financial Intermediary Act while the office site and office staff of the club was missing in the onsite inspection.
2. Arun Finance and Savings Company Limited was declared problematic as per the decision of 20 November 2005 and the provision of clause 86 (b) of NRB Act, 2002 fixing the ceiling of Rs. 55.3 million and Rs. 65.3 million for loan disbursement and deposit collection respectively. The company was in continuous loss from the last fiscal year. Net worth of the company had become negative and question was raised by external auditor on the company's going concern. Though, NRB summoned the high ranking executives and directors of the company and gave instructions as the financial condition of the bank went worsening as the management declined to act as per their commitments.
3. As per the decision of 6 April 2006, Uddyam Bikash Bank Limited was instructed not to renew the matured deposits and limit of Rs. 82.5 million was imposed on deposit collection from 2063.2.2 until the discrepancies were corrected. The bank was found to operate against the benefit of the depositors breaching the provisions of clauses 12, 21, 42 and 46 of BAFIO and provisions of directive no. 2, 6 and 16 of the unified directive of NRB.
4. As per the decision of 5 March 2006, Butwal Finance Company Limited was instructed to expel its financial director as the financial director was found holding share of the company more than one percent of its paid up capital breaching the provision of clause 3(7) of directive no. 6 regarding corporate governance.
5. In context of close monitoring of Nepal Sri Lanka Merchant Banking and Finance Company Limited and Nepal Bangladesh Finance and Leasing Company Limited, after making on site inspection of the both institutions, clarification was sought from the board of directors on the remarks issued regarding black listing and also for accounting interest income from bounced cheques.
6. Special and overall inspection of Nepal Cottage and Small Industry Development Bank Limited was done with reference to the case filed in the Commission for Investigation of Abuse of Authority against improper investment and loan disbursement.
7. Crystal Finance Company Limited was kept under close monitoring after giving instruction with reference to the written commitments of 6 February 2006 regarding the investment of Rs. 42.4 million in JDA Developers exceeding the limits.
8. A ban on collection and renewal of deposit was imposed on Merchant Finance Company Limited and a ceiling of Rs. 120 million was fixed for loan disbursement until the capital fund and financial resources mobilization came under limit with the improvement of core capital.
9. The Chairman of the board of director of United Development Bank Limited was found working simultaneously as the director of the bank and also as the government employee, contrary to the provision of BAFIO. Thus the bank was instructed to expel him from the directorship but he took retirement from government service and continued to be the director.
10. Nepal Development Bank Limited and Nepal Cottage and Small Industries Development Bank Limited were instructed to improve the negative capital fund and to maintain capital fund as per the directive of NRB. These two banks submitted their capital plan to NRB, which was approved with conditions and a provision of follow-up of implementation was also made.
11. Clarification was sought from the auditor as the auditor neither calculated capital fund as per NRB directive nor revealed in the audit report the investment in JDA Developers which was contrary to the provision of directive. Similarly, clarification with another auditor was demanded as the auditor revealed in the long form audit report that there was adequate loan loss provisioning though any provisioning was not made.
12. Janaki Finance Company Limited was restricted to collect financial resources or renew it as the company was found to collect financial resources above the limits set by directives. The restriction was withdrawn from 2062.4.19 as the company brought the financial resources mobilization under limit.
13. Central Finance Company Limited was instructed to deposit the amount of Rs 1.1 million with NRB, which was mobilized as financial resource exceeding the limit set by NRB directive. The company was also instructed not to withdraw the amount without permission of NRB. The ban was lifted as the company brought the financial resource mobilization within limit.

Appendix 2.5

Finance Companies Penalized for not Maintaining CRR

| S.No. | Name of Financial Institutions | Penalty (Rs.) |
|-------|--|---------------|
| 1. | Himalayan Finance and Savings Company Limited | 53,263.38 |
| 2. | Merchant Finance Company Limited | 11,646.92 |
| 3. | NIDC Capital Markets Limited | 8,416.15 |
| 4. | Nepal Housing and Merchant Finance Company Limited | 342.69 |
| 5. | General Finance Company Limited | 1,636.3 |
| 6. | Janaki Finance Company Limited | 3,581.43 |
| 7. | Alpic Everest Finance Company Limited | 127.00 |
| 8. | Arun Finance and Savings Company Limited | 14,823.31 |
| 9. | Patan Finance Company Limited | 1,917.10 |
| 10. | Crystal Finance Company Limited | 42,066.28 |



PART

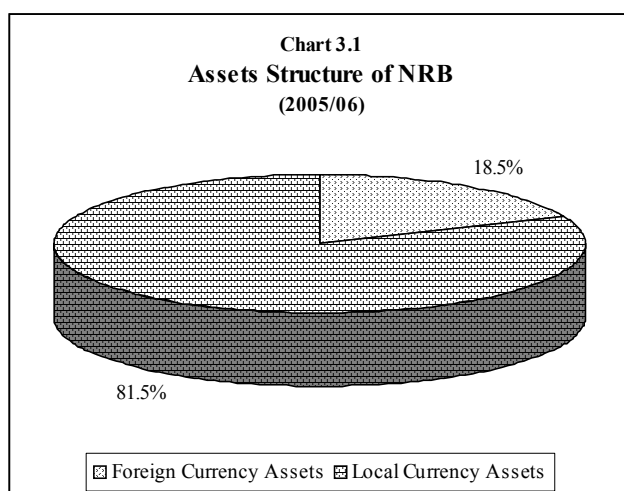
III

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- Income Statement Analysis 78

Annual Financial Statements of NRB

Balance Sheet Analysis

3.1 As at mid-July 2006, total assets/total liabilities of NRB reached Rs. 166.40 billion with an increment of 17.7 percent over the last year's amount. Foreign currency assets (including gold) and local currency assets held 81.5 percent and 18.5 percent share respectively in total assets. The respective shares of those assets were 75.7 percent and 24.3 percent last year. In total liabilities and equity, the share of local currency liabilities was 77.1 percent, foreign currency liabilities 1.6 percent and equity 21.3 percent. The shares of aforementioned liabilities and equity were 78.7 percent, 2.1 percent, and 19.2 percent respectively in the previous year.



3.2 In foreign currency assets, foreign currency cash and bank balance occupied 71.4 percent share whereas the investment in treasury bills, other receivables, and SDR holdings accounted for 27.5 percent, 0.6 percent and 0.5 percent respectively. In the review year, cash and bank balance, other receivables and SDR holdings with IMF increased by 45.7 percent, 4.5 percent and by 63.3 percent respectively whereas, the investment in treasury bills decreased by 5.9 percent compared to last year. Gold, the only component of other assets under foreign currency assets, increased by 60.7 percent in the review year. Total foreign currency assets increased by 26.9 percent to Rs. 135.67 billion in the review year from the level of last year.

3.3 In local currency financial assets, the shares of investment in government securities, refinance and loans and other receivables were 54.4 percent, 12.6 percent and 11.4 percent respectively. Likewise, the shares of other investment, cash in hand, the GON overdraft and investment in financial and other institutions were 10.9 percent, 5.6 percent, 3.7 percent and 1.4 percent respectively. Loans and refinance and other investments increased by 0.2 percent and 8.7 percent respectively compared to that of preceding year. Investment in financial and other institutions, cash in hand, other receivables and investment in government securities declined by 13.5 percent, 4.8 percent, 4.2 percent and 9.7 percent respectively. Other assets, another component of local currency assets, comprised of gold and silver, other inventories, and property, plant and equipments with respective shares of 24.2 percent, 46.4 percent, and 29.5 percent. Other inventories increased by 47.9 percent, property, plant and equipments increased by 0.6 percent while gold and silver registered a decline of 60.3 percent compared to that of the previous year. In aggregate, total local currency assets decreased by 10.6 percent and stood at Rs. 30.73 billion in the review year.

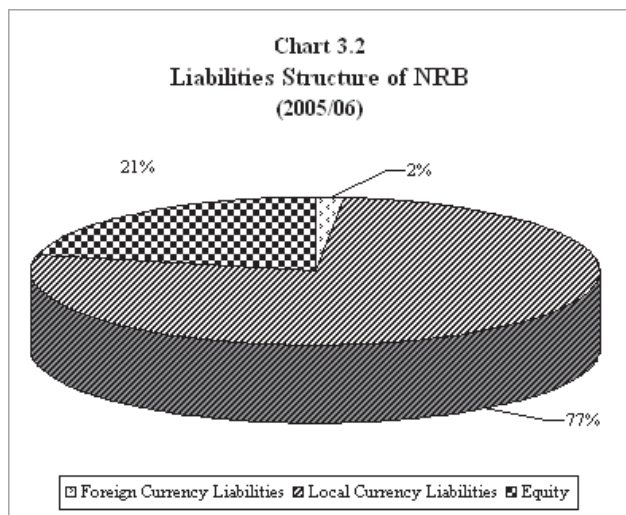
3.4 In foreign currency financial liabilities, IMF related liabilities, deposit and other liabilities held the share of 89.4 percent, 10.3 percent, and 0.3 percent respectively. IMF related liabilities and other liabilities increased by 6.7 percent and 51.8 percent respectively from the level of previous year, whereas deposit from banks and other agencies decreased by 54.5 percent. In aggregate, foreign currency liabilities decreased by 6.3 percent and stood at Rs. 2.74 billion.

3.5 In other liabilities, local currency liabilities held 95 percent share, surplus payable to the GON held 3.8 percent share and other liabilities held 1.2 percent share. The currency in circulation rose by 13.6 percent to Rs. 84.63 billion. Likewise, surplus payable to the GON increased to Rs. 3.42 billion from Rs. 1.61 billion of last year and sundry liabilities increased by 75.9 percent. Compared to last year, other liabilities increased by 16.1 percent to Rs. 89.08 billion.

3.6 In local currency financial liabilities; deposits and other balances shared 89.4 percent, bills payable 4.1 percent,

staff liabilities 6.2 percent, and other payables 0.3 percent. Compared to the last year, deposits and other balances, staff liabilities and other payables increased by 18.4 percent, 10.6 percent, and 6.6 percent respectively, whereas bills payables decreased by 38.3 percent. In aggregate, total local currency liabilities increased by 15.3 percent to Rs. 128.29 billion in mid July 2006 from the level of the previous year.

3.7 In total equity, reserves occupied the largest share of 91.5 percent, whereas share capital accounted for the remaining share. Equity increased by 30.2 percent to Rs. 35.37 billion compared to the last year.



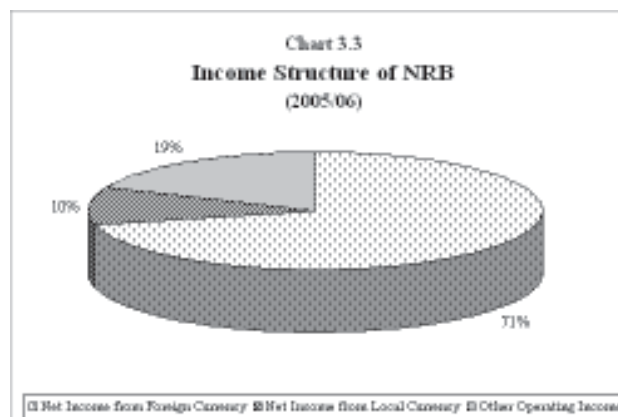
Income Statement Analysis

3.8 As per the income statement of NRB, total net operating income for the year ended 16 July 2006, stood at Rs. 6.56 billion.

3.9 In review year, as in the previous year, income from foreign currency financial assets was higher than the income from local currency financial assets. Similar to the last year, interest income contributed more to the total income in 2005/06.

3.10 In total income from foreign currency financial assets, the share of interest income was 95.1 percent, whereas the remaining share of 4.9 percent was of commission income. Last year, contributions of interest income and commission income were 91.9 percent and 8.1 percent respectively. In the review year, interest income increased by 53.2 percent, whereas commission income declined by 10.6 percent compared to that of the preceding year.

3.11 In the review year, interest income and commission income shared 95.8 percent and 4.2 percent respectively in the total income from local currency financial assets. Last year, contributions of interest income and commission income to the total income were 96.3 percent and 3.7 percent respectively. Compared to that of the previous year, interest income declined by 5.3 percent, whereas commission income increased by 6.7 percent.



3.12 Interest expenses shared 86.9 percent in expenses in foreign currency financial liabilities, whereas agency and service charges accounted for the remaining 13.1 percent was accounted for agency and service charges. Last year, the shares of interest expenses and agency and service charges were 46.6 percent and 53.4 percent respectively. Interest expenses rose by 39.0 percent, whereas agency and service charges decreased by 81.7 percent in the review year.

3.13 In 2005/06, the share of interest expenses remained at 41.7 percent while that of agency and services charge was 58.3 percent in the expenses in local currency financial liabilities. Last year, such shares were 54.3 percent and 45.7 percent respectively. In the review year, interest expenses declined by 36.2 percent, whereas agency and services charge increased by 5.8 percent compared to that of the previous year.

3.14 The income from foreign currency financial assets increased by 48.0 percent to Rs. 4.70 billion whereas the expenses in foreign currency financial liabilities decreased by 25.5 percent to 42.3 million. consequently, net income from foreign currency increased by 49.4 percent and stood at Rs. 4.65 billion as at mid-July 2006.

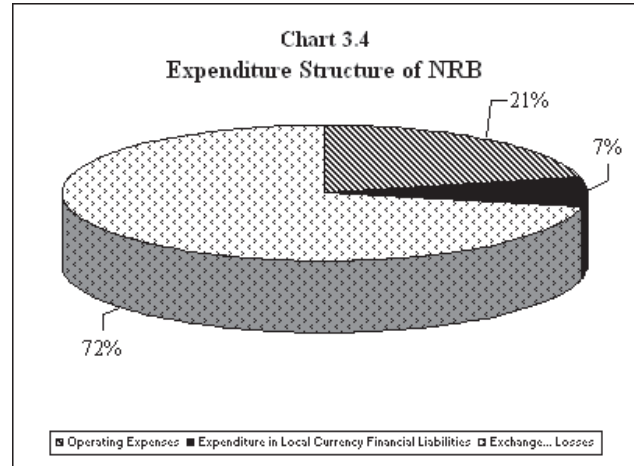
3.15 The income from local currency financial assets decreased by 4.8 percent to Rs. 1.12 billion and the expenses in local currency financial liabilities decreased by 17.0 percent to 480.4 million. As a result, the net income from local currency marked a rise of 6.8 percent and stood at Rs. 642.5 million as at mid-July 2006 compared to that of the previous year.

3.16 In 2005/06, other operating income declined by 9.9 percent and remained at Rs. 1.26 billion. Total net operating income stood at Rs. 6.56 billion with an increment of 28.2 percent. General, administrative expenses and provisions declined by 19.1 percent to Rs. 2.02 billion. Thus, profit for the year 2005/06 increased by 73.1 percent and amounted to Rs. 4.53 billion before the adjustment of foreign exchange gain/loss, gold and silver revaluation gain/loss and prior year's adjustment, The net profit for 2005/06 stood at Rs. 11.62 billion after the adjustment of net foreign exchange gain of Rs. 6.23 billion, other gain of Rs. 848.0 million and prior year's adjustment of Rs. 2.2 million.

Annual Financial Statements of NRB

3.17 In 2005/06, the net profit for the distribution stood at Rs. 4.27 billion from the profit of Rs. 11.62 billion available for the distribution and after transferring Rs. 6.23 billion to exchange equalization fund, Rs. 848.0 million to gold and silver equalization reserve and Rs 265.3 million to gold replacement fund. Such profit was Rs 2.01 billion in the previous year.

3.18 From the profit available for distribution in 2005/06, 10.1 percent (Rs. 432.9 million) was appropriated to general reserves, 5.0 percent (Rs. 213.8 million) to monetary liability reserve, 4.7 percent (Rs. 200.0 million) to development fund, 0.2 percent (Rs. 8.1 million) to development finance projects mobilization fund and 80 percent (Rs. 3.42 billion) was transferred to the GON as surplus. The surplus amount transferred to the GON stood at 112.2 percent more than that of last year.



NEPAL RASTRA BANK
BALANCE SHEET AS ON 32nd ASHADH, 2063 (16th JULY, 2006)
(Provisional)

| Particulars | Note | As on 32-3-2063 NRs. | As on 31-3-2062 NRs. |
|---|------|-------------------------|-------------------------|
| ASSETS | | | |
| Foreign Currency Financial Assets | | | |
| Cash and Bank Balances | 3 | 95,226,572,227 | 65,368,732,919 |
| SDR holdings - with IMF | | 665,576,486 | 637,064,325 |
| Investments in Treasury Bills | 3a | 36,739,045,175 | 39,050,699,638 |
| Other receivables | | 789,314,112 | 483,457,699 |
| Sub-Total | | 133,420,508,000 | 105,539,954,581 |
| Other Assets | | | |
| Gold | | 2,245,176,837 | 1,397,192,652 |
| Sub-Total | | 2,245,176,837 | 1,397,192,652 |
| Total Foreign Currency Assets | | 135,665,684,837 | 106,937,147,233 |
| Local Currency Financial Assets | | | |
| Cash in hand | | 1,629,233,535 | 1,711,915,589 |
| Investments in Government Securities | 4 | 15,752,023,688 | 17,443,097,129 |
| GON Overdraft | | 1,071,000,511 | 2,623,009,090 |
| Investments in Financial and Other Institutions | 5 | 407,772,500 | 471,217,500 |
| Other Investments | 6 | 3,166,536,000 | 2,914,133,000 |
| Refinance & Loans | 7 | 3,643,526,596 | 3,636,698,871 |
| Other Receivables | 8 | 3,288,542,716 | 3,433,174,028 |
| Sub-Total | | 28,958,635,546 | 32,233,245,207 |
| Other Assets | | | |
| Gold & Silver | 9 | 428,324,429 | 1,078,880,573 |
| Other Inventories | 10 | 822,264,298 | 555,859,603 |
| Property, Plant & Equipment | 11 | 522,758,748 | 519,786,242 |
| Sub-Total | | 1,773,347,474 | 2,154,526,418 |
| Total Local Currency Assets | | 30,731,983,020 | 34,387,771,625 |
| Total Assets | | 166,397,667,857 | 141,324,918,858 |

The above statement is to be read in conjunction with the notes 1 to 29.

NEPAL RASTRA BANK
BALANCE SHEET AS ON 32nd ASHADH, 2063 (16th JULY, 2006)
(Provisional)

| Particulars | Note | As on 32-3-2063 NRs. | As on 31-3-2062 NRs. |
|---|------|-------------------------|-------------------------|
| LIABILITIES | | | |
| Foreign Currency Financial Liabilities | | | |
| Deposit from banks and other agencies | 12 | 282,826,937 | 621,971,508 |
| IMF Related Liabilities | 13 | 2,448,475,939 | 2,295,388,883 |
| Other Liabilities | 14 | 7,155,707 | 4,715,439 |
| Total Foreign Currency Liabilities | | 2,738,458,583 | 2,922,075,830 |
| Local Currency Financial Liabilities | | | |
| Deposit and other balances | 15 | 35,027,226,789 | 29,582,995,176 |
| Bills Payable | | 1,604,799,616 | 2,601,706,049 |
| Staff Liabilities | 16 | 2,432,269,401 | 2,198,419,723 |
| Other Payables | 17 | 135,805,825 | 127,425,271 |
| Sub-Total | | 39,200,101,631 | 34,510,546,219 |
| Other Liabilities | | | |
| Currency in Circulation | 18 | 84,630,000,000 | 74,520,000,000 |
| Surplus payable to GON | | 3,419,267,177 | 1,611,281,788 |
| Sundry Liabilities | 19 | 1,035,768,673 | 588,699,428 |
| Sub-Total | | 89,085,035,850 | 76,719,981,216 |
| Total Local Currency Liabilities | | 128,285,137,481 | 111,230,527,435 |
| EQUITY | | | |
| Share Capital | | 3,000,000,000 | 3,000,000,000 |
| Reserves | 20 | 32,374,071,792 | 24,172,315,593 |
| Total Equity | | 35,374,071,792 | 27,172,315,593 |
| Total Liabilities and Equity | | 166,397,667,857 | 141,324,918,858 |

Contingent Liabilities 21

The above statement is to be read in conjunction with the notes 1 to 29.

Report of Fiscal Year 2005/06

NEPAL RASTRA BANK
INCOME STATEMENT
FOR THE YEAR ENDED 32nd ASHADH, 2063 (16th JULY, 2006)
(Provisional)

| Particulars | Note | 2062-63 NRs. | 2061-62 NRs. |
|---|------------|-----------------------|------------------------|
| Operating Income: | | | |
| Income from Foreign Currency Financial Assets | | | |
| Interest Income | 22 | 4,466,725,818 | 2,915,659,576 |
| Commission Income | 23 | 228,951,042 | 256,197,615 |
| | | 4,695,676,860 | 3,171,857,191 |
| Expenses on Foreign Currency Financial Liabilities | | | |
| Interest Expenses | 24 | 36,801,802 | 26,477,609 |
| Agency and Service Charge | 25 | 5,547,468 | 30,329,518 |
| | | 42,349,270 | 56,807,127 |
| Net Income from Foreign Currency | | 4,653,327,590 | 3,115,050,064 |
| Income from Local Currency Financial Assets | | | |
| Interest Income | 22 | 1,075,744,890 | 1,135,918,736 |
| Commission Income | 23 | 47,193,429 | 44,239,748 |
| | | 1,122,938,319 | 1,180,158,484 |
| Expenses on Local Currency Financial Liabilities | | | |
| Interest Expenses | 24 | 200,468,290 | 314,054,355 |
| Agency and Service Charge | 25 | 279,949,225 | 264,596,828 |
| | | 480,417,515 | 578,651,183 |
| Net Income from Local Currency Financial assets | | 642,520,804 | 601,507,301 |
| Other Operating Income | 26 | 1,259,772,123 | 1,398,470,765 |
| Total Net Operating Income | | 6,555,620,517 | 5,115,028,130 |
| General, administrative expenses & Provisions | 27 | 2,018,435,718 | 2,493,887,969 |
| Profit for the year before Foreign Exchange, Gold and Silver Revaluation Gain/(Loss) and prior year adjustment | | 4,537,184,800 | 2,621,140,162 |
| Foreign exchange gain/(loss) (Net) | | 6,233,648,145 | (6,001,760,899) |
| Gold and Silver revaluation gain/(loss) (Net) | | | |
| - Adjustment on transfer of Gold and Silver to Inventory | | - | (868,564,516) |
| - Amount Transferred from Gold & Silver Equalisation Reserve | | - | 868,564,516 |
| - Other | 29(XIV)(i) | 847,984,185 | 1,142,411,147 |
| Prior year Adjustment | | 2,206,247 | (6,337,565) |
| Net Profit/(Loss) for the year | | 11,621,023,376 | (2,244,547,157) |
| Net Profit/(Loss) for Appropriation | | | |
| Net Profit/(Loss) for the year | | 11,621,023,376 | (2,244,547,157) |
| Amount Transferred (to)/from Exchange Equalisation Fund (EEF) | | (6,233,648,145) | 6,001,760,899 |
| Amount Transferred (to) Gold & Silver Equalisation Reserve | 29(XIV)(i) | (847,984,185) | (1,142,411,147) |
| Amount Transferred to Gold Replacement Fund | 29(XV)(ii) | (265,307,075) | (600,700,361) |
| Profit available for distribution | | 4,274,083,972 | 2,014,102,235 |
| General Reserve | | 432,900,000 | 209,900,000 |
| Monetary Liability Reserve | | 213,800,000 | 100,800,000 |
| Development Fund | | 200,010,744 | 83,244,062 |
| Dev. Fin. Projects Mob. Fund | | 8,106,050 | 8,876,385 |
| Surplus transferred to GON | | 3,419,267,177 | 1,611,281,788 |
| Total | | 4,274,083,972 | 2,014,102,235 |

The above statement is to be read in conjunction with the notes 1 to 29.

Financial Statements of NRB

**NEPAL RASTRA BANK
CASH FLOW STATEMENT
FOR THE YEAR ENDED 32nd ASHADH, 2063 (16th JULY, 2006)
(Provisional)**

| Particulars | 2062-63 (NRs.) | 2061-62 (NRs.) |
|--|------------------------|------------------------|
| Cash flow from operating activities: | | |
| Profit for the Year | 11,621,023,376 | (2,244,547,157) |
| Adjustments | | |
| Gold and Silver revaluation gain/(loss) (Net) | | |
| - Other | (847,984,185) | (1,142,411,147) |
| - Revaluation adjustment for gold / silver reserves sold during the | - | (97,259,193) |
| Depreciation | 66,749,204 | 63,625,807 |
| Prior period adjustment | (2,206,247) | 6,337,565 |
| Note printing expenses | 385,832,965 | 263,633,877 |
| Dividend Income | (4,445,900) | (27,136,250) |
| Profit from sale of share investment | - | (827,441) |
| Sundry balances written off | 14,976 | 784,999 |
| Interest paid on PRGF Loan & ACU | 32,888,593 | 6,955,289 |
| Provision for : | | |
| Loan and advances | (88,609,180) | (47,492,197) |
| Diminution in value of investment | 16,000,000 | (31,139,000) |
| Doubtful of recovery on sundry accrued | - | 70,600,000 |
| Provision for inventory & spare parts | - | 34,009,801 |
| Cash flow from operation before inc / dec in operating assets | 11,179,263,602 | (3,144,865,046) |
| (Increase)/Decrease in operating assets | 1,470,868,443 | (3,375,642,261) |
| GON overdraft | 1,552,008,579 | (2,623,009,090) |
| Refinance & loans | 81,781,455 | (1,045,926,347) |
| Other receivable | (161,240,076) | 236,736,448 |
| Gold & silver | 650,556,144 | 256,838,239 |
| Inventories | (652,237,660) | (200,281,511) |
| Increase/(Decrease) in operating liabilities | 4,855,397,709 | (3,356,775,318) |
| SDR Allocation | 55,477,356 | (59,805,319) |
| Deposit liabilities | 5,105,087,042 | (3,590,084,364) |
| Bills payable | (996,906,433) | 55,824,367 |
| Deferred staff liabilities | 233,849,678 | 208,707,646 |
| Other liabilities | 10,820,822 | (93,969,491) |
| Sundry liabilities | 447,069,245 | 122,551,843 |
| Operating cash flow before prior period adjustment | 17,505,529,754 | (9,877,282,626) |
| Prior period adjustment | 2,206,247 | (4,301,553) |
| Cash flow from operating activities | 17,507,736,001 | (9,881,584,179) |
| Cash flow from investing activities: | | |
| Net Decrease in Government Securities and Bank Deposits | 11,821,246,669 | 14,364,014,386 |
| Sale of Investment in Financial Institutions | 47,445,000 | 90,316,441 |
| Purchase of Investment in Financial Institutions | - | (79,600,000) |
| Fixed assets including WIP | (69,721,710) | (31,362,700) |
| Dividend income | 4,445,900 | 27,136,250 |
| Total (B) | 11,803,415,860 | 14,370,504,377 |
| Cash flow from financing activities: | | |
| Bank note issued | 10,110,000,000 | 6,370,000,000 |
| Increase in PRGF Loan & ACU | 94,528,002 | 609,933,232 |
| Interest paid on PRGF Loan & ACU | (32,888,593) | (6,955,289) |
| Surplus transferred to GON | (1,611,281,788) | (1,200,027,745) |
| Total (C) | 8,560,357,620 | 5,772,950,198 |
| Net cash flow for the year (A+B+C) | 37,871,509,481 | 10,261,870,397 |
| Cash and cash equivalent at the beginning of the year | 96,128,562,648 | 85,866,692,251 |
| Cash and cash equivalent at the end of the year (Note - 28) | 134,000,072,129 | 96,128,562,647 |

The above statement is to be read in conjunction with the notes 1 to 29.

Report of Fiscal Year 2005/06

**NEPAL RASTRA BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 32nd ASHADH, 2063 (16th JULY, 2006)
(Provisional)**

| Particulars | Balance as at 01.04.2062 | Amt.transferred from/(to) profit | Inter fund transfer | Balance as at 32.03.2063 |
|------------------------------------|-------------------------------------|---|----------------------------|-------------------------------------|
| Capital | 3,000,000,000 | - | - | 3,000,000,000 |
| General Reserve | 10,487,400,000 | 432,900,000 | - | 10,920,300,000 |
| Monetary Liability Reserve | 564,300,000 | 213,800,000 | - | 778,100,000 |
| Exchange Equilisation Fund | 5,350,405,682 | 6,233,648,145 | - | 11,584,053,827 |
| Gold & Silver Equilisation Reserve | 1,375,138,412 | 847,984,185 | - | 2,223,122,597 |
| Employees Welfare Fund | 234,027,004 | - | - | 234,027,004 |
| Grameen Swabalamban Kosh | 253,400,000 | - | - | 253,400,000 |
| Other Reserve Funds | 5,907,644,494 | 473,423,870 | - | 6,381,068,364 |
| Total | 27,172,315,592 | 8,201,756,200 | - | 35,374,071,792 |

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31st ASHADH, 2062 (15th JULY, 2005)
(Provisional)**

| Particulars | Balance as at 01.04.2061 | Amt.transferred from/(to) profit | Inter fund transfer | Balance as at 31.03.2062 |
|------------------------------------|-------------------------------------|---|----------------------------|-------------------------------------|
| Capital | 3,000,000,000 | - | - | 3,000,000,000 |
| General Reserve | 10,277,500,000 | 209,900,000 | - | 10,487,400,000 |
| Monetary Liability Reserve | 463,500,000 | 100,800,000 | - | 564,300,000 |
| Exchange Equilisation Fund | 11,352,166,581 | (6,001,760,899) | - | 5,350,405,682 |
| Gold & Silver Equilisation Reserve | 1,198,550,974 | 1,142,411,147 | - | 2,340,962,121 |
| | | (965,823,709) | - | 1,375,138,412 |
| Employees Welfare Fund | 234,027,004 | - | - | 234,027,004 |
| Grameen Swabalamban Kosh | 253,400,000 | - | - | 253,400,000 |
| Other Reserve Funds | 5,214,823,686 | 692,820,808 | - | 5,907,644,494 |
| Total | 31,993,968,245 | (4,821,652,654) | - | 27,172,315,592 |

The above statement is to be read in conjunction with the notes 1 to 29.

Notes to be read as part of the Financial Statements

1. General information

These are the financial statements of Nepal Rastra Bank, the central bank of Nepal, incorporated under the NRB Act, 2058 (2002 AD). In these financial statements Nepal Rastra Bank has been referred as “NRB” or the “Bank”.

The central office of the NRB is located at Baluwatar, Kathmandu, Nepal and the Bank’s jurisdiction is spread throughout Nepal.

The main activities of the Bank include:

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

These financial statements apply to the financial year ended 32nd Ashadh, 2063 (16th July, 2006).

The Board of Directors of the Bank has approved these financial statements on 1st Magh 2063 (15th January 2007)

2. Summary of significant Accounting Policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with the Nepal Accounting Standards (NAS) as well as International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS), with the exception of following:

Standards partly complied (pending certain improvements and refinements given hereinafter under respective paras):

| | |
|---------|--|
| IAS 7: | Cash Flow Statements |
| IAS 19: | Employee Benefits |
| IAS 24: | Related Party Disclosures – partly complied as practicable |
| IAS 32: | Financial Instruments: Disclosure and Presentation |
| IAS 39: | Financial Instruments: Recognition and Measurement |

2.2 Accounting Convention

These financial statements have been prepared under historical cost except for certain items e.g. gold (other than inventory), certain investments shown hereunder specifically, which have been carried at revalued/fair value.

2.3 Currency in circulation

Currency notes issued by the Bank are legal tender under the NRB Act 2058. This represents the liability of the Bank towards the holder of the currency at its face value. The assets stated in Note 18 of these financial statements back these liabilities.

The Bank also issues coins of different denomination for circulation. These coins are recorded at cost.

2.4 Financial assets / Instruments

Financial assets/instruments are segregated between foreign currency and local currency items to reflect more objective presentation of the bank's financial position and performance.

2.4.1 Classification

Held for trading

A financial instrument is considered as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or if it is part of a portfolio of identified instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Trading assets include debt and equity securities and loans and receivables acquired by the Bank with the intention of making a short-term profit.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They typically arise when the Bank provides money; goods or services directly to a debtor with no intention of trading the receivable or making short-term profit and comprise loans and advances including bonds purchased at original issuance.

Held-to-maturity investments

Held-to-maturity asset are financial assets with fixed or determinable payments and fixed maturity (e.g., debt securities) that the Bank has the positive intent and ability to hold till maturity. These include certain purchased loans and advances, certain debt instruments.

Available-for-sale financial assets

All financial assets that are not classified in another category are classified as available-for-sale. These include investment in foreign treasury bills, certain saving certificates, and investment in financial and other institutions.

2.4.2 Recognition

The Bank recognizes financial assets held for trading and available-for-sale assets on the date the asset is transferred to the Bank. From this date, any gains and losses arising from changes in fair value of the assets are recognized.

Held-to-maturity assets and originated loans and receivables are recognized on the day the asset is acquired.

2.4.3 Measurement

All financial assets are initially recognized at cost, being the fair value of the consideration given and including acquisition charges. After initial recognition, subsequent measurement bases are described below.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that instruments that do not have a quoted market price in an active market or fair value cannot be reliably measured are stated at cost, including transaction costs, less impairment losses. Gains and losses arising from a change in the fair value of available for sale assets are recognized directly in equity and when the financial assets are sold/disposed-off the cumulative gain or loss recognized in equity is transferred to Profit & Loss Account. Gains and losses arising from a change in the fair value of trading instruments are recognized in the Income Statement. Investments in subsidiaries, associates and other entities made under the specific directives or policies of the government and other relevant statutes are also valued at cost less impairment loss.

All non-trading financial liabilities, loans and receivables including those originated by the Bank and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the original effective interest method.

2.4.4 Fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties at an arm's length transaction.

Quoted market values represent fair value when a financial instrument is traded in an organized and liquid market. Where quoted market values are not available, the fair values are estimated by other techniques such as discounted cash flows etc.

2.4.5 De-recognition

A financial asset is de-recognized when the Bank loses control over the contractual rights that comprise the asset. This occurs when the rights are realized, expire or surrendered. Financial liabilities are de-recognized when extinguished.

Available-for-sale assets and assets held for trading are de-recognized when sold and corresponding receivables from the buyer for the payment are recognized when the asset is transferred to the buyer.

Held-to-maturity instruments and originated loans and receivables are de-recognized on receipt of money or money's worth there against.

2.5 Transactions on repurchase obligations (Repo) and reverse repo

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

- i) Securities sold under arrangements to repurchase continue to be recorded as investment in government securities. The obligation to repurchase is shown as liabilities for securities sold under agreement to repurchase and the difference between the sale and repurchase value is accrued on a pro rata basis and recorded as expense.
- ii) In case of purchase under resale obligations, the securities are recorded as loans at the purchase price and the difference between the purchase and resale price is accrued over the period and recorded as income.

2.6 Foreign Currency Transactions

Income and expenditure denominated in foreign currency are translated into Nepalese Rupees on the basis of exchange rates prevailing on the value date. Assets and liabilities in foreign currency as at the year-end 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' through Income Statement.

2.7 Gold and Silver (other than inventory)

Gold and Silver other than those held as inventory is stated at market value and any appreciation or depreciation with respect to the cost is taken to/from "Gold and Silver Equalization Reserve" through Income statement.

2.8 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 for Gold and Silver is determined on specific basis where as for other inventories is determined under the First In First Out (FIFO) method.

2.9 Property, Plant & Equipment

Fixed assets are stated at cost less accumulated depreciation wherever applicable.

Depreciation is calculated using the straight-line method so as to "write off" these assets over their expected useful life.

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.

Fixed assets having value of NRs. one thousand or less are charged directly to Profit and Loss Account.

2.10 Assets received in grant

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

2.11 Employee benefits

Contributory Retirement Fund

All permanent employees are entitled for participation in employee's provident fund (now Retirement Fund) wherein the employees contribute at various rates of their current drawn salaries. The bank contributes 10% of salary to this fund, which is separately administered as a defined contribution plan. The Bank's obligations for contributions to the above Fund are recognized as an expense in the income statement as incurred.

Gratuity and Pension Scheme

Employees who have worked for five years or more but less than twenty years are eligible for gratuity, which is based on last drawn salary and completed years of service. Similarly employees having service period of twenty years or more are eligible for pension, which is based on last drawn salary and completed years of service.

Upto 15th July 2005 the bank had calculated Pension and Gratuity liability on reasonable estimates basis and recognized expense based on the same. Effective from that date the bank has actuarially valued its pension and gratuity liability for the first time. The defined benefit liability arising from such actuarial valuation after adjusting the liability charged under the existing system had been recognized as expense. This however has been amortised on a straight-line basis over five years commencing from financial year 2004/2005 in accordance with the transitional provisions. This year a second installment has been charged to the income Statement.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the Income Statement on straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the Income Statement.

Welfare Provident Fund

Certain amounts as prescribed by the Board are transferred to this fund, which is meant to be a defined benefit scheme for the welfare of the employees. Contributions by the Bank are expensed on actual incurrence.

Staff Medical Fund

Employees are eligible for medical benefits based on the specified slabs as per medical rules, last drawn salary and completed years of service. Contributions by the Bank are expensed on actual incurrence.

Staff Life Insurance Plan

Staff life insurance plan is a defined benefit plan and accounted for based on reasonable estimates.

Leave encashment

The Bank makes annual provision in respect of liability for employee's leave based on reasonable estimates.

2.12 Revenue recognition

Incomes and expenses are recognized on accrual basis.

2.13 Taxation

Income of the NRB is exempted from taxes under section 8 of the NRB Act, 2058 as well as Income Tax Act, 2058 and as such no provision in this respect has been made.

2.14 Cash and cash equivalents

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

2.15 Impairment

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. An impairment loss is recognized whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount. Provisions for possible losses on loans and advances have been provided on the basis of financials of borrower and appropriate estimation made by the management. Receivables considered as bad and irrecoverable are written off from the books of account and directly charged to the Profit and Loss Account. Provisions against impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognized as income/expense in the Profit and Loss Account.

2.16 Segment reporting

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

2.17 Directors' responsibility statement

The Board of Directors of the Bank is responsible for preparation of the annual financial statements and for the estimates and judgments used in them.

NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET

NOTE - 3: CASH AND BANK BALANCES

| | As on 32.3.2063 | As on 31.3.2062 |
|---------------------------------------|------------------------|------------------------|
| | NRs. | NRs. |
| Cash in Hand | 3,661,184,023 | 2,106,547,934 |
| Balance with Banks in Demand Deposits | 38,891,126,422 | 10,441,315,981 |
| Balance with Banks in Time Deposits | 52,674,261,782 | 52,820,869,004 |
| Total | 95,226,572,227 | 65,368,732,919 |

Interest on time deposit and demand deposit (where ever applicable) were earned at various rates ranging from 0.22% to 5.75% per annum (P.Y. 1.05% to 8.11% per annum).

NOTE - 3 a: INVESTMENTS IN TREASURY BILLS

| | As on 32.3.2063 | As on 31.3.2062 |
|------------------------------|------------------------|------------------------|
| | NRs. | NRs. |
| US Government Treasury Bills | 32,363,794,991 | 37,429,343,513 |
| GOI Treasury Bills | 4,375,250,184 | 1,621,356,125 |
| Total | 36,739,045,175 | 39,050,699,638 |

Investments in US Treasury Bill and Government Of India Treasury Bill have been recognised and classified as "Available for Sale".

NOTE - 4: INVESTMENTS IN GOVERNMENT SECURITIES

| | As on 32.3.2063 | As on 31.3.2062 |
|----------------------------|------------------------|------------------------|
| | NRs. | NRs. |
| Government Treasury Bills | 9,167,936,680 | 10,921,156,522 |
| Saving Certificates | 309,706,700 | 280,937,700 |
| IMF Bonds | 4,755,758,937 | 4,722,320,536 |
| Other Bonds and securities | 1,518,621,371 | 1,518,682,371 |
| Total | 15,752,023,688 | 17,443,097,129 |

Above investments are classified as follows:

| | | |
|--------------------|-----------------------|-----------------------|
| Originated Loans | 10,686,558,051 | 12,439,838,893 |
| Held-to-maturity | 4,755,758,937 | 4,722,320,536 |
| Available-for-sale | 309,706,700 | 280,937,700 |
| Total | 15,752,023,688 | 17,443,097,129 |

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

2. According to NRB Act 2058, NRB is not eligible to hold investment in GON securities more than 10% of Government's previous years revenue. Steps are being taken to bring the above investments, within the limit prescribed by NRB Act 2058.

Annual Financial Statements of NRB

NEPAL RASTRA BANK NOTES FORMING PART OF THE BALANCE SHEET

| NOTE - 5: INVESTMENTS IN FINANCIAL AND OTHER INSTITUTIONS | % of holding | As on 32.3.2063 NRs. | As on 31.3.2062 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 |
| Sub-Total | | 168,400,000 | 168,400,000 |
| (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 | 16,000,000 |
| 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 |
| Sub-Total | | 72,925,500 | 72,925,500 |
| (c) Other Investments | | | |
| Shares: | | | |
| Pashchimanchal GBB | 10.00 | 6,000,000 | 6,000,000 |
| CSI Development Bank | 14.29 | 16,000,000 | 16,000,000 |
| NIDC | 11.40 | - | 47,445,000 |
| Nepal Development Bank | 10.00 | 16,000,000 | 16,000,000 |
| Credit Information Bureau | 10.00 | 1,000,000 | 1,000,000 |
| Rural Self Reliance Fund (Seed Capital) | | 253,400,000 | 253,400,000 |
| Sub-Total | | 292,400,000 | 339,845,000 |
| Total | | 533,725,500 | 581,170,500 |
| Less: Provision for diminution in the value | | 125,953,000 | 109,953,000 |
| | | 407,772,500 | 471,217,500 |

Investment in shares of all the above institutions have been recognised as "Available-for-sale".

- According to NRB Act 2058, NRB is not eligible to hold investment in share in excess of 10 percent of their share capital.
- The Bank is in the process to disinvest/ offload, all those investments/ loans that are in excess of limit prescribed by section 7(2)(a) of NRB Act 2058.
- 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.
- Investment in Rastriya Beema Sansthan (Life-Insurance): NRB has received 41,667 Bonus Shares of Rs. 100 each in this investment which makes total shareholding of NRB 51,667 shares.
- The details of the quoted investment and the market values prevailing as on the date of the balance sheet are as follows:

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|---|-------------------------|-------------------------|
| Citizen Investment Trust @ Rs. 266 per share (P.Y. Rs. 200 per share) | 42,560,000 | 32,000,000 |
| Rastriya Beema Sansthan-Non-Life Insurance total 242494 shares @ Rs. 1750 per sha (including 234,494 Bonus Shares of Rs. 100/- each) (P.Y. Rs. 1561) | 424,364,500 | 378,533,134 |
| Nepal Development Bank @ Rs. 102 per share (P.Y. Rs. 88) | 16,320,000 | 14,080,000 |

Report of Fiscal Year 2005/06

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET**

NOTE - 6: OTHER INVESTMENTS

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|--------------------------------------|---------------------------------|---------------------------------|
| Investment of funds | | |
| Saving Certificates | 7,805,000 | 7,805,000 |
| Other Bonds and securities | 1,418,407,000 | 1,456,507,000 |
| Fixed deposits with commercial banks | 1,740,324,000 | 1,449,821,000 |
| Total | 3,166,536,000 | 2,914,133,000 |

The above investments have been recognised and valued as "Held-to-maturity".

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 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|---|---------------------------------|---------------------------------|
| Refinance to Commercial Banks | 329,165,000 | 222,850,000 |
| Securities purchased under resale agreement | 1,570,000,000 | 1,501,128,828 |
| Refinance to Financial Institutions | 766,627,510 | 1,007,397,510 |
| Loans to Employees | 1,627,400,666 | 1,643,598,293 |
| | 4,293,193,176 | 4,374,974,631 |
| Less: Provision for doubtful Loans | 649,666,580 | 738,275,760 |
| Total | 3,643,526,596 | 3,636,698,871 |

Interest on refinance and loans were earned at various rates ranging from 1.5% to 9% per annum (P.Y. 1.50% to 9% per annum).

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET**

NOTE - 8: OTHER RECEIVABLE

| | | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|--------------------------------------|-------------|---------------------------------|---------------------------------|
| Interest Accrued | 831,704,310 | | |
| Less: Provision for doubtful amounts | 87,352,368 | 744,351,942 | 602,641,014 |
| Deposits | | 1,899,824 | 1,832,324 |
| Advances Recoverable | 1010135415 | | |
| Less: Provision for doubtful amounts | 70,600,000 | 939,535,415 | 702,662,386 |
| Other recoverable | | 8,075,303 | 8,842,138 |
| Bills Purchased | | 1,594,680,232 | 2,117,196,166 |
| Total | | 3,288,542,716 | 3,433,174,028 |

NOTE - 9: GOLD & SILVER STOCK

| | | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|------------------------------------|--|---------------------------------|---------------------------------|
| Gold held in Stock | | 394,504,948 | 1,028,985,300 |
| Silver held in Stock | | 33,819,481 | 49,895,273 |
| Total Gold and silver stock | | 428,324,429 | 1,078,880,573 |

NOTE - 10: OTHER INVENTORIES

| | | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|--------------------------------------|------------|---------------------------------|---------------------------------|
| Security Note Stock | | 646,810,463 | 291,706,196 |
| Coin Stock | | 122,135,794 | 225,786,915 |
| Numismatic and Medallion coins | 65,278,975 | | |
| Less: Provision for non-moving coins | 22,465,540 | 42,813,435 | 13,681,507 |
| Other Metal Stock | 11,972,243 | | |
| Less: Provision for non-moving stock | 8,716,000 | 3,256,243 | 18,739,672 |
| Stationary and other sundry items | 10,076,625 | | |
| Less: Provision for non-moving items | 2,828,262 | 7,248,363 | 5,945,313 |
| Total Inventories | | 822,264,298 | 555,859,603 |

Report of Fiscal Year 2005/06

NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET

NOTE - 11 STATEMENT OF PROPERTY, PLANT & EQUIPMENT

(NRs.)

| Particulars | Rate | Cost | | | | | Depreciation | | | | | Net Block | |
|--------------------------|------|----------------------|----------------------------|--------------------------|-----------------------|----------------------|---------------------|----------------------------|---------------------------|-----------------------|---------------------|----------------------|----------------------|
| | | As at 31 Ashadh 2062 | Transfer from other Office | Addition during the year | Adjustment / Transfer | As at 32 Ashadh 2063 | Upto 31 Ashadh 2062 | Transfer from other Office | Current Year Depreciation | Adjustment / Transfer | Upto 32 Ashadh 2063 | As at 32 Ashadh 2063 | As at 31 Ashadh 2062 |
| Land | | 13,291,197 | - | - | - | 13,291,197 | - | - | - | - | - | 13,291,197 | 13,291,197 |
| Building | 3 | 474,527,404 | - | 9,828,971 | 270,191 | 484,086,185 | 93,481,930 | - | 14,055,063 | (97,448) | 107,634,441 | 376,451,744 | 381,045,477 |
| Furniture and Fixture | 10 | 85,268,280 | 333,492 | 5,786,985 | 1,920,270 | 89,468,486 | 58,051,981 | 13,714 | 5,487,555 | 3,308,893 | 60,244,356 | 29,224,130 | 27,215,289 |
| Office Equipment | 20 | 78,242,362 | 2,198,141 | 8,732,845 | 7,105,949 | 82,067,400 | 56,372,630 | - | 14,969,983 | 7,085,499 | 64,257,115 | 17,810,285 | 17,312,897 |
| Vehicles | 20 | 135,665,439 | - | 4,329,829 | 299,461 | 139,695,807 | 104,477,522 | - | 15,101,625 | 299,453 | 119,279,694 | 20,416,114 | 31,187,917 |
| Machinery Equipment | 15 | 59,607,298 | (193,073) | 328,060 | 228,224 | 59,514,061 | 50,157,147 | (193,072) | 3,723,604 | 227,155 | 53,460,524 | 6,053,537 | 9,483,889 |
| Computer Equipments | 20 | 100,786,977 | 427,672 | 11,750,045 | 13,725,342 | 99,239,352 | 76,993,335 | 330,864 | 13,070,439 | 13,161,576 | 77,233,062 | 22,006,290 | 23,170,649 |
| Miscellaneous | 15 | 6,152,829 | 3,650 | 370,845 | 300,730 | 6,226,594 | 4,780,279 | - | 340,934 | 280,073 | 4,841,140 | 1,385,454 | 1,340,612 |
| Total | | 953,541,786 | 2,769,881 | 41,127,581 | 23,850,166 | 973,589,082 | 444,314,823 | 151,506 | 66,749,204 | 24,265,200 | 486,950,332 | 486,638,750 | 504,047,927 |
| Capital Work-in-Progress | | 15,738,314 | - | 27,056,362 | 6,674,679 | 36,119,998 | - | - | - | - | - | 36,119,998 | 15,737,314 |
| Grand Total | | 969,280,100 | 2,769,881 | 68,183,944 | 30,524,844 | 1,009,709,080 | 444,314,823 | 151,506 | 66,749,204 | 24,265,200 | 486,950,332 | 522,758,748 | 519,785,241 |
| Previous Year | | 965,727,960 | 36,724,246 | 58,517,161 | 91,674,216 | 969,295,152 | 408,186,926 | 26,785,680 | 63,625,807 | 40,989,502 | 449,508,911 | 519,786,241 | |

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET**

NOTE - 12: DEPOSIT FROM BANKS AND OTHER AGENCIES

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|--|-------------------------|-------------------------|
| Deposit from Banks | 272,916,772 | 495,567,302 |
| Foreign Diplomatic Missions and other agencies | 9,910,165 | 126,404,206 |
| Total | 282,826,937 | 621,971,508 |

NOTE - 13: IMF RELATED LIABILITIES

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|---|-------------------------|-------------------------|
| SDR Allocation | 887,305,399 | 831,828,043 |
| Loan under Poverty Reduction and Growth Facility (PRGF) | 1,561,170,540 | 1,463,560,840 |
| Total | 2,448,475,939 | 2,295,388,883 |

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

(1) country's quota with the IMF is recorded by the NRB as depository of the Government and exchange gain/loss arising on quota are borne by government.

(2) exchange gains or losses in respect of borrowings under PRGF and other facilities of the IMF, allocation of SDRs and holding of SDRs are recognized in the Profit and Loss account.

The Position of the IMF assets and liabilities are as follows:

SUMMARY STATEMENT OF POSITION AS ON APRIL 30, 2006

| Particlars | Local Currency | SDR Equivalents |
|---|-------------------------|----------------------|
| <u>Currency Holding</u> | | |
| Securities (Quota subscription by GON) | 2,318,061,941.12 | 21,719,846 |
| No. 1 Account | 5,354,387,929.80 | 50,169,705 |
| No. 2 Account | 1,170,185.99 | 10,964 |
| Valuation adjustments: | | |
| Securities and No. 1 Account | (62,920,138.36) | (589,551) |
| No. 2 Account | (9,498.57) | (89) |
| Total Currency Holdings | 7,610,690,419.98 | 71,310,875 |
| | Per cent of Quota | Per cent of Quota |
| <u>Other Information</u> | | |
| Quota | 100.00 | 71,300,000 |
| Currency Holding | 100.02 | 71,310,875 |
| Reserve Tranche Position | - | - |
| 1. Converted into SDR at the rate of SDR .00936983 per currency unit as on April 30, 2005 | | |

SUMMARY STATEMENT OF POSITION AS ON JULY 16, 2006

| Particlars | Local Currency | SDR Equivalents |
|--|-------------------------|----------------------|
| <u>Currency Holding</u> | | |
| Securities (Quota subscription by GON) | 2,318,061,941.12 | 21,719,846 |
| No. 1 Account | 5,354,387,929.80 | 50,169,705 |
| No. 2 Account | 1,170,185.99 | 10,964 |
| Valuation adjustments: | | |
| Securities and No. 1 Account | (62,920,138.36) | (589,551) |
| No. 2 Account | (9,498.57) | (89) |
| Total Currency Holdings | 7,610,690,419.98 | 71,310,875 |
| | Per cent of Quota | Per cent of Quota |
| <u>Other Information</u> | | |
| Quota | 100.00 | 71,300,000 |
| Currency Holding | 100.02 | 71,310,875 |
| Reserve Tranche Position | - | - |
| 1. Converted into SDR at the rate of SDR .00936983 per currency unit as on July 16, 2006 | | |

NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET

NOTE - 14: OTHER LIABILITIES

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|------------------|-------------------------|-------------------------|
| Accrued Interest | 7,155,707 | 4,715,439 |
| Total | 7,155,707 | 4,715,439 |

NOTE -15: DEPOSIT AND OTHER BALANCES

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|---|-------------------------|-------------------------|
| Deposits from Banks and Financial Insitutions | 24,717,629,047 | 20,846,154,455 |
| Balances of Other Insitutions | 2,072,669,477 | 1,567,309,499 |
| IMF Account No 1 | 5,354,373,680 | 5,320,890,397 |
| IMF Account No 2 | 1,184,436 | 1,229,317 |
| Earnest Money | 3,300,369 | 1,595,106 |
| Money Changer | 5,000,000 | 4,720,000 |
| Margin against LCs | 2,873,069,779 | 1,841,096,402 |
| Total | 35,027,226,789 | 29,582,995,176 |

Balances of Banks and Financial institutions also include the Cash Reserve Ratio (CRR) required to be maintained by commercial banks. Balances of Other Institutions include deposit of government corporations, companies and local authorities etc.

NOTE - 16: STAFF LIABILITIES

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|---|-------------------------|-------------------------|
| Medical Fund | 532,687,803 | 470,564,272 |
| Welfare Provident Fund | 161,676,250 | 242,430,335 |
| Gratuity and Pension Fund | 1,244,832,747 | 1,087,586,342 |
| Life Insurance Fund | 251,739,091 | 206,908,501 |
| Libaility for Staff Leave Encashment | 124,418,704 | 67,675,811 |
| Liability for Retired staff insurance premium | 116,914,806 | 123,254,462 |
| Total | 2,432,269,401 | 2,198,419,723 |

NOTE - 17: OTHER PAYABLES

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|---|-------------------------|-------------------------|
| Insurance Premium collected from Staff | 888,097,967 | 856,439,467 |
| Less: Advance Insurance Premium paid on behalf of Staff | (752,292,142) | (729,014,196) |
| Total | 135,805,825 | 127,425,271 |

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET**

NOTE -18: CURRENCY IN CIRCULATION

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|-------------------------|---------------------------------|---------------------------------|
| Currency in Circulation | 84,630,000,000 | 74,520,000,000 |

Currency in circulation represents notes issued by NRB, as a sole currency issuing authority in Nepal, which includes cash in hand NRs. 1,629,233,535 (P.Y. NRs. 1,711,915,589).

The liability for notes in circulation is recorded at face value in the balance sheet. These liabilities are supported by assets including foreign currency, foreign securities and government securities as follows :

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|--------------------------------------|---------------------------------|---------------------------------|
| Foreign currency balance held abroad | 54,850,568,000 | 44,740,568,000 |
| Foreign Securities | 25,607,732,000 | 25,607,732,000 |
| Government Securities | 4,171,700,000 | 4,171,700,000 |
| | 84,630,000,000 | 74,520,000,000 |

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

| Denomination Notes | As on 32.3.2063 Face Value (NRs.) | As on 31.3.2062 Face Value (NRs.) |
|-------------------------------|--|--|
| 1 | 173,110,553 | 176,637,607 |
| 2 | 202,419,892 | 208,445,808 |
| 5 | 654,095,410 | 586,645,385 |
| 10 | 935,244,140 | 922,070,330 |
| 20 | 1,064,349,780 | 914,077,120 |
| 25 | 129,354,350 | 153,500,675 |
| 50 | 1,716,629,000 | 1,503,068,300 |
| 100 | 4,865,519,000 | 4,576,040,400 |
| 250 | 83,859,625 | 86,716,625 |
| 500 | 20,094,193,250 | 17,309,534,750 |
| 1000 | 54,711,225,000 | 48,083,263,000 |
| | 84,630,000,000 | 74,520,000,000 |

Report of Fiscal Year 2005/06

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET**

NOTE - 19: SUNDRY LIABILITIES

| | | As on 32.3.2062 | | As on 31.3.2062 | |
|--|------------|------------------------|-----------------------------|------------------------|---------------------------|
| | | NRs. | | NRs. | |
| Projects run by Micro Finance Department - Liabilities | 19a | 596,346,431 | 645,387,494 | | |
| Less: - Assets | | <u>596,346,431</u> | <u>(645,387,494)</u> | - | - |
| Sundry creditors | | | 245,550,608 | | 299,946,345 |
| Unclaimed | | | 88,139,131 | | 91,235,508 |
| Bills Collection | | 26,527,628 | 47,935,880 | | |
| Less: Bills Lodged | | <u>26,527,628</u> | <u>(47,935,880)</u> | - | - |
| Pension Payable to NRB Ex-Staff | | | 15,292,185 | | 9,515,353 |
| General Account | 19b | | <u>686,786,749</u> | | <u>188,002,222</u> |
| Total | | | <u>1,035,768,673</u> | | <u>588,699,428</u> |

19a. Financial Statements of various Projects run by Micro Finance Department as at 32 Asadh, 2063 are as follows *

| (Amount in NRs.) | | | | | | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|--------------------|----------------------|
| Assets | MCPW | TLDP | PCRW | PAPWT | RMP | TOTAL |
| Current account | 246,997 | 21,467,178 | 15,072,779 | 14,062,624 | - | 50,849,579 |
| Imprest Account | - | - | - | - | - | - |
| Investment in fixed deposit | 150,675,000 | 94,632,200 | 45,500,000 | 35,776,000 | - | 326,583,200 |
| Investment in GON bonds | | | | | | - |
| Loans to Banks, FIs, and NGOs | 625,000 | 41,307,400 | 93,641,683 | 74,615,928 | - | 210,190,011 |
| Fixed assets | - | - | - | - | 105,700 | 105,700 |
| Interest receivables | 2,769,282 | 1,980,702 | 888,889 | 1,192,514 | - | 6,831,387 |
| Principal (Instalment) receivables | - | - | - | - | - | - |
| Other receivables | 1,786,554 | - | - | - | - | 1,786,554 |
| Current Year Total | 156,102,833 | 159,387,481 | 155,103,351 | 125,647,066 | 105,700 | 596,346,431 |
| Previous Year Total | (179,257,748) | (164,952,088) | (167,208,028) | (132,868,453) | (1,101,178) | (645,387,494) |

| (Amount in NRs.) | | | | | | |
|------------------------------|----------------------|----------------------|----------------------|----------------------|--------------------|----------------------|
| Liabilities | MCPW | TLDP | PCRW | PAPWT | RMP | TOTAL |
| Loans from IFAD/ADB | 152,507,154 | 158,200,000 | 140,755,766 | 124,100,000 | - | 575,562,920 |
| ADB grants | - | - | - | - | 105,700 | 105,700 |
| Exchange fluctuation account | - | - | - | - | - | - |
| Split interest reserve | - | - | 10,827,773 | - | - | 10,827,773 |
| Sundry Payables | 778,467 | 9,650 | 946,372 | 9,500 | - | 1,743,988 |
| Profit transferred to NRB | 2,817,213 | 1,177,831 | 2,573,441 | 1,537,566 | - | 8,106,050 |
| Current Year Total | 156,102,833 | 159,387,481 | 155,103,351 | 125,647,066 | 105,700 | 596,346,431 |
| | (179,257,748) | (164,952,088) | (167,208,028) | (132,868,453) | (1,101,178) | (645,387,494) |

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

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

19b. NRB general account represents NRB inter-office transactions, and the year end balances are under reconciliation. No material adjustments, in this respect, are expected to arise.

NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET

NOTE - 20: RESERVES

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|---------------------------------------|-------------------------|-------------------------|
| Capital Reserve | | |
| Gold and Silver Equalization Reserve | 2,223,122,598 | 1,375,138,413 |
| Statutory Reserve | | |
| General Reserve | 10,920,300,000 | 10,487,400,000 |
| Monetary Liabilities Reserve | 778,100,000 | 564,300,000 |
| Exchange Equalization Fund | 11,584,053,828 | 5,350,405,683 |
| Other Reserves and Funds | | |
| Development Fund | 4,206,897,806 | 4,006,887,062 |
| Banking Development Fund | 527,087,319 | 527,087,319 |
| Development Finance Project Mob. Fund | 80,451,940 | 72,345,890 |
| 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 |
| Employees Welfare Fund | 234,027,004 | 234,027,004 |
| Gold Replacement Fund | 866,007,436 | 600,700,361 |
| Rural Self Reliance Fund (GS Kosh) | 253,400,000 | 253,400,000 |
| Total Reserves and Funds | 32,374,071,792 | 24,172,315,593 |

- 1 Reserves/ Funds other than capital reserve (gold and silver equalization reserve) represent appropriation out of the profits, which are statutory or specific in nature. All the specific funds / reserve are created with the approval of the Board.
- 2 **Gold and Silver Equalization Reserve**
This represents the gain or loss on the revaluation of gold and silver. Any appreciation or depreciation on revaluation of gold and silver is taken to/from this reserve through income statement.
- 3 **Exchange Equalization Fund**
Represents net exchange gains on various foreign currency assets and liabilities. An amount equivalent to net exchange gain/loss is appropriated from/to Profit and Loss Account and adjusted in the opening balance of such reserve.
- 4 **General reserve**
Under Section 41 (kha) of the NRB Act, 2058, the NRB has to transfer to the general reserve fund not less than 10 percent of the net profit every year. Accordingly, 10 percent of the net profit is transferred to this reserve.
- 5 **Monetary Liabilities Reserve**
Under Section 41 (ka) of the NRB Act, 2058, the Bank is required to maintain a monetary liability reserve to meet its financial liability. Accordingly, five percent of the net profit is transferred to this reserve.
- 6 **Development Fund**
Specific fund created in order to provide support for loans and refinances to banks and FIs as well as to make investment in the shares and debentures of these Institutions.
- 7 **Banking Development Fund:**

This fund was created to meet the expenses relating to feasibility survey to open new banks in the priority area, 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.

8 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.

9 Mechanization Fund

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

10 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.

11 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.

12 Employees welfare fund

This fund was created on FY 2015/16 for the welfare of the employees who have suffered financial and other losses due to unprecedented events and any other reasons.

13 Gold Replacement Fund

This fund has been created for replacing the gold / silver (earlier held as reserves) sold during the year.

14 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.

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET**

NOTE - 21: Contingent Liabilities

| | As on 32.3.2063 NRs. | As on 31.3.2062 NRs. |
|---------------------------------|-------------------------|-------------------------|
| Letters of Credit | - | - |
| Guarantees Issued | 649,663 | 112,930,587 |
| Claims not acknowledged as debt | - | - |
| Total | 649,663 | 112,930,587 |

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 therefrom the margin retained by the bank.

2 Claims not acknowledged as debt consist of legal and other claims pending against the Bank as at 32nd Ashadh, 2063. 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 banks.

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE BALANCE SHEET**

NOTE - 22: INTEREST INCOME

| | 2062-63 NRs. | 2061-62 NRs. |
|---|----------------------|----------------------|
| Foreign Currency Financial Assets | | |
| Treasury bills & Deposits | 4,446,092,020 | 2,902,362,991 |
| SDR Holding | 20,633,798 | 13,296,585 |
| Interest income from Foreign Currency Financial Assets | 4,466,725,818 | 2,915,659,576 |
| Local Currency Financial Assets | | |
| Government Securities | 769,621,312 | 906,895,912 |
| Investment in financial and other institutions | 194,957,934 | 166,022,922 |
| Overdraft to Government | 55,032,249 | 5,394,524 |
| Loans and Refinance | 56,133,395 | 57,605,378 |
| Interest income from Local Currency Financial Assets | 1,075,744,890 | 1,135,918,736 |
| Total interest income from financial assets | 5,542,470,708 | 4,051,578,312 |

NOTE - 23: COMMISSION INCOME

| | 2062-63 NRs. | 2061-62 NRs. |
|--|--------------------|--------------------|
| Foreign Currency Financial Assets | | |
| On Currency exchange | 228,951,042 | 256,197,615 |
| Local Currency Financial Assets | | |
| Government transaction & Other services | 47,193,429 | 44,239,748 |
| Total Commission income from financial assets | 276,144,471 | 300,437,363 |

NOTE - 24: INTEREST EXPENSES

| | 2062-63 NRs. | 2061-62 NRs. |
|--|--------------------|--------------------|
| Foreign Currency Financial Liabilities | | |
| SDR Allocation & PRGF Loan | 35,120,426 | 25,933,157 |
| Others | 1,681,376 | 544,452 |
| Sub Total | 36,801,802 | 26,477,609 |
| Local Currency Financial Liabilities | | |
| Government Securities | 200,468,290 | 314,054,355 |
| Sub Total | 200,468,290 | 314,054,355 |
| Total Interest Expense on Financial Liabilities | 237,270,092 | 340,531,964 |

NOTE - 25: AGENCY AND SERVICE CHARGE

| | 2062-63 NRs. | 2061-62 NRs. |
|--|--------------------|--------------------|
| Foreign Currency Liabilities | | |
| Service Charge | - | 23,264,688 |
| Commission | 5,547,468 | 7,064,830 |
| Sub Total | 5,547,468 | 30,329,518 |
| Local Currency Liabilities | | |
| Agency Expenses | 279,949,225 | 264,596,828 |
| Sub Total | 279,949,225 | 264,596,828 |
| Total Agency and Service Charge | 285,496,693 | 294,926,346 |

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

| | 2062-63 NRs. | 2061-62 NRs. |
|-----------------------|--------------------|--------------------|
| Nepal Bank Ltd. | 92,216,637 | 100,418,315 |
| Rastriya Banijya Bank | 148,843,525 | 159,755,512 |
| Nepal Bangladesh Bank | 3,842,006 | 3,395,198 |
| Total | 244,902,168 | 263,569,025 |

Report of Fiscal Year 2005/06

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE INCOME STATEMENT**

NOTE - 26: OTHER OPERATING INCOME

| | 2062-63 | 2061-62 |
|--|----------------------|----------------------|
| | NRs. | NRs. |
| Income from Mint (Sale of coin) | 31,408,920 | 208,215,460 |
| Gain from sale of precious metals and coins | 1,048,863,694 | 966,429,530 |
| Fine/Penalty charge | 5,404,027 | 8,433,747 |
| Profit from sale of investments | 4,445,900 | 827,441 |
| Dividend Income | 4,445,900 | 27,136,250 |
| Provision on Investment written back (Net) | - | 31,139,000 |
| Provision on Loans & Advances written back (Net) | 88,609,180 | 47,492,197 |
| Profit from Projects | 8,106,050 | 8,876,385 |
| Liabilities no longer required written back | 724,309 | 835,853 |
| Miscellaneous | 67,764,142 | 99,084,902 |
| Total | 1,259,772,123 | 1,398,470,765 |

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

| | (Amount in NRs.) | | | | | |
|----------------------------|--------------------|--------------------|--------------------|--------------------|----------------|---------------------|
| Income | MCPW | TLDP | PCRW | PAPWT | RMP | TOTAL |
| Interest income | 8,021,178 | 8,061,038 | 5,492,303 | 5,434,501 | 991,978 | 28,000,998 |
| Current Year Total | 8,021,178 | 8,061,038 | 5,492,303 | 5,434,501 | 991,978 | 28,000,998 |
| Previous Year Total | (9,190,408) | (8,158,533) | (5,834,586) | (5,590,502) | - | (28,774,029) |

| | (Amount in NRs.) | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|----------------|---------------------|
| Expenses | MCPW | TLDP | PCRW | PAPWT | RMP | TOTAL |
| Interest IFAD | - | - | 2,912,862 | 3,887,385 | - | 6,800,247 |
| Interest ADB | 4,788,725 | 6,497,500 | - | - | - | 11,286,225 |
| Audit Fee | 3,500 | 3,500 | 3,500 | 3,500 | - | 14,000 |
| Meeting, training and others | 411,741 | 382,207 | 2,500 | 6,050 | 991,978 | 1,794,476 |
| Depreciation | - | - | - | - | - | - |
| Profit transferred to NRB Central Office | 2,817,213 | 1,177,831 | 2,573,441 | 1,537,566 | - | 8,106,050 |
| (Loss transferred to ADB grants) | - | - | - | - | - | - |
| Current Year Total | 8,021,178 | 8,061,038 | 5,492,303 | 5,434,501 | 991,978 | 28,000,998 |
| Previous Year Total | (9,190,408) | (8,158,533) | (5,834,586) | (5,590,502) | - | (28,774,029) |

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

Annual Financial Statements of NRB

**NEPAL RASTRA BANK
NOTES FORMING PART OF THE INCOME STATEMENT**

| NOTE - 27: GENERAL, ADMINISTRATIVE EXPENSES & PROVISIONS | | 2062-63 | 2061-62 |
|---|------------|----------------------|----------------------|
| | | NRs. | NRs. |
| Staff Costs | 27a | 1,192,105,329 | 1,367,133,076 |
| Depreciation | | 66,749,204 | 63,625,807 |
| Directors Fees and Expenses | | 1,179,256 | 1,065,592 |
| Note Printing charges | 27b | 385,832,965 | 263,633,877 |
| Mint Expenses | | 22,553,767 | 261,815,208 |
| Security charges | | 18,503,842 | 18,503,842 |
| Remittance charges | | 87,968,355 | 79,588,404 |
| Travelling expenses | | 43,456,150 | 45,768,783 |
| Insurance charges | | 28,807,686 | 25,768,545 |
| Repair & Maintenance | | 8,522,096 | 7,483,819 |
| Provisions on loans & advances, Investments, etc. | 27c | 16,000,000 | 227,864,263 |
| Miscellaneous | 27d | 146,757,069 | 131,636,753 |
| Total | | 2,018,435,718 | 2,493,887,969 |

27a Staff Costs

| | 2062-63 | 2061-62 |
|---|----------------------|----------------------|
| | NRs. | NRs. |
| Salary | 282,924,260 | 179,552,053 |
| Allowances | 179,522,782 | 264,840,153 |
| VRS Incentive | - | 66,101,918 |
| Provident Fund Contribution | 19,384,814 | 15,289,981 |
| Staff Welfare (Including Medical fund contribution) | 111,754,019 | 220,441,754 |
| Staff Welfare Provident Fund | 161,200,000 | 100,000,000 |
| Pension & Gratuity Fund | 320,803,476 | 421,654,677 |
| Staff Life Insurance Fund | 60,364,202 | 59,369,238 |
| Others | 56,151,775 | 39,883,302 |
| Total | 1,192,105,329 | 1,367,133,076 |

All leave compensations are included in the allowances.

27b Unissued currency stocks are recorded as inventory at the cost of acquisition and expensed when issued.

27c Provision on loans & advances, Investments, etc.

| | 2062-63 | 2061-62 |
|--|-------------------|--------------------|
| | NRs. | NRs. |
| Provision for doubtful Loans & Advances | - | - |
| Provision for Diminution in the value of Investments | 16,000,000 | - |
| Provision for Looted Notes | - | 70,600,000 |
| Provision for retired Staff Insurance Premium | - | 123,254,462 |
| Provision for Inventory & Spare Parts | - | 34,009,801 |
| Provision for sundry Accrued | - | - |
| Total | 16,000,000 | 227,864,263 |

27d Miscellaneous Expenses

| | 2062-63 | 2061-62 |
|-----------------------------|--------------------|--------------------|
| | NRs. | NRs. |
| Banking Promotion | 38,735,274 | 9,674,604 |
| Audit Fees and Expenses | 783,368 | 6,102,299 |
| Sundry balances written off | 14,976 | 784,999 |
| Others | 107223450 | 115,074,851 |
| Total | 146,757,069 | 131,636,753 |

NOTE - 28: CASH AND CASH EQUIVALENT

| | 2062-63 | 2061-62 |
|--|------------------------|-----------------------|
| | NRs. | NRs. |
| Foreign currency cash and bank balance | 94,966,216,933 | 54,728,883,095 |
| Investment in Treasury Bills | 36,739,045,175 | 39,050,699,638 |
| SDR holdings | 665,576,486 | 637,064,325 |
| Local currency in hand | 1,629,233,535 | 1,711,915,589 |
| Total | 134,000,072,129 | 96,128,562,647 |

NOTE - 29: OTHER NOTES

I. Financial Year

The financial statements relate to the financial year Bikram Sambat 2062-63 corresponding to Gregorian calendar Mid July 2005-06. The previous year was 2061-62 (Mid July 2004-05).

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. Capital

Capital includes NRs. 2,990 million transferred from General Reserve.

IV. Bills payable and Bills Receivable

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

V. Quantity and market value of gold and silver

The quantity and market value of gold and silver including those held as inventory are as follows (market value based on closing rate prevailing on last working day of the bank's financial year in London Market):

| Particulars | Weight (kg, gm, mg) | Market Price (NRs.) Per Grams. | Total Market Value (NRs.) |
|----------------------------|------------------------|-----------------------------------|------------------------------|
| Gold | 1455. 894. 310 | 1542.129 | 2,245,176,836 |
| | (1455. 894. 310) | (959.680) | (1,397,192,651) |
| Gold held in Stock | 3,282. 098. 640 | 1,542.129 | 5,061,419,494 |
| | (4,641. 477.757) | (959.680) | (4,454,333,374) |
| Silver held in Stock | 138,509. 285. 900 | 27.542 | 3,814,822,752 |
| | (137,513.428. 365) | (15.787) | (2,170,924,494) |
| Current Year Total | | | 11,121,419,082 |
| Previous Year Total | | | (8,022,450,519) |

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

VI. 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 | 32 nd Ashadh 2063 | 31 st Ashadh 2062 |
| 1 | US Dollar | 74.10 | 70.35 |
| 2 | Sterling Pound | 136.17 | 124.00 |
| 3 | Euro | 93.82 | 84.98 |
| 4 | Swiss Frank | 60.09 | 54.56 |
| 5 | Australian Dollar | 55.57 | 52.96 |
| 6 | SDR | 109.479 | 102.634 |

VII. NRB general account

NRB general account represents NRB inter-office transactions and balances under reconciliation of the entries in progress.

VIII. Consolidation of Subsidiaries

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

IX. Related Parties

In the normal course of its operations, the Bank enters into transactions with related parties. Related Parties include GON; as ultimate owner of the Bank, various Government Departments and state controlled enterprises/entities.

Transactions entered into with GON include:

- (a) Acting as the fiscal agent and financial advisor of the government;
- (b) Acting as the agent of government or its agencies and institutions, provide guarantees, participate in loans to government and related institutions;
- (c) Acting as agent of government, the Bank issues securities of government, purchases unsubscribed portion of any issue and amounts set aside for the Bank;
- (d) Acting as the agent of government, the Bank manages public debt and foreign reserves.

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.

The Bank does not exercise significant influence or control over its subsidiaries and other entities except for any regulatory purposes where substantial investments have been made.

These investments have been made under the specific directives or policies of the Government and other relevant statutes. Investments made in these entities along with percentage of holdings have been disclosed in Note 5.

The bank has contributed NRs. 19,384,814 on account of employees provident Fund to the retirement fund where it has significant influence, as the key management personnel are the trustees of the said Fund.

Name of the Key Management Personnel:

| S.No. | Name of the Key Management Personnel | Designation |
|-------|--------------------------------------|--------------------|
| 1. | Mr. Bijay Nath Bhattarai | Governor |
| 2. | Mr. Krishna Bahadur Manandhar | Deputy Governor |
| 3. | Mr. Bir Bikram Rayamajhi | Deputy Governor |
| 4. | Mr. Keshav Prasad Acharya | Executive Director |
| 5. | Mr. Tul Raj Basyal | Executive Director |
| 6. | Mr. Ganesh Kumar Shrestha | Executive Director |
| 7. | Mr. Surendra Man Pradhan | Executive Director |
| 8. | Dr. Yub Raj Khatiwada | Executive Director |
| 9. | Mr. Dipendra Bahadur Kshyatri | Executive Director |
| 10. | Mr. Sushil Ram Mathema | Executive Director |
| 11. | Mr. Ram Prasad Adhikari | Executive Director |
| 12. | Mr. Bholu Ram Shrestha | Executive Director |
| 13. | Mr. Gopal Prasad Kafle | Executive Director |
| 14. | Mr. Rabindra Pandey | Executive Director |
| 15. | Mr. Lila Prakash Sitaula | Executive Director |

Salary and related expenses to key management personnel are NRs. 7,340,694 (previous year – NRs. 10,757,069). As at 16th July 2006 an amount of NRs. 6,908,000 (Previous year – NRs. 8,877,674) was receivable from key managerial personnel as approved advances made by the Bank at the same standard rate of interest with that of other loans provided to employees.

There were no other related-party transactions with Board members and Key Management Personnel; transactions, if any, with director-related or key management personnel –related entities which occurred in the normal course of NRB's operations were conducted on terms no more favorable than similar transactions with other customers.

The above information has been compiled to the extent ascertainable and available from the records of the Bank.

X. Prior Year Adjustment

This includes adjustments relating to amount reversed from liabilities towards some ex-employees and other revenue expenses not booked in previous years.

XI. Risk Management

The Bank is primarily subject to interest rate risk, credit risk, foreign currency risk and liquidity risk. Nepal Rastra Bank, being the central bank of the country, is largely instrumental in policy related matters, and accordingly the risk management framework differs from the risk management framework for most other financial institutions. The key risk from the Bank's prospective includes risk on foreign currency assets and interest rate risk on the foreign and local currency assets.

Interest Rate Risk: Interest rate risk is the risk that the value of financial assets will fluctuate due to change in market interest rate. The Bank's exposure to interest rate risks and the maturities of assets and liabilities are provided in **Table 1** annexed. The Bank has kept substantial investments on short-term loans thereby controlling the interest rate risk to significant extent.

Credit Risk: Credit risks in relation to a financial instrument is the risk that one party fails to discharge an obligation in accordance with agreed terms and cause the other party to incur a financial loss. The credit risk in the bank's foreign exchange reserve is monitored and reviewed by using credit limits based on credit ratings by international rating agency viz. Standard & Poor credit ratings. Under Standard & Poor credit ratings, AAA is the highest quality rating possible and indicates that the entity has an extremely strong

capacity to pay interest and principal; AA is the high grade rating, indicating a strong capacity, and A is an upper medium grade indicating a strong capacity; BBB is the lowest investment grade, indicating a medium capacity to pay interest and principal. Ratings lower than AAA can be modified by + or – signs to indicate relative standing within the major categories. NR indicates the entity/issuer has not been rated. The concentration of credit risk of the Bank’s foreign exchange reserve is provided in **Table 2** annexed.

Foreign Currency Risk: Currency risk is the risk, where the value of financial instruments will fluctuate due to changes in foreign exchange rates. Foreign currency activities result mainly from the Bank's holding of foreign currency assets under its foreign exchange reserves management function. The investment committee reviews the currency composition of the reserve and monitors the Bank's compliance with the limits established for foreign currency positions by the board.

Liquidity Risk: Liquidity risks are the risks that the Bank will encounter difficulty in raising funds to meet commitments associated with the financial instruments. In order to control liquidity risk, the bank has maintained sufficient balance in the current account with the other central banks and investment in very high liquid securities.

XII. Concentration of funding

The details of year-end concentration of funding are provided in **Table 3** annexed.

XIII. Fair values

The carrying value of agency bank balances, investments in foreign currency Treasury bills, other held for trading / available for sale investments, Deposits and other balances are considered to approximate their fair value.

XIV. Gold & Silver

i. Gold (other than inventory) till the financial year 2060/61 was valued at a price revalued in year 2043. In terms of the board resolution dated 2062/09/18 the said gold has been valued at price prevailing in London Gold Market at the close of the year. Increase in value thereof amounting to Rs.8479.84 lacs has been credited to profit and loss account and appropriated there from to "Gold and Silver Equalizations Reserve".

ii. An amount of NR 2653 lacs has been appropriated from the Profit & Loss account and kept in “Gold Replacement Fund” for replacing the gold / silver sold during the year (out of reserves).

XV. Number of employees

| | |
|--------------------|--------------------|
| <u>2063 Ashadh</u> | <u>2062 Ashadh</u> |
| 1555 | 1570 |

XVI. 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.

Report of Fiscal Year 2005/06

NEPAL RASTRA BANK

Table 1 : Interest Rate Risk and Maturity Profile (Foreign Currency)

| Particulars | Weighted Average Interest Rate % | 2005-06 Total NRs. | Upto 6 Months NRs. | 6 to 12 Months NRs. | Above 12 Months NRs. |
|--|----------------------------------|------------------------|------------------------|-------------------------|------------------------|
| Interest Sensitive Foreign Currency Financial Assets | | | | | |
| Cash and Bank Balance | 4.62 | 95,226,572,227 | 95,226,572,227 | - | - |
| Investment in Treasury Bills | 4.81 | 36,739,045,175 | 34,522,499,979 | 2,216,545,195.69 | - |
| IMF Related Assets | 3.64 | 665,576,486 | 665,576,486 | - | - |
| Total Interest Sensitive Foreign Currency Financial Assets | A | 132,631,193,888 | 130,414,648,692 | 2,216,545,195.69 | - |
| Non Interest Sensitive Foreign Currency Financial Assets | | | | | |
| Other Receivable | | 789,314,112 | 763,647,053 | 253,466 | 25,413,594 |
| Total Non Interest Sensitive Foreign Currency Financial Assets | | 789,314,112 | 763,647,053 | 253,466 | 25,413,594 |
| Total Foreign Currency Financial Assets | B | 133,420,508,000 | 131,178,295,745 | 2,216,798,661 | 25,413,594 |
| Interest Sensitive Foreign Currency Financial Liabilities | | | | | |
| IMF Related Liabilities | 1.64 | 2,448,475,939 | 887,305,399 | - | 1,561,170,540 |
| Asian Clearing Union | | - | - | - | - |
| Total Interest Sensitive Foreign Currency Financial Liabilities | C | 2,448,475,939 | 887,305,399 | - | 1,561,170,540 |
| Non Interest Sensitive Foreign Currency Financial Liabilities | | | | | |
| Deposit from banks and other agencies | | 282,826,937 | 282,826,937 | - | - |
| IMF Related Liabilities | | - | - | - | - |
| Other Liabilities | | 7,155,707 | 7,155,707 | - | - |
| Total Non Interest Sensitive Foreign Currency Financial Liabilities | | 289,982,644 | 289,982,644 | - | - |
| Total Foreign Currency Financial Liabilities | D | 2,738,458,583 | 1,177,288,043 | - | 1,561,170,540 |
| Foreign Currency Interest Rate Sensitivity Gap (A-C) | | 130,182,717,949 | 129,527,343,293 | 2,216,545,196 | (1,561,170,540) |
| Total Gap (B-D) | | 130,682,049,417 | 130,001,007,702 | 2,216,798,661 | (1,535,756,946) |

Table 1: Interest Rate Risk and Maturity Profile (Local Currency)

| Particulars | Weighted Average Interest Rate % | 2005-06 Total NRs. | Upto 6 Months NRs. | 6 to 12 Months NRs. | Above 12 Months NRs. |
|--|----------------------------------|-------------------------|-------------------------|----------------------|----------------------|
| Interest Sensitive Local Currency Financial Assets | | | | | |
| Investment in Government Securities | 3.70 | 10,996,264,751 | 3,861,127,000 | 5,351,828,000 | 1,783,309,751 |
| GON Overdraft | 2.86 | 1,071,000,511 | 1,071,000,511 | - | - |
| Other Investments | 5.49 | 3,166,536,000 | 100,418,000 | 3,066,118,000 | - |
| Refinance & Loans | 4.21 | 2,016,125,930 | 2,016,125,930 | - | - |
| Total Interest Sensitive Local Currency Financial Assets | E | 17,249,927,192 | 7,048,671,441 | 8,417,946,000 | 1,783,309,751 |
| Non Interest Sensitive Local Currency Financial Assets | | | | | |
| Cash in Hand | | 1,629,233,535 | 1,629,233,535 | - | - |
| Investment in Government Securities | | 4,755,758,937 | - | - | 4,755,758,937 |
| Investment in Financial & Other Institutions | | 407,772,500 | - | - | 407,772,500 |
| Refinance & Loans (Loans to employees) | | 1,627,400,666 | - | - | 1,627,400,666 |
| Other Receivables | | 3,288,542,716 | 3,288,542,716 | - | - |
| Total Non Interest Sensitive Local Currency Financial Assets | | 11,708,708,354 | 4,917,776,251 | - | 6,790,932,103 |
| Total Local Currency Financial Assets | F | 28,958,635,546 | 11,966,447,692 | 8,417,946,000 | 8,574,241,854 |
| Interest Sensitive Local Currency Financial Liabilities | | | | | |
| Total Interest Sensitive Local Currency Financial Liabilities | G | - | - | - | - |
| Non Interest Sensitive Local Currency Financial Liabilities | | | | | |
| Deposit and Other Balances | | 35,027,226,789 | 35,027,226,789 | - | - |
| Bills Payable | | 1,604,799,616 | 1,604,799,616 | - | - |
| Staff Liabilities | | 2,432,269,401 | - | - | 2,432,269,401 |
| Other Payables | | 135,805,825 | 135,805,825 | - | - |
| Total Non Interest Sensitive Local Currency Financial Liabilities | | 39,200,101,631 | 36,767,832,230 | - | 2,432,269,401 |
| Total Local Currency Financial Liabilities | H | 39,200,101,631 | 36,767,832,230 | - | 2,432,269,401 |
| Local Currency Interest Rate Sensitivity Gap (E-G) | | 20,251,019,261 | 8,619,452,994 | 7,262,331,446 | 4,369,234,821 |
| Total Gap (F-H) | | (10,241,466,085) | (24,801,384,538) | 8,417,946,000 | 6,141,972,453 |

Annual Financial Statements of NRB

NEPAL RASTRA BANK

Table 2 : Credit Exposure by Credit Rating

| Particulars | Credit Rating | 2005/06 | | 2004/05 | |
|--|---------------|------------------------|--------------------|------------------------|--------------------|
| | | NRs. | % Financial Assets | NRs. | % Financial Assets |
| Foreign Currency Financial Assets | | | | | |
| | A- | 1,982,369,861 | 1.22% | 7,468,145,015 | 5.42% |
| | A+ | 656,761,984 | 0.40% | 3,841,813,489 | 2.79% |
| | A | 6,925,852,184 | 4.27% | 38,950,599 | 0.03% |
| | AA | 4,474,337,603 | 2.76% | 4,910,771,564 | 3.56% |
| | AA+ | 92,201,514 | 0.06% | 60,251,809 | 0.04% |
| | AA- | 14,654,384,129 | 9.02% | 10,350,071,460 | 7.51% |
| | AAA | 95,927,226,249 | 59.08% | 74,648,909,705 | 54.18% |
| | BB | 4,375,250,184 | 2.69% | 1,621,356,125 | 1.18% |
| | BBB | 57,987,145 | 0.04% | 47,366,773 | 0.03% |
| | NR * | 4,274,137,147 | 2.63% | 2,552,318,041 | 1.85% |
| Total Foreign Currency Financial Assets | | 133,420,508,000 | 82.17% | 105,539,954,580 | 76.60% |
| Local Currency Financial Assets | NR * | 28,958,635,546 | 17.83% | 32,233,245,207 | 23.40% |
| Total Local Currency Financial Assets | | 28,958,635,546 | 17.83% | 32,233,245,207 | 23.40% |
| Total Financial Assets | | 162,379,143,546 | 100.00% | 137,773,199,787 | 100.00% |

* NR represents not rated.

Report of Fiscal Year 2005/06

NEPAL RASTRA BANK
Table 3a : Concentrations of Funding

The Bank's significant end-of-year concentrations of funding as at 16th July, 2006 were as follows:

| | Total NRs. | GON NRs. | Domestic Bills NRs. | Employees NRs. | Banks & F.I. NRs. | Foreign Bank NRs. | Foreign Govt. NRs. | Supernational F.I. NRs. | Others NRs. |
|--------------------------------------|------------------------|-----------------------|------------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------------|----------------------|
| Foreign Currency | | | | | | | | | |
| Financial Assets | | | | | | | | | |
| Cash and Bank Balances | 95,226,572,227 | - | - | - | 91,565,388,204 | - | - | - | 3,661,184,023 |
| SDR holdings - with IMF | 665,576,486 | - | - | - | - | - | - | 665,576,486 | - |
| Investments in Treasury Bills | 36,739,045,175 | - | - | - | - | - | 36,739,045,175 | - | - |
| Other receivables | 789,314,112 | - | - | - | - | - | - | - | 789,314,112 |
| Sub-Total | 133,420,508,000 | - | - | - | 91,565,388,204 | - | 36,739,045,175 | 665,576,486 | 4,450,498,135 |
| Other Assets | | | | | | | | | |
| Gold | 2,245,176,837 | - | - | - | - | 2,245,176,837 | - | - | - |
| Sub-Total | 2,245,176,837 | - | - | - | - | 2,245,176,837 | - | - | - |
| Total Foreign Currency Assets | 135,665,684,837 | - | - | - | 91,565,388,204 | 2,245,176,837 | 36,739,045,175 | 665,576,486 | 4,450,498,135 |
| Local Currency | | | | | | | | | |
| Financial Assets | | | | | | | | | |
| Cash in hand | 1,629,233,535 | - | - | - | - | - | - | - | 1,629,233,535 |
| Investments in Government Securit | 15,752,023,688 | 15,752,023,688 | - | - | - | - | - | - | - |
| GON Overdraft | 1,071,000,511 | 1,071,000,511 | - | - | - | - | - | - | - |
| Investments in Financial and Other | 407,772,500 | - | - | - | 407,772,500 | - | - | - | - |
| Other Investments | 3,166,536,000 | 1,426,212,000 | - | - | 1,740,324,000 | - | - | - | - |
| Refinance & Loans | 3,643,526,596 | - | - | 1,627,400,666 | 2,016,125,930 | - | - | - | - |
| Other Receivables | 3,288,542,716 | - | 1,594,680,232 | - | - | - | - | - | 1,693,862,484 |
| Sub-Total | 28,958,635,546 | 18,249,236,199 | 1,594,680,232 | 1,627,400,666 | 4,164,222,430 | - | - | - | 3,323,096,019 |
| Other Assets | | | | | | | | | |
| Gold & Silver | 428,324,429 | - | - | - | - | - | - | - | 428,324,429 |
| Other Inventories | 822,264,298 | - | - | - | - | - | - | - | 822,264,298 |
| Property, Plant & Equipment | 522,758,748 | - | - | - | - | - | - | - | 522,758,748 |
| Sub-Total | 1,773,347,475 | - | - | - | - | - | - | - | 1,773,347,475 |
| Total Local Currency Assets | 30,731,983,021 | 18,249,236,199 | 1,594,680,232 | 1,627,400,666 | 4,164,222,430 | - | - | - | 5,096,443,494 |
| Total Assets | 166,397,667,858 | 18,249,236,199 | 1,594,680,232 | 1,627,400,666 | 95,729,610,634 | 2,245,176,837 | 36,739,045,175 | 665,576,486 | 9,546,941,629 |

Comparative figures as at 15th July, 2005 for significant end-of-year concentration of funding were as follows:

| | Total NRs. | GON NRs. | Domestic Bills NRs. | Employees NRs. | Banks & F.I. NRs. | Foreign Bank NRs. | Foreign Govt. NRs. | Supernational F.I. NRs. | Others NRs. |
|--------------------------------------|------------------------|-----------------------|------------------------|----------------------|----------------------|-----------------------|-----------------------|----------------------------|----------------------|
| Foreign Currency | | | | | | | | | |
| Financial Assets | | | | | | | | | |
| Cash and Bank Balances | 65,368,732,919 | - | - | - | - | 63,262,184,983 | - | - | 2,106,547,936 |
| SDR holdings - with IMF | 637,064,325 | - | - | - | - | - | - | 637,064,325 | - |
| Investments in Treasury Bills | 39,050,699,638 | - | - | - | - | - | 39,050,699,638 | - | - |
| Other receivables | 483,457,699 | - | - | - | - | - | - | - | 483,457,699 |
| Sub-Total | 105,539,954,581 | - | - | - | - | 63,262,184,983 | 39,050,699,638 | 637,064,325 | 2,590,005,635 |
| Other Assets | | | | | | | | | |
| Gold | 1,397,192,652 | - | - | - | - | 1,397,192,652 | - | - | - |
| Sub-Total | 1,397,192,652 | - | - | - | - | 1,397,192,652 | - | - | - |
| Total Foreign Currency Assets | 106,937,147,233 | - | - | - | - | 64,659,377,635 | 39,050,699,638 | 637,064,325 | 2,590,005,635 |
| Local Currency | | | | | | | | | |
| Financial Assets | | | | | | | | | |
| Cash in hand | 1,711,915,589 | - | - | - | - | - | - | - | 1,711,915,589 |
| Investments in Government Securit | 17,443,097,129 | 17,443,097,129 | - | - | - | - | - | - | - |
| GON Overdraft | 2,623,009,090 | 2,623,009,090 | - | - | - | - | - | - | - |
| Investments in Financial and Other | 471,217,500 | - | - | - | 471,217,500 | - | - | - | - |
| Other Investments | 2,914,133,000 | 1,464,312,000 | - | - | 1,449,821,000 | - | - | - | - |
| Refinance & Loans | 3,636,698,871 | - | - | 1,643,598,293 | 1,993,100,578 | - | - | - | - |
| Other Receivables | 3,433,174,028 | - | 2,117,196,166 | - | - | - | - | - | 1,315,977,862 |
| Sub-Total | 32,233,245,207 | 21,530,418,219 | 2,117,196,166 | 1,643,598,293 | 3,914,139,078 | - | - | - | 3,027,893,451 |
| Other Assets | | | | | | | | | |
| Gold & Silver Reserve | - | - | - | - | - | - | - | - | - |
| Gold & Silver Inventory | 1,078,880,573 | - | - | - | - | - | - | - | 1,078,880,573 |
| Other Inventories | 555,859,603 | - | - | - | - | - | - | - | 555,859,603 |
| Property, Plant & Equipment | 519,786,242 | - | - | - | - | - | - | - | 519,786,242 |
| Sub-Total | 2,154,526,418 | - | - | - | - | - | - | - | 2,154,526,418 |
| Total Local Currency Assets | 34,387,771,625 | 21,530,418,219 | 2,117,196,166 | 1,643,598,293 | 3,914,139,078 | - | - | - | 5,182,419,869 |
| Total Assets | 141,324,918,858 | 21,530,418,219 | 2,117,196,166 | 1,643,598,293 | 3,914,139,078 | 64,659,377,635 | 39,050,699,638 | 637,064,325 | 7,772,425,504 |

Annual Financial Statements of NRB

NEPAL RASTRA BANK Table 3b : Concentrations of Funding

The Bank's significant end-of-year concentrations of funding as at 16th July 2006 were as follows:

| | Total NRs. | GON NRs. | Public NRs. | Comm.Banks & FI NRs. | Supernational F.I. NRs. | Others NRs. |
|---|------------------------|----------------------|-----------------------|-------------------------|----------------------------|-----------------------|
| Foreign Currency | | | | | | |
| Financial Liabilities | | | | | | |
| Deposit from banks and other agencies | 282,826,937 | - | - | 272,916,772 | - | 9,910,165 |
| IMF Related Liabilities | 2,448,475,939 | - | - | - | 2,448,475,939 | - |
| Others | 7,155,707 | - | - | - | 7,155,707 | - |
| Total Foreign Currency Financial Liabilities | 2,738,458,583 | - | - | 272,916,772 | 2,455,631,646 | 9,910,165 |
| Local Currency Financial Liabilities | | | | | | |
| Deposit and other balances | 35,027,226,789 | - | - | 24,717,629,047 | 5,355,558,116 | 4,954,039,626 |
| Bills payables | 1,604,799,616 | - | 1,604,799,616 | - | - | - |
| Staff Liabilities | 2,432,269,401 | - | - | - | - | 2,432,269,401 |
| Other payables | 135,805,825 | - | - | - | - | 135,805,825 |
| Total Local Currency Financial Liabilities | 39,200,101,631 | - | 1,604,799,616 | 24,717,629,047 | 5,355,558,116 | 7,522,114,852 |
| Total Financial Liabilities | 41,938,560,214 | - | 1,604,799,616 | 24,990,545,819 | 7,811,189,762 | 7,532,025,017 |
| Other Liabilities | | | | | | |
| Currency in circulation | 84,630,000,000 | - | 83,000,766,465 | - | - | 1,629,233,535 |
| Surplus payable to GON | 3,419,267,176 | 3,419,267,176 | - | - | - | - |
| Sundry Liabilities | 1,035,768,674 | - | - | - | - | 1,035,768,674 |
| Total Other Liabilities | 89,085,035,850 | 3,419,267,176 | 83,000,766,465 | - | - | 2,665,002,209 |
| Total Liabilities | 131,023,596,064 | 3,419,267,176 | 84,605,566,081 | 24,990,545,819 | 7,811,189,762 | 10,197,027,226 |

Comparative figures as at 15th July 2005 for significant end-of-year concentration of funding were as follows:

| | Total NRs. | GON NRs. | Public NRs. | Com. Banks & F.I. NRs. | Supernational F.I. NRs. | Others NRs. |
|---|------------------------|----------------------|-----------------------|---------------------------|----------------------------|----------------------|
| Foreign currency | | | | | | |
| Financial Liabilities | | | | | | |
| Deposit from banks and other agencies | 621,971,508 | - | - | 495,567,302 | - | 126,404,206 |
| IMF Related Liabilities | 2,295,388,883 | - | - | - | 2,295,388,883 | - |
| Others | 4,715,439 | - | - | - | 4,715,439 | - |
| Total Foreign Currency Financial Liabilities | 2,922,075,830 | - | - | 495,567,302 | 2,300,104,322 | 126,404,206 |
| Local Currency Financial Liabilities | | | | | | |
| Deposit and other balances | 29,582,995,175 | - | - | 20,846,154,455 | 5,322,119,714 | 3,414,721,007 |
| Bills payables | 2,601,706,049 | - | 2,601,706,049 | - | - | - |
| Staff liabilities | 2,198,419,723 | - | - | - | - | 2,198,419,723 |
| Other payables | 127,425,271 | - | - | - | - | 127,425,271 |
| Total Local Currency Financial Liabilities | 34,510,546,218 | - | 2,601,706,049 | 20,846,154,455 | 5,322,119,714 | 5,740,566,001 |
| Total Financial Liabilities | 37,432,622,048 | - | 2,601,706,049 | 21,341,721,757 | 7,622,224,036 | 5,866,970,207 |
| Other Liabilities | | | | | | |
| Currency in circulation | 74,520,000,000 | - | 72,808,084,411 | - | - | 1,711,915,589 |
| Surplus payable to GON | 1,611,281,788 | 1,611,281,788 | - | - | - | - |
| Sundry liabilities | 588,699,428 | - | - | - | - | 588,699,428 |
| Total Other Liabilities | 76,719,981,216 | 1,611,281,788 | 72,808,084,411 | - | - | 2,300,615,017 |
| Total Liabilities | 114,152,603,264 | 1,611,281,788 | 75,409,790,460 | 21,341,721,757 | 7,622,224,036 | 8,167,585,224 |



APPDNDIX

Appendix

Appendix A
Board of Directors
(July 2006)

| | |
|--|----------|
| Mr. Bijaya N. Bhattarai, Governor | Chairman |
| Mr. Bhoj R. Ghimire, Secretary, Ministry of Finance, Government of Nepal | Member |
| Mr. Krishna B. Manandhar, Deputy Governor | Member |
| Mr. Bir Bikram Rayamajhi, Deputy Governor | Member |
| Dr. Parashar Koirala, Dean, Faculty of Management, Tribhuvan University | Member |
| Mr. Pradeep K. Shrestha | Member |
| Dr. Bishwa K. Maskay, Professor, Tribhuvan University | Member |

Appendix (B)
Principal Officers

| | | |
|----|-------------------------------|---|
| 1 | Mr. Keshav P. Acharya | Executive Director, Research Department |
| 2 | Mr. Tula R. Basyal | Executive Director, Public Debt Management Department |
| 3 | Mr. Ganesh K. Shrestha | Executive Director, Corporate Planning Department |
| 4 | Mr. Surendra M. Pradhan | Executive Director, Banks & Fin. Institutions Regulation Department |
| 5 | Dr. Yuba R. Khatiwada | Executive Director, Office of the Governor |
| 6 | Mr. Deependra B. Kshetry | Executive Director, Currency Management Department |
| 7 | Mr. Sushil R. Mathema | Executive Director, Micro-finance Department |
| 8 | Mr. Ram P. Adhikary | Executive Director, Foreign Exchange Management Department |
| 9 | Mr. Bholu R. Shrestha | Executive Director, Financial Institutions Supervision Department |
| 10 | Dr. Govinda B. Thapa | Executive Director, Banking Office, Kathmandu |
| 11 | Mr. Gopal P. Kafle | Act. Executive Director, Bankers' Training Centre |
| 12 | Mr. Ravindra P. Pandey | Act. Executive Director, Bank Supervision Department |
| 13 | Mr. Ashwini K. Thakur | Act. Executive Director, Financial Management Department |
| 14 | Mr. Vishnu Nepal | Act. Executive Director, Internal Audit Department |
| 15 | Mr. Lila P. Sitaula | Act. Executive Director, Human Resource Management Department |
| 16 | Mr. Gokul R. Thapa | Director, Research Department |
| 17 | Mr. Ramjee Regmi | Director, Mint Department |
| 18 | Mr. Bhaskar M. Gnawali | Director, Legal Division |
| 19 | Mr. Manmohan K. Shrestha | Director, Financial Institutions Supervision Department |
| 20 | Mr. Rishi R. Gautam | Director, Micro-finance Department |
| 21 | Mr. Trilochan Pageni | Director, Foreign Exchange Management Department |
| 22 | Mr. Surendra K. Kshetry | Director, Banking Office, Kathmandu |
| 23 | Mr. Lok B. Khadka | Director, Financial Institutions Supervision Department |
| 24 | Mr. Pradeep R. Pandey | Director, Human Resource Management Department |
| 25 | Mr. Hari P. Kafle | Director, Internal Audit Department |
| 26 | Mr. Siddhi K. Joshi | Director, Internal Audit Department |
| 27 | Mr. Maha P. Adhikary | Director, Bank Supervision Department |
| 28 | Mrs. Sadhana Upadhyay | Director, Office of the Governor |
| 29 | Mr. Shambhu Thapa | Director, Human Resource Management Department |
| 30 | Mr. Mahesh Bhattarai | Director, Corporate Planning Department |
| 31 | Mrs. Rameswori Pant | Director, Household Budget Survey |
| 32 | Mr. Shiva R. Shrestha | Chief Manager, Nepal Rastra Bank, Biratnagar |
| 33 | Mr. Naresh Dhakal | Director, Currency Management Department |
| 34 | Mr. Narayan P. Poudel | Director, Public Debt Management Department |
| 35 | Mr. Nara B. Thapa | Director, Research Department |
| 36 | Dr. Binod Atreya | Chief Manager, Nepal Rastra Bank, Siddharthanagar |
| 37 | Mr. Janak B. Adhikari | Director, Financial Institutions Supervision Department |
| 38 | Mr. Purna B. Khatri | Director, General Services Department |
| 39 | Mr. Radheshyam Shrestha | Director, Financial Sector Reform Program |
| 40 | Mr. Bhisma R. Dhungana | Director, Bank and Financial Institutions Department |
| 41 | Mr. Chintamani Siwakoti | Chief Manager, Nepal Rastra Bank, Nepalgunj |
| 42 | Mrs Shiva D. Kafle | Director, Research Department |
| 43 | Mr. Ranjan K. Sharma Pokharel | Act. Director, Financial Institutions Supervision Department |
| 44 | Mr. Rajan B. Shah | Act. Director, Banking Office, Kathmandu |
| 45 | Mr. Dipak B. Thapa | Act. Chief Manger, Nepal Rastra Bank, Janakpur |
| 46 | Mr. Keshav R. Acharya | Act. Director, Bank and Financial Institutions Department |
| 47 | Mr. Shankar P. Acharya | Act. Director, Bank Supervision Department |
| 48 | Mr. Shiva N. Pandey | Act. Director, Financial Management Department |

Appendix

| | | |
|----|-----------------------|---|
| 49 | Mr. Krishna B. Thapa | Act. Director, Foreign Exchange Management Department |
| 50 | Mr. Mittha Parajuli | Act. Director, Banking Office, Kathmandu |
| 51 | Mr. Basu D. Acharya | Act. Chief Manager, Nepal Rastra Bank, Pokhara |
| 52 | Mr. Arjun B. Adhikari | Act. Chief Manager, Nepal Rastra Bank, Birgunj |
| 53 | Mr. Parbat K. Karki | Act. Director, Information Technology Department |

On Leave and Deputation

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|---|---|---|
| 1 | Executive Director, Mr. Rajan S. Bhandari | Special Leave |
| 2 | Director, Dr. Min Bahadur Shrestha | Government of Nepal, Ministry of Finance (Deputation) |